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July 15, 1943
8:40 a.m.

THIRD WAR LOAN DRIVE

Present: Mr. Bell
Mr. Tickton

H.M.JR: The thought that is running through my mind is, they tell me all the time that there are ten key States where we have to get the money. How much money do you have to get out of the ten key States?

MR. TICKTON: Three-quarters of the money, pretty near.

H.M.JR: I think what we ought to do is, we ought to have whatever they call them - the chairmen of these ten States - in next week, and lay this thing before them and find out on a quota basis. Say, "Now look, if we give Michigan so much, can you do it? If we give New York so much, can you do it?"

Now, there is no use - if I were chairman of the State of New York and they gave me a thing which I felt was impossible, it would kill my enthusiasm. On the other hand, if they gave me a quota which I thought was possible, I would go out to beat it and get more. I just put myself in the place - now, this is very nice - with all due respect to Tickton, Lindow, and the rest of them - it is their job to set up the statistics, but it is somebody else's job to get it. I mean, after reading this thing, it just leaves me with the shudders. It just leaves me with the shudders.

Now, I told them yesterday that it was no good to have four, and they put it down to three. Then they come back this morning with four again.

MR. BELL: I told you what you were up against yesterday was this increase in percentage.

H.M.JR: Well, that is all right, but the thing to do is this: It is very nice to fix a quota. Any business house can fix a quota. Then the next thing to do is to get in your district sales managers and say, "Boys, what can you do?" Before we fix this basket or anything else we have got to find out and have these ten fellows in.

You take a fellow like Frank Isbey who did a real job in Michigan. He had sixty thousand people out selling, you know. He may say to these fellows, "Hell, I can do it. Why don't you do what I do in Michigan?"

MR. TICKTON: That was Frank's argument when I talked to him a few weeks ago. He said among other things he pulled his punches. He was afraid of trying to do so many things. He did things you didn't get around to approve; he went ahead and did them. He was handing out bonds to people. He was having people take money; that wasn't approved by the Treasury.

MR. BELL: As a matter of fact, it was disapproved.

MR. TICKTON: It was against regulations.

H.M.JR: He did it. We have to do things like that. We have to cut corners; we have to take chances. Unfortunately I am all tied up with these damned foreigners this morning - Panama and Uruguay - I have to waste my time shaking hands with them and all the rest of this stuff.

MR. BELL: I would like to have the ten people in. I just hate, at this stage of the game, to withdraw them from their organization program. That is the most important thing they have.

H.M.JR: Well, two days are better - they had better be in here two days.

MR. BELL: You are taking them right out of their organization program. That is the important thing, Mr. Secretary.

H.M.JR: It is very nice. You fellows - it is very nice to do the thing, but the trouble is, supposing I say to Burgess, "You are going to have forty percent. Four times seven are twenty-eight; you are going to have two billion eight of individual subscriptions in New York State."

He will say, "Mr. Morgenthau, the least you can do is ask me."

MR. BELL: You have fifty-one chairmen; it is going to be difficult to get an agreement.

H.M.JR: I am not going to, but I want the ten key States in.

MR. BELL: I would like to have them in. I am just hesitating because I know how important it is that they get this organization working.

H.M.JR: Now, we are behind schedule on this basket, and it is not my fault. I hear that we are not going to get together with the Fed until Friday.

MR. BELL: We have the bankers here today, and I couldn't get together with them today.

H.M.JR: They ought to read that thing. They ought to read it before they see me. (Indicating financing memoranda.)

MR. TICKTON: We made ten photostats of that last night for distribution this morning, yes, sir.

MR. BELL: We are going to give a copy of that to Eccles.

H.M.JR: Yes, sure.

MR. BELL: But we are going over to see Eccles tomorrow at ten-thirty. That will be just two hours of talk.

Burgess will be here Monday - he will be here Tuesday and Wednesday - come down Monday night. That is crowding it a little, but you could have these others in, and we could--

H.M.JR: He is coming when?

MR. BELL: He will be here Tuesday and Wednesday.

H.M.JR: Maybe we ought to have the others here, too.

MR. BELL: We could give them an hour--

H.M.JR: Suppose you had the other nine in here.

MR. BELL: All right.

H.M.JR: I am being very honest and frank with you fellows. That has got me scared. I am not saying this is wonderful and we can do this thing, and all the rest of this business, but I want the thing set up, so I am letting my emotions run me so that - gee, this is wonderful, we can put this over and get two or three billion over - instead of that, it is just impossible.

I want a quota which these fellows - which eight out of ten will say we can get - nine out of ten - "And we will do better, Mr. Morgenthau." But I don't want ten out of ten to say it is impossible. They will say, "What is the use, we can't do it anyway?" I know sales psychology.

MR. BELL: In your own mind, how sacred is this increased percentage?

H.M.JR: Nothing is sacred.

MR. BELL: Then I would make the goal fifteen billion, and the individual five and a half.

H.M.JR: Nothing is sacred.

MR. BELL: I think the figures are going to be hard to make when you jump from three billion two to seven billion.

MR. TICKTON: It is a tough jump; it isn't just tough on E bonds alone, it isn't easy for the others.

H.M.JR: Tickton, you have worked around me, and you are doing a beautiful job, but it is one thing to do the thing, if you don't mind, on a theoretically ideal basis, and it is another thing to give it to them on a basis that they can accomplish it.

MR. TICKTON: This has been set up, really, with the idea that it is very important to be able to explain this to Mr. Byrnes and Mr. Baruch to show that we have a program that is making progress. That is the fundamental assumption. If you go on from there, you change it.

H.M.JR: That is very nice, but--

MR. TICKTON: It is a practical problem.

H.M.JR: I am enough of a salesman, and I have done enough selling in my life to know that you have to give a fellow a chance to say, "I can do at least as well or better," and you can't have him licked, the way I feel right now, before you start.

Now, I tell you what we can do: We will go into the nine o'clock meeting. That won't take so long. As soon as that is through, I will go into War Finance.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 14,1943

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Third War Loan

<u>Summary</u>

1. The first section of this memorandum outlines a suggested financing program designed to yield $16.2 billions in a nonbanking drive conducted between September 9 and October 2, of which $7 billions would come from individuals. This financing program plus the interim financing program set forth in our memorandum entitled "A Suggested Program for Market Financing Prior to the September Drive" would provide a volume of funds sufficient to carry the Treasury until December. They would acquire for investment in Government securities a volume of funds from individuals which would represent 65 percent of the amount of their new savings accumulating between May 1 and September 30 (in place of the 60 percent which was so invested between January 1 and April 30), as set forth in our memorandum entitled "Financing Requirements and Sources of Funds for This Summer and the Third War Loan".

2. A number of technical and policy matters which require some attention during your consideration of the September financing program are discussed in the second section of this memorandum.

I. General Outline of the Program

The financing program set forth below is designed to raise $16.2 billions of new money between September 9 and October 2. These funds plus (1) the amounts of new money provided according to our memorandum entitled "A Suggested Program for Market Financing Prior to the September Drive", and (2) the amounts derived from savings bonds and Treasury savings notes sold after the September drive should be sufficient -- if bill and certificate maturities are rolled over -- to provide the Treasury with a comfortable working balance until December.

Financing Program - Third War Loan Drive

Period and Offering	Amount (In billions of dollars)	
A. September 9 to October 2		
1. Individuals:		
(a) E bonds*	4.0	
(b) F and G bonds*	.8	
(c) 2 percent bonds	.8	
(d) 2-1/2 percent bonds	1.0	
(e) Treasury savings notes*	.4	
(f) Subtotal		7.0
B. September 27 to October 2		
1. Insurance companies and mutual savings banks:		
(a) 2 percent bonds	.6	
(b) 2-1/2 percent bonds	1.7	
(c) 7/8 percent certificates	.2	
(d) Subtotal		2.5
2. "Other" corporations:		
(a) F and G bonds*	.2	
(b) 2 percent bonds	1.1	
(c) 2-1/2 percent bonds	.7	
(d) 7/8 percent certificates	3.0	
(e) Treasury savings notes*	1.7	
(f) Subtotal		6.7
C. Total program - Third War Loan		16.2

* It is proposed to count all receipts from Treasury savings notes and savings bonds deposited with the Treasury between September 1 and October 9 as part of the drive.

In the financing program set forth above it is suggested that the entire $16.2 billions of new money raised by the Third War Loan come from a nonbanking drive, and that about $7 billions of this amount be obtained directly from individuals. E bonds at $4 billions would provide the major share of the individual money. Bank borrowing would be divorced entirely from the drive.

In order to accomplish a war loan drive of the foregoing magnitude and composition it will be necessary, it appears at this time, to change the mechanics of the operation from those employed heretofore so as to place the entire emphasis of the loan squarely on "individual money". It is suggested in this connection that the individual part of the loan be set off by itself to be handled as separately from the other parts of the loan as possible -- separately as to (a) the type of approach (b) the timing, and (c) the particular securities offered.

(a) The type of approach

(1) The individual part of the Third War Loan will, it appears, have to involve an intensified selling campaign that will dwarf all previous efforts to sell Government securities to individuals. The amount that will have to be raised is huge when considered from the point of view of subscriptions by the average man, but the figures are disarming in their simplicity. The difficulty of the accomplishment of the job is illustrated by the following example:

> Assume that all persons who buy any of the issues other than E bonds have taken their share of the loan -- $3 billions as shown in the table above. Then every one of the 60 million remaining Americans who will earn an income during the month of September (including the members of the armed forces) will, on the average, have to put up about $70 cash during that month for E bonds if the goal is to be reached. If the market cannot be expanded to beyond, say 40 million persons because of the impossibility of obtaining extended amounts from most of the persons with incomes of $1,000 a year or

> less (including most of the members of the armed forces), then the average requirement for each of the 40 million persons will be about $100 cash during the period of the drive.

A drive that will reach tens of millions of persons and will obtain from them funds in the magnitudes set forth above will have to be a drive that is really big. It will have to be a campaign which will involve house-to-house canvasses in every one of the nation's counties; bench-to-bench canvasses in every one of the nation's factories; and desk-to-desk canvasses at every one of the nation's offices. Many people will have to be canvassed three or four times and urged to subscribe three or four times.

It is likely that a drive such as this will have to involve sales pressure such as has not been used heretofore in a war bond campaign. Security sales to individuals in volumes as large as those contemplated can be accomplished only on the basis of a series of dramatic appeals to patriotism. Accordingly, every person must be urged to subscribe until it really hurts his spending power -- a level of subscription which would be far above the level a person would ordinarily consider as being representative of his ability to buy war bonds.

A drive such as has been described will, in all likelihood, require public approval by the Treasury and the Federal Reserve of local activities encouraging individuals to withdraw large portions of their bank accounts for investment in E bonds. The need for a policy approving bank deposit withdrawals has become more and more evident as the war financing program has progressed, and it should be formulated completely before the start of the Third War Loan, inasmuch as the success of the drive may well depend upon it.

> Some bankers question whether they can afford the drain on their deposits which will result from a vigorous program of sales of Government securities to their depositors, but their leaders, as represented by the members of the Economic Policy Commission of the American Bankers Association, are in favor of a deposit-withdrawal-for-Government-security-investment policy. In the Commission's report on the "$100 Billions Budget, and The Banks",

a copy of which was sent you some months ago by Mr. Randolph Burgess, bankers were advised to look upon such deposit withdrawals with complacency. The report explained, you will recall, that "as the deposits go out through customer subscriptions for bonds or through Government withdrawals, there is reasonable certainty that over a period they will return, though usually under different ownership".

(2) The corporation part of the Third War Loan will involve a different type of approach from the foregoing and might well be handled as a custom-made "Special names" job. The patriotic appeal might be used, but the investment approach would probably be adequate. It is important, however, that every corporation that might be a candidate for a subscription to the Third War Loan be listed before the campaign starts and be assigned by name to a particular "drive solicitor". This would eliminate duplicate solicitation, and would provide an economy of effort. These representatives should, moreover, be matched to the corporations in a manner which would achieve the most effective use of sales personnel.

The job of preparing lists of corporations and distributing the names among salesmen is considerable, but it sounds larger than it really is. There are, it is likely, less than 100,000 corporations whose names would appear on lists of likely candidates for subscriptions to the issues offered in the Third War Loan, and a considerable proportion of the names could be obtained from past records of subscriptions and from other sources.

(b) Timing

The Third War Loan will involve some new angles with respect to timing if the operation is divided as set forth above, because the two parts of the operation will not be similar to each other. The corporation part will be one that can be accomplished within a relatively short period of time — a week would probably be sufficient -- for there should be no obstacle to obtaining corporation subscriptions promptly. The situation was well illustrated in April when 60 percent of the money obtained from nonbanking corporations was received during the first week of the drive, notwithstanding the fact that there was an interest advantage to postponing the purchase of tax notes to the month end.

The individual part of the Third War Loan will, on the other hand, require three or four weeks to complete if the extensive canvasses that are suggested are to be accomplished. With this in mind, it is suggested that the individual drive start on Thursday, September 9, and extend to Saturday, October 2, with accounting permitted until Saturday, October 9, to take in all the savings bonds sold during the drive. Books for the corporation offering might be opened on Monday, September 27, it is suggested, and close on Saturday, October 2. Advertising could be coordinated so that it would introduce the corporation part of the drive at the same time that it served to spur the wind-up of the drive for individual subscriptions.

Timing in the foregoing manner would make it possible to conduct the individual campaign unclouded for three weeks by a coincident appeal to corporation investors. The public would thereby be spared the confusion that results when large figures are announced in a combined campaign as early subscriptions from insurance companies and other corporations roll in.

(c) <u>The particular securities offered</u>.

In a campaign directed toward extensive purchases of Government securities by individual investors it would be desirable to offer as many securities as is necessary to cover the market. In the Third War Loan drive it is suggested that individuals be offered:

1. E, F, and G savings bonds for the smaller purchasers;

2. Series C savings notes for the large investor who wishes a short-term security;

3. An intermediate bond -- say a 2 percent issue -- for medium termed investment, and

4. A 2-1/2 percent bond for the individual investor who desires a long-term instrument.

These issues would satisfy the requirements of most individual investors. Two of them -- the E bonds and 2-1/2 percent issue -- accounted for 60 percent of the individual money in April.

Corporations would be adequately provided for by an offer of:

1. 7/8 percent certificates,
2. Series C savings notes,
3. F and G bonds,
4. 2 percent bonds, and
5. 2-1/2 percent bonds.

Bills are removed from the basket, it is noted and, if used at all, would be considered outside of the drive.

II. Technical and Policy Matters Which Will Require Some Attention

There are a number of important technical and policy matters which will require some attention during your consideration of the September financing. They are discussed briefly in the following paragraphs.

(1) Certificates in the basket. A 7/8 percent certificate is suggested for the basket in order to attract the funds arising from current corporate accumulations -- funds accumulating in depreciation reserves which cannot be reinvested in new equipment, arising from accounts receivable repayments and going into tax reserves. These accumulations are short-termed in nature and it cannot be expected that corporations will wish to keep them invested beyond the duration of the war. Many corporations consider a three or four year note too long for these funds and accordingly, such a security is unlikely to attract as large a proportion of the funds available as a one year certificate. Moreover, even if corporations were persuaded to purchase such a security, the Treasury would have gained no real advantage from their action. Instead a future market problem would have been insured should corporations wish to liquidate the bulk of the issue at some period prior to its maturity because of the termination of the war. With respect to Series C notes, they too do not seem to be a wholly satisfactory security for all corporate accumulations. Many corporations prefer the certificate type of instrument and their wishes on this account might well be respected. In April, it is recalled, the certificates outsold Series C notes by nearly $1 billions.

(2) Leakage to commercial banks. Eliminating commercial banks from participation in the Third War Loan will give rise to a technical problem with respect to the issue of 2 percent bonds and certificates -- how to prevent banks from setting out to acquire the issues by entering subscriptions

indirectly through dealers and brokers or other intermediaries. This matter could be controlled, it is suggested, by eliminating dealers and brokers from the drive as far as the certificate and 2 percent issues are concerned -- they could, however, enter subscriptions for the 2-1/2 percent bonds. With respect to other investors who might act as intermediaries, it is suggested that the matter be controlled by Federal Reserve policing, operating under a public announcement by the Secretary that the certificates and 2 percent bonds issued during the drive were intended only for nonbanking investors and that one or both of the issues would be offered to banks after the drive closed.

(3) Details of the 2-1/2's. The 2-1/2 percent bond suggested for inclusion in the basket might be a December 1964-69 or a March 1965-70. The issue should bear the same conditions, including restrictions as the ownership, as the 2-1/2 percent bond issued in April, and should be dated September 15 so that interest calculations during the first week of the drive might be eliminated. The September 15 dating would, of course, mean that subscriptions for all 2-1/2's sold during the corporation part of the drive would have to be tendered at par and accrued interest. Some corporations might, of course, prefer that the issue be dated September 30 and offered for subscription at par, but it is expected that no considerable objection to the suggested dating is likely to arise on this account. The September 15 dating would permit sales of this issue to individuals to be definitely tied down during the early part of the drive.

(4) 2-1/2's to refund the 1943-45 bonds. The 2-1/2 percent bond offered in the drive would be made available to refund such portion of the 3-1/4 percent bonds of 1943-45 called for payment on October 15, as were tendered for exchange as discussed in our memorandum on "A Suggested Program for Market Financing Prior to the September Drive." The amount of 2-1/2 percent bonds for which subscriptions were so entered would be excluded from the figures on the drive.

(5) Free ride on the 2-1/2 percent bonds. The separate timing of the individual part and the corporation part of the Third War Loan so that corporation subscriptions will be held off for about three weeks may give rise to a minor "free ride" problem. Some individuals and dealers and brokers might buy the 2-1/2 percent bond for the purpose of transferring the securities obtained immediately at a slight profit to insurance companies and other corporations whose investment funds would be waiting in the market. A deferment-in-trading-while-the-books-are-open request may serve to reduce the volume of such transactions. With respect to large subscriptions, moreover, the Treasury could further control the problem by delaying delivery on subscriptions specifying large denomination

pieces -- say, pieces of $100,000 or over -- until the books of the corporation portion of the Third War Loan had been opened.

(6) E bond ownership. It is suggested that consideration be given again to opening E bonds to all investors other than commercial banks as of September 1, 1943. No change in the limitation on the amount available for purchase from the present $3,750 issue price would be made. This proposal is in line with the objective of making the E bond the "poor man's" security, and of selling only E bonds to investors of this class until the limit of purchases has been reached. Many clubs, associations, unions, church organizations, women's groups, political organizations, benefit societies, and fraternal, foreign and racial groups, as well as many corporations which are the personal businesses of small merchants, salesmen, and vendors have funds which can well be placed in E bonds. Many of the social and political groups are actively promoting E bonds, and their efforts are likely to be enlisted in the September drive. The availability of E bonds for purchase by their own organizations may do much to gain enthusiasm among salesmen taken from these groups.

(7) E bond promotion. The amount set forth as the E bond goal in September -- $4 billions -- is more than 2-1/2 times the amount of such bonds sold during the Second War Loan. This proposed volume of sales can be accomplished only by concentrating the selling effort on $100 bonds for the average man in place of $25 bonds. It would be poor sales psychology and an obvious lack of economy in sales promotion and advertising effort to build a campaign that needs to raise $4 billions around a denomination bringing as little as $18.75 from each piece sold.

(8) E bond delivery. Assuming that substantial progress is made in raising the number of $100 and higher denomination E bonds sold, the Third War Loan may still involve the issuance of as many as twice the number of pieces sold during the April drive. Accordingly, the Treasury should be prepared for the issuance of more than 60 million separate bonds in the 3 or 4 weeks of the drive. This is no small order and it will be made no easier by the fact that door-to-door campaigns depend for their success on rapid delivery of bonds -- certainly delivery no later than 48 hours after the application has been made. It is likely that the operation will have to be still further decentralized, and in large cities may have to be carried down as far as to local neighborhoods. This extension of the issuing operation may involve some liberalization in the procedures now being followed.

(9) F and G bonds. We are withdrawing for the moment our recommendation that F and G bonds be discontinued and are, you will have noted, proposing that they be included in the drive. We make this new recommendation because we feel that the proponents of a small-denomination coupon bond would use the withdrawal of F and G bonds as a signal to intensify their demands for such denominations.

It is noted in this connection, there are a great many persons who have $5,000 to $10,000 idle cash available, but whose income is less than $5,000 a year. Storekeepers who have suffered inventory declines or reductions in their accounts receivable are in this class; so are many members of the armed forces who have liquidated their businesses and disposed of their personal property or farms; and many war workers who have moved to new communities and are living in trailers or furnished rooms and hold in the bank the funds derived from the sale of their homes and furniture. These people are not equipped to face the market risk involved in the purchase of negotiable securities. The Third War Loan will, however, make an effort to obtain their funds for investment in Government obligations -- if withdrawal of bank balances is advocated. A security available in small denominations beyond the E bond limit appears to be necessary, therefore, inasmuch as advocates of a low-denomination coupon bond will submit these people as examples of the market that is not covered by a $500 minimum denomination negotiable bond.

(10) Federal agencies and trust funds. The program for the Third War Loan drive, set forth in this memorandum, excludes any amounts that might be obtained in September from subscriptions by Federal agencies and trust funds.

July 15, 1943
9:00 a.m.

GROUP

Present: Mr. Bell
Mr. Gaston
Mr. Sullivan
Mr. White
Mr. Haas
Mr. Thompson
Mr. Paul
Mr. Smith
Mr. Gamble
Captain Kades
Mrs. Klotz

H.M.JR: Paul, have you seen this? (Indicating July 10 Chicago News clipping regarding United Mine workers.)

MR. PAUL: Yes, I sent it in to you yesterday.

H.M.JR: Did you ever consult with that labor man?

MR. PAUL: I just went over that letter yesterday - it proves--

H.M.JR: What?

MR. PAUL: It proves that there were plenty of other motivations besides - concealment besides the income tax.

H.M.JR: Is there any case?

MR. PAUL: No income tax case.

H.M.JR: No, but are there others?

MR. PAUL: Yes, I think there are others.

H.M.JR: Where is the memorandum?

MR. PAUL: It is on the way in.

H.M.JR: To me?

MR. PAUL: Yes. I told her to make a copy.

H.M.JR: What I want to ask is this: I will be asked at press conference about the Chicago Daily News story which says that--

MR. PAUL: Read particularly the last paragraph.

H.M.JR: Anyway, the gist of it is that there is a report of an investigation of Mine B - you summarize the thing - there is a Treasury report investigating this whole question of Mine B, United Mine Workers, over in the Department of Justice. Now, I am going to be--

MR. PAUL: There is a little implication that the Justice Department has been dilatory about it or is blocking it, or something of that sort.

H.M.JR: That doesn't for the moment interest me. What I want to know is when the press asks me at ten-thirty, "Is there such a report, Mr. Morgenthau; is it over at the Department of Justice," can I say, "Yes"?

MR. PAUL: I don't see what else you can say if you say anything. That is true.

H.M.JR: Is it illegal to say yes? Any reason why I can't say yes?

MR. GASTON: The Department of Justice has already confirmed that there is such a report over there through their Public Relations man. I would be inclined to say, "I am sorry, I can't say anything about it."

H.M.JR: That doesn't satisfy me, Herbert.

MR. PAUL: I got a report yesterday that the Justice Department, which must have leaked this story - I don't

know where it could have been leaked otherwise - is very sore about the way they have been treated here in this story.

H.M.JR: Who is sore?

MR. PAUL: Justice, including the Attorney General.

H.M.JR: And there must be a leak, you say, in the--

MR. PAUL: I surmised that owing to the methods they have of not taking care of papers and everything - our assistant general counsel was over there for six months, and he says that you can get anything out of the Justice Department just by walking around and looking on people's desks.

H.M.JR: I still come back to the fact that this is important, and I don't want to do anything - did you send me this?

MR. PAUL: Yes, I sent that in to you. I had a lot of trouble getting a copy of it.

H.M.JR: Now, is there any reason - if they ask me, "Mr. Morgenthau, is there such a report, and is it over at the Department of Justice," is there any reason why I can't simply say, "Yes. If you want to know anything about it you have to see the Department of Justice"? What harm is there in that? Do you mind for one minute - before we come to the public relations, let's get the law straight on this thing.

MR. PAUL: I am not sure. I think I had better check on that legal end of it; I am not sure. I think that only covers the disclosure of anything in returns and doesn't refer to pendency of investigation. I think in view of the importance of this I had better check.

H.M.JR: Could you be back at ten-twenty-five and let me know - you and Kades?

MR. PAUL: We can check that in ten minutes.

H.M.JR: Yes, but I am going to be busy. I want to know, because the St. Louis Post-Dispatch, which is just across the border from this B Mine, and P.M., want to know about it. They are going to ask me.

I want to know if I can simply say, "Yes, there is such a report." If they say, "Where is it?" I will say, "Over at the Department of Justice." That is all I can say, gentlemen. That is all I want to say.

MR. PAUL: There is only one thing that might be suggested. It hasn't been over there very long. One might almost give the date if you are going to give anything.

H.M.JR: No, I don't want to do that.

MR. PAUL: That is only for their protection.

H.M.JR: Why should I worry about protecting them?

MR. PAUL: You shouldn't - you should; they would appreciate it.

H.M.JR: What?

MR. PAUL: I think they would appreciate your saying that much about this, because this story sounds as if it has been over there for a year or something like that and they were very dilatory.

H.M.JR: Well, don't worry too much about the Department of Justice on this thing. I mean, right in the room, I don't want to do anything to dampen this story. And I am not using my imagination. Now, Herbert?

MR. GASTON: In the first place, you can't tell them anything they don't know. The Post-Dispatch man ran across our man while he was investigating the case. He knew from other sources that we were investigating. Hartman admitted to him that we were investigating the case. That has all been printed in the Post-Dispatch. Yesterday they confirmed

it at the Department of Justice that the Treasury had delivered a report over there. It was officially confirmed through the Public Relations Office in the Department of Justice.

I don't think there is anything you can tell them that they don't know. I think you can tell them, "You know everything about this case that I am able to tell you. There is nothing I can tell you about the case that you don't already know."

H.M.JR: Now, Herbert, you are a newspaperman; this isn't going to satisfy you at all.

MR. GASTON: As far as I can see, it has been admitted by the Department of Justice that the thing is over there, so there probably isn't any practical difficulty in your admitting that it is over there. Whether there is a legal difficulty or not if you wanted to admit - as I say, you can't tell them anything they don't know.

H.M.JR: Let's say, "My General Counsel and my Special Assistant, Mr. Kades, tell me, legally, it is over at the Department of Justice, and that is all I can say, gentlemen." Is there any objection to that?

MR. GASTON: Not the slightest.

H.M.JR: Fred?

MR. SMITH: If it is true they confirmed it, say, "I understand they confirmed it."

H.M.JR: I don't know; I haven't been advised officially that they have or have not confirmed it.

MR. GASTON: My only objection to that is that that will lead to their asking some more questions, "What did you find? Is there a tax case?" and so on.

H.M.JR: "No, we followed the usual procedure and the matter has been forwarded to the Department of Justice for action," or "for such action as they deem fit." That is all I can say.

MR. PAUL: Mr. Garrison points out that there is a pretty clear case against the employer for violation of the Wagner Act. There might be a conspiracy on the part of labor to assist in the violation of that Act, and there is a possibility of conspiracy to restrain commerce in violation of the Sherman Act, and there might be some violation of some State prohibition against bribery.

H.M.JR: Can I forward that to the President? (Indicating letter dated July 7, 1943, from Lloyd ~~Gattison~~ Garrison to Mr. Paul)

MR. PAUL: Sure. I see that copies haven't been made. I will rush a copy off to you.

H.M.JR: Is there only one copy?

MR. PAUL: That is all I have.

MR. GASTON: If there is bribery, I don't see how you can escape the conclusion that there is also tax evasion. If there is bribery, it seems to me there is conspiracy. If there is conspiracy, there is evasion of taxes.

MR. WHITE: He might have reported income under some other head.

MR. GASTON: No he didn't; he admits it.

MR. SULLIVAN: Of course, as you know, I agree with Herb. I thought we had a case of conspiracy to avoid the tax laws. I have nothing new to add.

H.M.JR: I have been waiting for this (Indicating Mr. Garrison's letter).

MR. PAUL: I didn't know about it until yesterday.

H.M.JR: This is hot, and I have been waiting for it.

MR. PAUL: I think you might send along with it the letter to which this is an answer which summarizes the facts.

H.M.JR: All right.

MR. PAUL: You see, we have presented hypothetical questions; otherwise we would be violating the law about disclosure of returns.

H.M.JR: Get it in. I have been awfully keen on this thing. If I had had this earlier it would have been helpful. Anyway, you come in at ten twenty-five, will you - you and Kades - and let me know?

MR. PAUL: All right.

H.M.JR: And Kades, I tell you what you might do. Between now and ten-thirty you might read both of those letters.

CAPT. KADES: Yes, sir.

H.M.JR: Now would you, Mr. Paul, tell this group - because I have the group down now to where we can talk about important things - I would like to know what happened yesterday over with Fred Vinson. I would like the whole story.

MR. PAUL: I was going to write up a memorandum this morning. The conference lasted from two-thirty to five-thirty. Vinson was there. Stam brought with him two of his assistants - Pete - whatever his name is - and Randolph.

H.M.JR: Talk a little louder.

MR. PAUL: Stam brought with him two of his assistants. There was a man there who was a new assistant to Vinson; I forget his name. There was a man named Stark, whom I thought was still with Byrnes; but it seems, when I raised the point, that he has been assigned over to Vinson, at least on tax matters.

MR. BELL: He is the Federal Reserve man.

MR. PAUL: Yes. He has been with Byrnes for some time.

A long speech was made by Vinson about a united front on taxation, and at the end of that I said, "Well, since Mr. Stark is here and we want to think about a united front, I wonder what about Mr." - the Budget man - "and also, would Marriner Eccles be interested in a conference." I was doing that partly to see if I could lead Vinson into a disclosure - more of a disclosure of what his position was.

He rose to that and seemed very annoyed. He said that he didn't want to have any town meeting - the he was always glad to hear from any of these people, but he didn't see any reason for calling them into a conference.

After that episode we went on and discussed the tax problem.

H.M.JR: That annoyed him?

MR. PAUL: Yes, it did annoy him.

H.M.JR: That is funny, isn't it?

MR. PAUL: And he acted as if he was annoyed on the ground that I was trying to tell him something about how you operate on the tax bill. He referred at one time to a postgraduate course - that he had to take time to take a postgraduate course in getting a tax bill through.

I said that we in the Treasury had always been careful to discuss these matters with all the different people in the Administration who had a legitimate interest.

Then we went into a long discussion of the excess profits tax. We discussed two types of individual excess profits taxes, the one that is usually thought of by people, which is a tax on increase in income; and also a tax from another angle, putting the rates up, but giving relief to people who had no increase in income, or decrease, or who had debts to pay, or high medical expenses and such things.

Stark was very much in favor of the latter type.

Stam made the point that he - that the Ways and Means Committee had passed a resolution calling for a

report from us and Stam on the possibility of such a tax. The only references - I have never seen anything from the Committee about that. The only thing I have ever seen about it was in the newspapers.

H.M.JR: May I interrupt you?

MR. PAUL: But--

H.M.JR: May I interrupt you, because I get the feeling - I am more interested in the personal relations angle. Did you get the feeling that Vinson has sort of assumed the role of leadership in this thing?

MR. PAUL: I tried my best - at one time he made the statement - and I noted it in my memory - "I don't want to dictate what is in the tax bill."

H.M.JR: Could I again interrupt you? You see - let's go back a little bit. Some of you know about this very unpleasant incident at Cabinet last week where the President called on Vinson and I thought he would say something about prices or something. Instead, he started to give a report on the tax bill, how he had done this and done that. Well, I felt that the President had had enough fights so I kept quiet. It turned out all right. The President more or less picked up my fight for me before the thing got through.

I have asked Paul to sort of sound this thing out, because I feel - and I think Paul agrees with me - that it is much better to have a showdown now with Vinson rather than work all summer and find after we do all the work he has no assistant - he uses our brain. Because, if he is going to do it, the time to know it is now.

Now, I want to sit down and have a face-to-face talk with him, because that isn't my understanding with the President at all.

MR. PAUL: I couldn't tell; I tried several leading questions--

H.M.JR: Well, he is smart.

MR. PAUL: ... to get him to tell what he considered his function, and the only word that he used that gave me any lead was this, that he didn't want to dictate the tax bill.

H.M.JR: I think next week I had better just get hold of him some way or other and just have a face-to-face talk with him. If necessary, I will go call on him, because I am not going to be in this--

MR. PAUL: I got kind of an unpleasant taste in my mouth all through the conference. I felt that Vinson was being terrifically political about the thing and wasn't thinking - he made a lot of speeches against inflation, true, and he seemed to be at odds with Stam in that he wanted more taxes than Stam. But he didn't seem to have any grasp of the problem at all as he had seemed to have at the previous conferences when there have been two or three of us at lunch together.

H.M.JR: I am going to let you dictate this thing and I will read it. If anybody in this group wants to read it, you can lend them a copy. That will save time. They can apply to you to borrow a copy if they want to read it. They can read it and then return it to your office. I think that will save time. But I would like a copy, and if you would - somebody - George and somebody else - is going to come up and see me Saturday on the farm. I want you (Haas) there Saturday morning and Sunday. You had better get to Poughkeepsie Friday night, if you don't mind. Who will you take with you?

MR. HAAS: I think I had better take the Source of Funds man, Lindow, probably.

H.M.JR: What about Tickton?

MR. HAAS: O.K. He is specializing on the quota arrangement.

H.M.JR: I think you had better have both. If you don't mind getting there Friday night I will work with you

Saturday morning. Maybe we can put in a couple of hours Saturday morning, and then I will let you get through and go to New York to see a show.

MR. HAAS: That will be fine.

H.M.JR: So I think - then if you could give it to George, he can bring it up.

MR. PAUL: All right.

H.M.JR: What I would like to do is this: You give me that; I want to read it. Then if anybody else wants to read it, they can borrow it and read it.

Let me go around briefly. How long would it take - I want, immediately after this meeting - I would like to take ten or fifteen minutes - I have something which I think is important to say to you people in connection with War Finance.

Who do you want over here from your organization?

MR. GAMBLE: Louis and Coyne.

H.M.JR: Herbert?

MR. GASTON: I haven't anything special. I have a letter that I want to talk with you about sometime when it is convenient which you sent to me to talk to you about.

H.M.JR: Now, just so we know, I have told Mr. Bell because he will be Acting Secretary tomorrow and Saturday. He knows the whole inside story about this John L. Lewis thing. I have told it to one person, so if anything breaks on it or anything happens, Bell knows. He has to know, because he is going to Cabinet.

MR. BELL: I would like to read that report, if I may, before I go.

H.M.JR: All right. I think you ought to read the report I send to the President.

MR. BELL: Is that Paul?

H.M.JR: Elmer Irey. I think you had better send for Elmer. There is some stuff going on which is all to the good.

MR. SULLIVAN: I don't understand. Last fall Biddle said, "For heaven's sake, why can't we get this fellow Lewis?"

H.M.JR: Who?

MR. SULLIVAN: Biddle, to me in his own office.

H.M.JR: They tell me he wants to run for Senator for Pennsylvania. They also tell me there are quite a few coal miners in Pennsylvania. (Laughter)

MR. SULLIVAN: So I heard.

H.M.JR: The unfortunate thing in this town, if I may moralize a little bit, is that there are so many people who have lightning rods up, and they are looking at the lightning, waiting for it to strike. If they only realized that if they took a thing like this and did a bang-up job, that would elect them to office. Instead of that, they are doing this and that - they are shadow-boxing. On the other hand, if they did a bang-up thing, hell, the people of Pennsylvania would sweep them into office. But he will never be swept in if he dodges this one.

Herbert, if it isn't too late, could you write to your friend Saul Haas - I think it would be better to have that special, special stuff sent here.

MR. GASTON: All right.

H.M.JR: You might send him another airmail letter.

John?

MR. SULLIVAN: I reached the Chief Justice. It was a very good thing I did, because he was appalled at the idea

of his picture being used. As a matter of fact, he said, "I am not too happy about the letter in an advertisement."

I said, "You remember I told you we were using the President's letter."

He said, "Oh yes, I can't object to that. I just would feel happier - but I am not going to object to that." He very definitely objected to the use of the picture.

H.M.JR: O.K. Anything else?

MR. SULLIVAN: I had lunch with Donald Nelson Tuesday. We discussed the Procurement matter, and he was heartily in accord with my plans on that and offered the use of all of his facilities.

H.M.JR: That is the surplus to be handled--

MR. SULLIVAN: .. during the war on everything except Army and Navy and such things as Army and Navy turn over. He seemed particularly interested in my desire to talk with the Army and Navy and see if we couldn't have a real survey of their inventories and shake loose from them the things that they really don't need, at least for the present.

He feels very strongly that we, and not the Army and Navy, should dispose of it.

MR. BELL: Does that include the plants?

MR. SULLIVAN: We don't know, Dan. There are a lot of things on the fringe there.

I had lunch with Jim Scott of the Bureau of the Budget. The Budget and Mack hadn't been getting along too well. It looked as though Budget was trying to horn in. I am pretty well satisfied, after my conversation with Scott that we won't have any substantial trouble with them for the time being--

H.M.JR: I hope you are right.

MR. SULLIVAN: ... on the disposal of the huge stocks after the war, but that is something else. But I think if we do a good job between now and the armistice and have a real plan and are ready to go to town, then it will have to come to us.

Fred and I have been talking about publicity on the September 15 matter, and the Bureau and I feel very strongly that there should be no publicity until the forms are out. Whenever there is any publicity, they come after us for forms. If they are not there, they write to their Congressmen, and we have quite a time.

Fred feels that this should be divided into two parts: first start in now, telling them there is something coming September 15; and when the tax forms come out, give them the technical advice about filling them out. I understand he is getting out a memorandum on that today.

MR. SMITH: Yes. The only thing is, you have two surprises coming to the bulk of the people.

The first is that you have to do something on September 15. Then what you are going to have to do - there are two separate and distinct surprises. Rather than wait and load them both on at once, it seemed to me there ought to be some way we could break the news that on September 15 something is going to happen, you are going to have to file and pay a tax. Some people are, and tell who is and who isn't.

But, don't get into the details of it, and maybe not issue very much from the Treasury directly until you have really got the forms and get into the discussion of what you do about it.

H.M.JR: My hunch is that we ought to begin to break the news to them.

MR. SULLIVAN: I am just wondering what that is going to do to your payroll allotment. The forms aren't ready - they won't be ready.

H.M.JR: If you don't mind, after Smith gets into it, whatever he advises on that I am going to take his advice.

MR. SULLIVAN: That is all right,but I think that the people who have been running this year in and year out ought to have an opportunity to state their case, Mr. Secretary.

H.M.JR: Oh, John, sure. And if I had followed what the people have been doing who have been running the thing I would be in such hot water - I mean, I would be as bad off as OPA.

MR. SULLIVAN: What do you mean?

H.M.JR: Just that. I mean, I gave the people a chance who have been running the thing, you and Internal Revenue, and look where I was on this business as of two days ago.

MR. SULLIVAN: I am the one who stopped it, Mr. Secretary.

H.M.JR: How?

MR. SULLIVAN: I am the one who brought it to your attention.

H.M.JR: Oh, John, don't kid me.

MR. SULLIVAN: Mr. Secretary, that form came to me for the first time on Monday afternoon. It had gone through your shop on Thursday, hadn't it?

MR. SMITH: The front page.

H.M.JR: And what did you do? You said, "Here it is if you want to make out yours - it took me an hour and thirty-two minutes."

MR. SULLIVAN: Is there any more graphic way I could describe to you what the ordinary person is going to be up against? Mr. Secretary, I have been a hundred percent with you in your reaction to what this was going to do to the people, and I have been a hundred percent with you in your desire to get this thing cleaned up, and as a result of it--

H.M.JR: What did you do about it? The so-called people who are regular people - what did they do about it? It was in the Bureau of Engraving. If I hadn't stepped in, what would have happened?

MR. SULLIVAN: If you hadn't--

H.M.JR: If I hadn't stepped in, what would have happened?

MR. SULLIVAN: It would have been printed as it was. That is why I brought it to your attention.

H.M.JR: You didn't say anything about it, John. You simply said, "Here it is. If you want to make out one of your own, here it is."

MR. SULLIVAN: I beg your pardon. We were discussing this, and in the discussion you said you wanted Fred and me to get together, and we got together.

H.M.JR: In the morning - I don't know what the occasion was - Mrs. McHugh was here - and you said, "Here is the thing. It took me an hour and thirty-two minutes to make it out. If you want to make it out, here is yours."

MR. SULLIVAN: I think I told you what the reaction was going to be to this thing, and in the course of that discussion you asked Fred and me to get together.

H.M.JR: If, in your mind, you feel that you did, I will take your word for it because I have got too many things--

MR. SULLIVAN: I am not claiming any credit for it at all.

H.M.JR: O.K. Fine. You brought it to my attention. Let's leave it that way.

MR. SULLIVAN: I should have been fired if I hadn't.

H.M.JR: Let's leave it that way. You are on my side. What about the people in the Bureau?

MR. SULLIVAN: I think the people in the Bureau did what they were legally required to do. I think that the minute Randolph told them in here that afternoon that the legality of the situation should be disregarded in the interest of the convenience of the taxpayer - and from that time on I think they have done a swell job. We will have a form here where he will have to make seven computations instead of fifty-five.

MR. PAUL: John, we told them a week or ten days ago we were trying to get them to simplify that thing.

MR. SULLIVAN: Surrey had approved it.

H.M.JR: What I am getting back to is this. I don't know who you refer to as the regular people, but if you refer to Norman Cann, they were perfectly willing to let the thing go through as is.

MR. SULLIVAN: That is right.

H.M.JR: They didn't have the initiative or the imagination to see what this would do to the Treasury.

MR. SULLIVAN: That is right.

H.M.JR: So why is their advice any good to me?

MR. SULLIVAN: I am talking about the publicity.

H.M.JR: Who?

MR. SULLIVAN: I am talking about the publicity we give out every year before March 15.

H.M.JR: Who were the people?

MR. SULLIVAN: Bill Horne is the fellow who has been helping me on it.

H.M.JR: He is not here.

MR. SULLIVAN: I beg your pardon, if he isn't here he will be here before noon.

H.M.JR: I thought he went away.

MR. SULLIVAN: He did.

H.M.JR: And you sent for him?

MR. SULLIVAN: Yes, sir.

H.M.JR: How should I know that?

MR. SULLIVAN: I was going to tell you.

H.M.JR: I couldn't dream it. (Laughter) Look, let's leave it this way. Don't let's either of us get excited.

MR. SULLIVAN: I am not.

H.M.JR: We are both excited. We have got a very difficult job to do. If you see this thing my way, or, I am glad you see it my way - either way you want to put it - if Bill Horne is around and can help, fine. But we

have almost made one of the worst boners since I have been Secretary of the Treasury.

Now, let's get together with Fred Smith and let's decide what is the best way to approach the public.

MR. SULLIVAN: That is right. I was merely trying to tell you that there was an issue coming up.

H.M.JR: You didn't say Bill Horne; I thought what you said was that I should sit down and be advised by Norman Cann as to how to approach the public. I didn't think that that was very good. I am talking about the radio, the newspapers, the trade papers - all of the things we do before March 15 - like the job we did on withholding.

All right, bearing this in mind, that just as soon as we can coordinate this thing - not under Fred Smith, but under the advertising manager for the Treasury - the whole business - I want to get it under the whole thing so each one will all flow through the same person. I don't suppose Louis is ready for that.

MR. SMITH: I think we will have to set it up--

MR. SULLIVAN: Horne will be here this week end. He will map out the program.

H.M.JR: All right. Just so I don't have to get in on it. The committee on the level of the Office of the Secretary of the Treasury will be you and Gaston and Fred Smith and whatever the three of you decide is O.K., but I don't want it referred back to me.

MR. SULLIVAN: That is perfectly all right. The only issue at all between Fred and me is one of time - whether we shall start in now or whether we shall wait until these forms are available. When I spoke about the people who have been handling these things, I mean, every time there has been any publicity about a tax,

before the instructions and the forms are ready, in come hundreds and hundreds of letters and then a week later in come the letters from the Congressmen and Senators.

H.M.JR: All right. Now, there is the committee. You fellows handle it and I don't want to hear about it again.

All right?

MR. SULLIVAN: Sure.

H.M.JR: Finished?

MR. SULLIVAN: Yes, sir.

H.M.JR: Good.

Fred?

MR. SMITH: Nothing.

H.M.JR: Ted?

MR. GAMBLE: I have nothing.

H.M.JR: Kades?

CAPT. KADES: Nothing.

H.M.JR: Paul, would you take this back and give me the complete thing? (Indicating material regarding United Mine Workers.)

MR. PAUL: Yes. I want to get a man named Maguire in to study simplification of the tax. He is a Harvard Law School man. I think it will be a good thing to make a short press announcement. If Herb and I get something up on it, will that be all right? - or Fred Smith or anybody you say?

H.M.JR: Yes, you don't have to bother Herbert on that. Smith will do it. I don't want to start the whole controversy again, but I take it you heard the remark that Sullivan made that Surrey passed on this thing ten days ago?

MR. PAUL: He did not. If he passed on it, it must have been the last couple of days because I had a conversation with Surrey over the phone about a week ago telling him to hold this up until I got back. So he may have passed on it in the last couple of days - I don't know.

MR. SULLIVAN: The reason I was sharp, Randolph, was because when I inquired into it I was told that your fellows and Blough's were--

MR. SMITH: The suggestions made by Blough, and made by these other people, were about forty percent taken by the Bureau. That is the answer.

H.M.JR: Anyway, let's let it - from now on, we will do it - we will pull ourselves out good.

MR. SULLIVAN: The fault is in my shop, Mr. Secretary. This thing never was brought to me until Monday afternoon. They should have had me in on it in the first place.

H.M.JR: The Commissioner, I gathered, didn't get it until Tuesday, according to him on the telephone.

Your shop - what do you mean by your shop?

MR. SULLIVAN: I mean the Bureau. They shouldn't have waited until they had proofs at the printers before they submitted it to me.

H.M.JR: Anyway, through combined efforts we caught it.

MR. SULLIVAN: It is a narrow escape.

H.M.JR: Are you all right?

MR. PAUL: I have a couple of things - no hurry about them.

H.M.JR: You (Haas) be at the Nelson House Friday night.

MR. HAAS: Yes, sir.

H.M.JR: Harry?

MR. WHITE: There are several things but they can wait. There is just one thing I want to get your reaction to. One Ethiopian has been in a number of times. We have been going over their monetary plans which Britain has outlined for them after we got permission from the State Department we could discuss it freely with them, because there is some severe criticism we have of the British proposal.

H.M.JR: Is there a nigger in the woodpile? (Laughter)

MR. WHITE: There is a whole flock of them in this one - thirteen million, to be exact. (Laughter)

H.M.JR: Known as "The Ethiopian"? (Laughter)

MR. WHITE: "The Ethiopian." For obvious reasons they want to do business with us. There are two obvious reasons. One is the possibility of lend-leasing them silver, and the other is the possibility of a stabilization loan.

But the third thing I wanted to get your reaction to now was that they have, he claims, a very substantial food surplus there and if only they had some trucks they could get some of that out and they could produce - they have two crops a year, and they could produce a lot more if they had technicians, and so forth.

Now, they have approached Lend-Lease - first they approached the British and got nowhere; they approached Lend-Lease and got nowhere, and you are the only one who could do something if you are interested.

H.M.JR: Yes, I am; you to Captain Kades to Marvin Jones. He has an avenue to Marvin Jones, and Marvin Jones operates. I want to say so far, for Marvin Jones, that he is no Fred Vinson. He likes help and wants help and welcomes it. I mean, he is an entirely different kind of fellow. So will you tell Chuck the story? He can get it to Marvin Jones.

MR. WHITE: O.K.

The British Treasury would like to know whether the four million ounce part--

H.M.JR: If you don't know, Kades is an expert on food - pigs and everything else. (Laughter)

MR. WHITE: Every week he gets a new title. He must be good. It is amazing what the Army will do with a man. (Laughter)

What about the four million ounce part? Are you, in your negotiations with Halifax, also including the four million?

H.M.JR: I would hold everything on India.

MR. WHITE: All right. They asked me, incidentally, what possibility there was of their getting an answer soon. I suggested that they might speak to Halifax, who may know something about it.

H.M.JR: Wonderful. I think you got a memo, or will, from me this morning.

MR. WHITE: On the Chinese gold?

H.M.JR: Letting the President know. You fix up some letters for me. Get them to Mrs. Klotz by two o'clock, please.

MR. WHITE: We didn't have that meeting this week.

H.M.JR: I know.

MR. WHITE: Are you going to be back next week?

H.M.JR: Yes, I will be here.

MR. WHITE: We may not have it next week. We ought to have it.

H.M.JR: We will have it.

MR. BELL: Walter Stewart couldn't come. Bob Warren has been down here working with us on these matters. If you wanted him to go over the week end and discuss it with Walter it might save time. My inclination is to just forget it as far as Walter is concerned.

H.M.JR: All right.

MR. BELL: Can I get your initial on this? (The Secretary initialed letter dated July 7, 1943, signed by Archibald MacLeish, approving sale of ground rent in Philadelphia.)

Just as a matter of interest, the London, Midland, and Scottish Railway Company donated to the United States Army the Coronation Scott train that was on exhibition here. I don't know what they are going to do with it - probably use it for troops.

MR. SULLIVAN: The railroad expert, Kaptain Kades, worked it out. That was before he obtained the exalted position of returning to the Treasury. (Laughter)

CAPT. KADES: They will use it to house officers at Jeffersonville Depot.

MR. BELL: We have a rather nice letter from Mr.Wood, who is president of the company.

H.M.JR: Let somebody take it up with General Surles.

CAPT KADES: Mr. Secretary, when I was in the Army I cleared the fact that the Treasury could handle the publicity with General Gregory. (Laughter)

MR. BELL: O.K.

H.M.JR: All right?

MR. BELL: I have got about a three-page memo on my desk describing a very famous rug that has been donated. Whether we ought to waste paper putting out the publicity or not--

H.M.JR: All right.

MR. THOMPSON: Would you be willing to sign, without reading, this circular? (Department Circular No. 244, "Supervision of Bureaus, Offices, and Divisions" signed by the Secretary.)

H.M.JR: John, I can't overemphasize the importance - this thing is two o'clock in your office?

MR. SULLIVAN: That is right.

H.M.JR: I am leaving the Treasury promptly at three-thirty.

MR. SULLIVAN: You want me to call you as soon as--

H.M.JR: As soon as you need me.

Those of you who are interested in Mrs. Morgenthau, she had the best night she has had, and this third attack of phlebitis in her right leg seems to be disappearing.

MR. SULLIVAN: I just talked with Fred here a minute, Mr. Secretary, and he and Herbert and Bill and I will sit down with whoever the Bureau wants. They will present their side. Fred will have the memorandum. We will vote and it will be decided before I leave Friday afternoon.

H.M.JR: The reason I got excited, I thought I had to consult Norman Cann to get good ideas out. You didn't tell me you had Bill Horne.

MR. SULLIVAN: How could I tell you? I didn't have him.

H.M.JR: You also notified me you are leaving Friday night?

MR. SULLIVAN: No, you were notified and signed a memo on that two weeks ago.

H.M.JR: Where are you going?

MR. SULLIVAN: Home.

H.MJR: For how long?

MR. SULLIVAN: Two weeks.

MR. BELL: Is that approved? (Laughter)

July 15, 1943

MEMORANDUM FOR THE SECRETARY'S FILE:

I attended a conference yesterday afternoon at Judge Vinson's office, 2:30 p.m. The conference was attended by Judge Vinson and his assistant Mr. Underwood, Mr. Stam and his two assistants, Mr. Burgess and Mr. Price, Mr. Stark, and by myself and Mr. Surrey. (Mr. Surrey had to leave at about 3:30 in order to attend a conference with you on the September declaration forms.) The conference lasted until almost 5:30.

You will remember that Mr. Doughton had recently suggested to me that between now and September Mr. Stam and I (and our staffs) should confer from time to time on matters to arise in connection with the forthcoming tax bill. Mr. Doughton told me that at a recent luncheon in his Capitol office attended by Senator George and Judge Vinson, the latter had expressed a desire to be at the first meeting between Stam and me. Later, Judge Vinson, after a telephone conversation with me, arranged with Mr. Stam to hold a meeting at his office yesterday.

1. At the beginning of the conference Judge Vinson made a statement, apparently along the line of justification for the meeting, as to the need of a united front. At this point, thinking that Mr. Stark was connected as he formerly was with Justice Byrnes' office, I raised the point as to the propriety of having attendance from Mr. Smith's office and Marriner Eccles' office. Judge Vinson seemed somewhat annoyed at this suggestion saying that he did not want to have a town meeting, and once or twice later he referred with some annoyance to post graduate courses in tax bills. While he said that he would be glad to discuss tax matters with Harold Smith and Marriner Eccles he clearly evinced his objection to having their representatives attend any further meetings. I pointed out to him that I was bringing the matter to his attention partly on the basis of my misapprehension as to Mr. Stark's status and that the Treasury

had been very careful in the past to consult with other legitimately interested agencies in connection with tax matters.

2. The first general point discussed was the individual excess profits tax. This tax problem was raised by Mr. Stam and I gave a statement as to the difficulties of such a tax, including the administrative difficulties and the many injustices that would be involved. Mr. Surrey supplemented this statement with one or two points including the problem of over time.

Mr. Stam then brought out the point that under a resolution of the Ways and Means Committee introduced by Robertson, his staff and the Treasury staff had been asked to report to Congress in September on the practicability of an individual excess profits tax. Judge Vinson said he had not heard of this resolution and I said that the Treasury received no notification from the Committee though I personally had read something to this general effect in the newspapers.

The discussion of the individual excess profits tax proceeded at first along the lines of the conventional tax on income increases over a pre-war period and Stam evinced a great deal of interest and pre-possession in favor of such a tax, though as usual he did not commit himself on the point. Mr. Stark introduced into the discussion a point made by Roy Blough (and evidenced in the Times' recent story on this subject) that the approach to such a tax should rather be from the standpoint of increasing rates by allowing for relief where there had been no increase or a decrease in income or extraordinary payments on account of fixed commitments or misfortune or otherwise. Stark seemed to approve of this approach and I indicated that the Treasury would prefer such an approach to the subject. No decision was reached as to which approach was preferable.

There was some discussion in connection with the individual excess profits tax of employing the expedient of compulsory saving. The thought was that what was taken out of increased incomes would not be taken as a tax but as a compulsory loan.

3. There was then a good deal of discussion of the income tax rate increases. Stam and Price indicated a good deal of doubt about the feasibility of increases. Stam made his usual point about the necessity of consulting burden tables. He said that he doubted very much whether any substantial increases could be put through Congress. Judge Vinson here took a pretty firm position in favor of increases though he seemed rather confused about a compulsory saving aspect of the matter which will be referred to below. On the whole, it seemed pretty clear that Judge Vinson is for a substantial increase in individual income tax rates though not of the magnitudes which seem to be called for from the inflation standpoint.

4. As an offshoot on the increased individual rate problem there was some discussion of the matter of exemptions. I indicated the possibility that we would have to resort to a lowering of the exemptions. Stam did not commit himself on this point but he did come out strongly in favor of a change in the exemption technique so that exemptions would be a tax credit instead of a credit against income subject to the normal tax. I suggested that the discussion continue to the point of reduced exemptions leaving the problem of conversion to the credit against tax form to a later discussion but Stark seemed to be the only person who completely grasped this distinction.

5. In connection with the discussion of individual increases, Judge Vinson came out strongly for compulsory saving. I must say that I had difficultyin following some of his reasoning in this respect. I pointed out the Treasury's objection to compulsory saving and suggested that it was a basic policy matter which should be discussed with the Secretary. Judge Vinson said he would be glad to have a discussion with the Secretary on the point.

So far as I could understand Judge Vinson's approach to the question of compulsory saving, he thought in terms of a certain rate increase in terms of dollars and then seemed to believe that the more compulsory saving we had the less we would need in taxes. I pressed the point of view

that we should get all we could in taxes and then (if we had compulsory saving) it should be added to the highest possible tax rate increase.

6. I brought up the question of the sales tax. Burgess gave some figures on sales tax yield which were pretty much in line with although a little higher than Treasury estimates (I believe Mr. O'Donnell's office is revising our estimates upward). Stam made perfectly clear his belief that a sales tax should be enacted partly because he did not believe that substantial individual income tax rate increases could be enacted. Indeed, he stated that many people on the Hill talked in terms of a $2 billion revenue bill.

I argued against the sales tax and Judge Vinson, so far as I could tell, was pretty definitely opposed to such a tax. His opposition was not based particularly on administrative difficulties, but rather on the consideration that the yield of such a tax would not be great, particularly the net yield if we considered that such a tax would foreclose the possibility of substantial excise tax increases. Judge Vinson also pressed the point in response to a suggestion made by Price that a sales tax would be a very bad tax to pass immediately before the year 1944.

7. We discussed excises to some extent though not in any real detail. The only specific excises mentioned were increase of the tax on distilled spirits and tobacco. Stam was skeptical as to whether there could be any substantial increases. Judge Vinson was quite confident that rates could be increased, particularly, I think, the rate on distilled spirits.

8. Corporation rate increases were not discussed in any great detail though, if my memory does not fail me, Mr. Stam said at one point that he did not think the rate could be increased beyond 45%. Judge Vinson said that both George and Doughton, at the luncheon referred to above, had indicated tentative approval of corporate rate increases

yielding about a billion more revenue. This somewhat surprised me but Judge Vinson was very clear on the point.

9. There was considerable discussion of loophole plugging. Vinson expressed a strong objection to any recommendations as to plugging of loopholes. I told the conference about a telephone call I had had the day before from Jere Cooper in which he suggested that it would be unwise to bring up loophole legislation in the next bill saying it would start the bill off "with a bad taste" in everybody's mouth. I said I was inclined to agree in the loophole matter wholly about depletion because of the general oil situation at this time. I said that I was very doubtful on the point of tax exempts but that certainly serious consideration should be given to the whole matter of "joint returns." I said that I did not think we should advance the subject of joint returns in exactly the same form as we did last year but that we had a good plan which might be suggested to Congress. I explained the plan briefly. Price was familiar with the plan. I made the point that two additional States had adopted the community property system, Oregon being the last State and that this fact might somewhat change the picture. Vinson thought it would change the picture for the worse since there would now be 20 Senators opposed to any change in the community property income tax requirements.

10. There was no discussion of increases in the estate and gift tax rates or of social security. There was no discussion of the spendings tax except a collateral reference of a remark by Vinson that he did not think too many new things should be sprung on Congress. I interpreted this remark to refer to the spendings tax.

11. Stam suggested the possibility of additional revenue by limiting deductions. I asked him what deductions he referred to and briefly indicated the problem arising in connection with the interest deduction. Stam apparently had in mind limitations on advertising. I referred to the difficulties which would be encountered with the press and Judge Vinson's assistant, Mr. Underwood, agreed on this point. Judge Vinson then recalled his attempt to limit depreciation deduction by 25%.

12. When the conference broke up, I made no attempt to

fix any date for further conference and none was suggested by anyone else. Judge Vinson suggested further consideration of the problem by the respective groups, particularly some pencil pushing considerations.

13. I find it difficult to summarize my impression of the conference from the angle of Judge Vinson's estimate of his function in the tax picture. Mr. Surrey had the impression from the Judge's annoyance at the point I raised about who should attend that the Judge thought himself considerably in charge of the tax front. I would not deny this interpretation though a possible other interpretation is that the Judge thought that no upstart like Randolph Paul could tell him much about putting a tax bill through Congress. The two reactions may go together. In spite of several attempts made by me to draw out the Judge, he said nothing further one way or the other except that incidentally at one point he said something about not wanting to dictate the tax bill.

From the standpoint of progress toward achieving a tax policy, I think very little was accomplished at the meeting. Stam was evasive and non-committal though his skepticism as to the possibility of large additional taxes (except sales taxes) was clearly indicated. Judge Vinson was more hopeful basing his hope upon his conversation with Doughton and George and the "courage" of Congress when "the chips are on the table." But I gathered the impression that Judge Vinson was much less aware of the problems and realities of the tax picture than I had supposed from previous conferences with him.

R. E. P.

JUL 15 1943

MEMORANDUM

TO: Secretary Morgenthau

FROM: Randolph E. Paul

I am recommending the appointment of John M. Maguire, Professor of Law, Harvard University Law School, and member of the law firm of Hale & Dorr in Boston, Massachusetts, as consulting expert to the Treasury Department. Mr. Maguire would be engaged to prepare a report on the simplification of the internal revenue laws. This report would be the basis of recommendations to the Congress on this subject. It is expected that the report will be finished the first part of 1944.

Secretary approved appointment - July 15, 1943

July 15, 1943
9:50 a.m.

THIRD WAR LOAN DRIVE

Present: Mr. Bell
Mr. Smith
Mr. Gaston
Mr. Gamble
Mr. Thompson
Mr. Louis
Mr. Coyne
Mr. Haas
Mr. Lindow
Mrs. Klotz
Mr. Tickton

H.M.JR: What I want to do, Ted, is this: I have been fussing with this thing since six o'clock this morning. I tried to get you at seven, but they said you wouldn't be in.

MR. GAMBLE: You could have gotten me at three. I missed the train in Philadelphia and didn't get home until three o'clock.

H.M.JR: I read this report from Haas on the Third War Loan and what they have got in it.

Now, I think in my official family I can afford to be honest, I hope. I know I can. And the thing - after they read it I had to take a triple bromide, because, as I told Tickton - he was here - it is very nice for Tickton and Lindow and Haas to set up a theoretically perfect objective, but the next thing is to give it to our salesmen and tell them to go out and sell it. There is no sense in giving these people something they just can't sell.

I should be here saying, "You go out and do it," and all that. Now I am talking realities here. I don't

believe - they have got you down for four billion of E bonds. I don't think you can do it.

MR. GAMBLE: I have contended that for three weeks.

H.M.JR: Now, we have to make the basket. We have to get going, have a field organization. I am not going to give you this. I have sold - I have been out and sold space, and I know what it means. And if I am told to do this job, my reaction would be, "It is too impossible; I am not even going to get started."

I want to get you fellows in a frame of mind that, "This is fair and we are going to show Morgenthau we can beat it." But I don't want you licked before you start. That is a language you can understand, isn't it?

MR. COYNE: Right.

H.M.JR: Now, with that in mind - I mean, it is all right for these fellows to set up something. There are two things; one is the quotas, and the other is the kind of merchandise.

The reason I called this meeting is that I want - I talked to Bell, and he is convinced. I want the chairmen - or whatever you call them - the number one men in the ten States that do the seventy-five - I want them here Tuesday and Wednesday. Bell says it is going to take them away - well, there is nothing more important.

The reason I make it Tuesday and Wednesday is because those two days we will be making up our minds both on the basket and on the quota, and I think - and if you don't agree with me-- (Mr. Tickton and Mr. Lindow entered the conference.)

Tickton, I told them about our conversation this morning. I only said behind your back what I said to your face. I think that these ten fellows in these States should have a chance to sit in on the basket and on the quota

I want them to go out of here saying - all ten of them - "Mr. Morgenthau, we will get you this."

Then we will get people like Frank Isbey. He will say, "Don't tell me you can't do it in Pennsylvania. I did it in Michigan. I broke all the Treasury regulations, and I delivered the bonds. I did what Mr. Bell said I couldn't do, but I had sixty thousand people, and I did it."

In here they have down sixty million pieces. Let's say it is fifty million pieces that have to be delivered. If it is true, Bell, who has the Bureau of Engraving under him, had better put Mr. Hall on notice.

But the thing that I want, starting with me, all of us dragging our feet on this thing - we have got to lick this thing into shape so we know where we are by the 23rd. Then we can leave you fellows alone and you can go out and sell. If you agree - and for God's sake, don't sit there like a bump on a log if you don't agree with me, because I think - this is my idea, and I am just raising it - I sold it to Bell - that these fellows should be in here Tuesday and Wednesday both to sit in on the basket and on the quota.

MR. GAMBLE: I have only one qualification, and that is that in some instances you bring in two men instead of just the chairman, in New Jersey, for instance--

H.M.JR: That is immaterial.

MR. GAMBLE: I agree they should be here. We have had several meetings on this, and I am completely in your corner on it. We have been arguing violently about this seven billion dollars.

H.M.JR: Bell was opposed right along that I give out these figures. I said that the public has to know them, and all the rest of that, and we did it. Well, all right, that is water over the dam. But I would much rather have to apologize to a few of these sharp-shooters in the left wing of the White House than I would to fall down with the

American public or make the American public fall down by giving them a hurdle that nobody can clear. You just can't clear it.

All right, I made my speech in Newark, and I made this speech and talked about twenty-five percent out of the seventy-eight billion dollars and all the rest. All right, maybe it was wrong. I made my Kingston speech. Maybe that was wrong, but it is water over the dam.

Now I am faced right up against a reality, and that reality is, what is a fair amount to ask these fellows to give me. Then I want them to go out and beat it, but I don't want to do what Tickton gave me this morning, which completely sunk me. I told them yesterday that four billion was impossible. They put it back to three, and they came right back with four this morning. Gosh, they are terrible. What we have to do is put those fellows out on the firing line and let them sell. (Laughter)

MR. HAAS: Put them right here, Mr. Secretary.(Laughter)

H.M.JR: I mean, the attack line - back the attack. Here it is right here. You corrected it to three billion dollars and they come right back this morning--

MR. TICKTON: They tore me apart for doing it, for pulling that down yesterday.

H.M.JR: Tore you apart?

MR. TICKTON: For putting that down to three.

H.M.JR: Well, you will get torn apart if it stays at four. Well, anyway-- (Laughter)

MR. BELL: That is all right on the basis of which you have been traveling. Those figures are all right.

H.M.JR: Bell asked if there was anything holy about what I have said. No. Now we are up against a grim reality. We have to go out. I have always said that I

wasn't going to make forecasts. Here I made some dumb forecasts. Well, it is too bad.

MR. GAMBLE: I don't think it is too bad. You talked about a second front just as we talked about a second front on the military side. We don't have to get tied down on it.

H.M.JR: The bankers are coming in. You (Gamble) should be in at eleven o'clock and listen to this.

Haas and his fellows are coming up Saturday and are going to have another run over this thing.

I think you ought to get your people in. Do you agree, Coyne?

MR. COYNE: Yes, sir.

H.M.JR: Tuesday and Wednesday. You be here.

MR. LOUIS: I will be listening.

H.M.JR: What I have said so far-does it make sense?

MR. LOUIS: It certainly makes it easier.

H.M.JR: Don't let any speeches I made bother you. If they are wrong, O.K. To hell with them.

MR. GASTON: They are not wrong, not in the way at all. But I believe in making a quota now that you can make and go out and beat it a lot.

MR. GAMBLE: To do what the Secretary has been talking about, I suggest that we break down for them this seven-billion-dollar goal; give it to them as an ideal goal, but give them a quota they can make, not demoralize them.

H.M.JR: Don't you see how completely demoralized I am? I had to give Tickton a second cup of coffee to revive him. (Laughter)

MR. TICKTON: You missed that first cup of coffee. (Laughter)

H.M.JR: O.K. Is everybody happy?

From now through Tuesday and Wednesday I am going to settle the basket; we are going to settle the quota. Then we are going to town, and these fellows are going to run a chart out here as to how your organization goes along so I can walk in there and see it. But I am going to give you a quota that you can make and beat, and these fellows have got to be willing to say so. If it gets down to fifteen billion, O.K., fifteen billion. Does that satisfy you?

MR. COYNE: Swell.

H.M.JR: Just one split second - is it too early to say anything about McNamara?

MR. COYNE: We put him in yesterday; he is doing fine. We got him right up to his neck. He seems to like the job and seems to relish it.

H.M.JR: Don't get him up to his nose. (Laughter)

MR. COYNE: All right.

H.M.JR: What did you do yesterday?

MR. GAMBLE: We had a very good meeting with all these entertainment councils. They have committed themselves to a very fine program in September. There are a few details to be worked out. For example, they have agreed to use three newsreel subjects, dates during the drive, and to use all five of the newsreels every week during the drive - each of them - that is just one thing they have agreed to. They have a caravan that they want to send out.

H.M.JR: What you want to do is to tag somebody in your organization to give me spot bulletins of important things, whether it is once a day or once a week, so I know what is going on. If you can keep it on one page, I will read it.

MR. GAMBLE: Why don't I just talk to Fred Smith? Let him give it to you and keep you advised. We will use him as a liaison.

H.M.JR: That is all right. He sees me occasionally. (Laughter)

MR. GAMBLE: I am not claiming him as a War Bond man. (Laughter)

July 15, 1943
11:00 a.m.

THIRD WAR LOAN DRIVE

Present: Mr. Bell
Mr. Haas
Mr. Gamble
Mr. Lindow
Mr. Murphy
Mr. Tickton
Mr. Tom Smith
Mr. Spencer
Mr. Newell
Mr. Strickland
Mr. Fleming
Mr. Hemingway
Mr. Stonier
Mr. Brown

H.M.JR: The reason that I asked you gentlemen to come down to this very uncomfortable city in the middle of July was to help us on the question of what kind of securities we should offer in September, how much, and the question of quotas.

I think whatever we do we ought to fix it so that the people in the field can be enthusiastic about the kind of securities and the amounts so they will say, "It is possible to do it, and we will go out and do a little bit better" - which they have every time.

There are some honest differences of opinion, as usual, between the Federal Reserve Board and ourselves as to this thing, the rate pattern, as they call it.

I don't know how much Mr. Bell has told you or how much time you had. I have an open mind. I like to think I always have one. But I think the most difficult thing, Dan, is this question of this rate pattern. Have you discussed this with them?

MR. BELL: They just came in and I had about five minutes with them. I think what--

H.M.JR: You couldn't do it in five minutes.(Laughter)

MR. BELL: I think what we should do is let them go to a room and look over the material we have - the memorandum from Marriner and our memorandum - and I think they would like to talk to Marriner for a few minutes on the memorandum and get the background. We should go over the figures and then possibly you should see them right after lunch.

H.M.JR: Here is my trouble. I don't like to talk about personal things, but Mrs. Morgenthau is still in the hospital in New York, and I have to leave at three-thirty this afternoon. But I am available right after lunch.

MR. HEMINGWAY: What hour would you suggest?

MR. STONIER: Is two o'clock all right?

H.M.JR: Two-thirty would be a little bit better. I would have from two-thirty to three-thirty.

MR. HEMINGWAY: Let's make it two-thirty, then.

H.M.JR: Would that be a little bit better?

Those are the things that I would like to get some advice on.

They just got in now?

MR. BELL: Yes.

H.M.JR: Well, there is plenty of room in the Treasury.

MR. BELL: Yes.

MR. HEMINGWAY: Then the sooner we get at it the better.

MR. BELL: All right. I will call Eccles and have him come over here.

H.M.JR: Then they can hear both sides. This rate pattern thing - I lay great stress on that because they do, you see.

I am sorry to sort of rush you this way--

MR. FLEMING: I don't think that rushes us. It is eleven o'clock now and we are all accustomed to taking a sandwich and eating in.

H.M.JR: Shall we say two-thirty, gentlemen?

MR. HEMINGWAY: All right.

July 15, 1943
2:30 p.m.

THIRD WAR LOAN DRIVE

Present: Mr. Bell
Mr. Haas
Mr. Lindow
Mr. Tickton
Mr. Gamble
Mr. Murphy
Mr. Smith
Mr. Spencer
Mr. Newell
Mr. Strickland
Mr. Fleming
Mr. Hemingway
Mr. Stonier
Mr. Brown

H.M.JR: I might look to you as President of the ABA--

MR. HEMINGWAY: Mr. Secretary, we haven't very much to report. We have been in session ever since we left you. Mr. Eccles came over and went over the recommendations that he had made to you, and he posed two problems which we have been discussing. One is the undesirability of the bond market getting too strong as well as being too weak; and the other the danger that the banks will extend their maturities too much, being pressed into it by the decline in their loans and the need of earnings.

We have been talking about his suggestion of a three-quarters percent Treasury bill in view of those points that he made. We talked it over with Mr. Bell and these other gentlemen, but our committee hasn't yet had an opportunity to get off to itself and talk it out in the committee. So we haven't yet crystallized our opinions.

H.M.JR: Well, I am not surprised, because certainly mine aren't crystallized, and it is not--

MR. HEMINGWAY: ...not easy.

H.M.JR: It is not easy. Have you people - why not make this use of me, anyway - would you like to ask me any questions?

MR. HEMINGWAY: I think possibly some of the gentlemen here would like to ask you some questions.

H.M.JR: Supposing we go around the room.

MR. HEMINGWAY: I would like to start it by asking one question, and that is, to what extent do you feel the Treasury is obligated to help maintain the bank position as against having an easier bond market position?

H.M.JR: You will have to explain that. I don't know what you mean by helping the banks.

MR. HEMINGWAY: What I am trying to say is, in order to hold the bank position, perhaps, in the strongest way - keep the banks from going into the long maturities and keeping them in shorter maturities - would require, perhaps, some expenditure in the way of higher interest rates for the short maturities on the part of the Treasury.

How would you feel about that?

H.M.JR: Let me answer it a little differently and see if I can give you what you want without answering - you've got me within too narrow a range. (Laughter)

I think I can give you what you want. We are looking to the banks as underwriters of Federal financing to see us through this war. We want to go to them just as little as possible, but we do look to you as underwriters, just as a matter of good common sense, to see that we keep you fellows healthy. By that I mean, let you make a good living. Now - I am being very frank - I want you people to make a reasonable profit on your capital and surplus. Now, that is why I don't want to answer.

Now, at the same time, I would like to hook on one other thing. We here in the Treasury think that a ten-year security is long enough for the banks, and we don't feel that because we don't want to increase interest rates - lowering them, rather - that the thing to do is to extend the life of a bond.

By that I mean, if this doesn't call for a ten-year two, then make it a twelve-year two, and the first thing you know we will be way out. We don't think that a bank with deposits should have more than a ten-year bond.

Now, that is the way I look at the thing, and I am not looking at it, just whether it should be a bill or a three-quarters, nine-months, and so forth. That is why I didn't answer you. I would rather give you my over-all feeling.

Doesn't that answer you better than telling you - does that answer what you have in mind?

MR. HEMINGWAY: No, I don't believe I made my question very clear. What I was trying to say was this, that if the pressure to earn money continues, the tendency of the banks will be to extend maturities. Now then, those who believe that the banks should not extend maturities much further, suggesting that it would perhaps be advisable for the Treasury to offer them a shorter maturity - a real short maturity - at a higher rate in order to keep some of that money in the short bracket--

MR. BELL: You mean a higher rate than the market, or a higher coupon than what we have been offering?

MR. HEMINGWAY: I am speaking now of these three-quarter bills.

MR. BELL: I mean, do you want more certificates and less bills?

MR. HEMINGWAY: More certificates and - well, we talked about a nine-months certificate or a bill - call it whatever you please.

MR. BELL: And less of the three-eighths?

MR. HEMINGWAY: Yes.

MR. BELL: Certainly they will get a lot of certificates; there isn't any question about that.

H.M.JR: I don't like to say this without Mr.Eccles being here, but I think I am being a little more realistic about the thing than they are. They are talking about a rate curb which doesn't particularly interest me. They want to establish this rate curb. I want, as much as is in my power, as I say, to keep you fellows in a healthy condition on the basis that you can make an honest living. Let's do the thing which is best to accomplish it. I don't care what it is.

MR. SMITH: Suppose that cost the Treasury a little more money.

H.M.JR: That is all right.

MR.SMITH: That answers your question.

MR. HEMINGWAY: That is what I was trying to draw out.

H.M.JR: I can't have an ideal and then say I am not willing to pay for it.

MR. HEMINGWAY: That answers the question.

H.M.JR: I am willing to pay for it because I think whoever sits here after the war is over, I owe that much to the country to see that that is done in a wholesome manner. If I have to pay a little more for that, I think it is worth it.

MR. NEWELL: I have no questions, Mr. Secretary.

H.M.JR: I could trim it up and talk about - give a ten-page memorandum on the thing, and when I got all through and done - why not deal it right across the table?

MR. HEMINGWAY: I think that is the answer.

MR. STRICKLAND: I think the Secretary's statement covers all the fundamentals. The group ought to be able to work within that, satisfactorily.

I do think, Mr. Secretary, that it would be helpful if the banks would do more on their own part to keep down some of the speculation in offerings because they expect a little bit firmer terms on the part of the Treasury. I think this last one and a half - the terms were conducive to speculation, and we ought to have a meeting of minds on a mutual measure and try to make the initial offerings a little more healthy. I don't think it is well for you to be able, or to have to report seven and eight times over subscriptions of that type of issue in the face of a constant pressure to sell small amounts of bonds to individual buyers.

H.M.JR: We made a mistake in the amount we asked and we recognize it. We shouldn't ask anybody to subscribe with a two percent deposit. The mistake was ours. We recognize it and won't do it again.

MR. STRICKLAND: I think a healthful situation can be created, and sounder, from the Treasury standpoint.

H.M.JR: We made a mistake there and we recognize it.

MR. STRICKLAND: That is the only comment I have, sir.

MR. FLEMING: Mr. Secretary, I think your policy of trying to keep within a certain range - the pattern of rates that you have devised - is a very wise one, but I think there is just as much danger in having those rates get away from you on a lower basis, particularly the post-war era and the sale of subsequent issues, than you have of a rising rate of interest which was unhappily done in the first World War.

Now, to the extent that means have got to be taken to control that, I think we have all got to get our

heads together and try to do that, because I think there is a certain amount of confidence that the public has now gotten in the pattern of rates that are being put out, and I think that is the most priceless thing we have in the huge sums that you have the obligation of floating.

H.M.JR: I thank my lucky stars that with all this talk of inflation there is this steady demand for Government bonds. That is something we want to nurture carefully. We have to nurture that very carefully because it is awfully easy to lose it.

MR. FLEMING: Very. And it can be lost on the side of the rates getting down lower and lower all the time until they get - the top falls off, and then nobody wants to buy.

H.M.JR: On the other hand, my having been entirely frank - you fellows don't want to ride a good thing to death, and so forth. I mean, you want to see both sides of the picture.

MR. FLEMING: Oh, yes.

MR. BROWN: Nothing from me.

MR. SPENCER: I think everything has been covered that I have in mind.

MR. SMITH: Nothing except that it will take a lot of will power, at times, to resist the temptation to reduce rates and extend maturities because when you have established this splendid bond market, buyers will go out - step out too far - banks will step out too far, buy long-term bonds and force the prices up, and it will require a lot of will power not to want to issue--

H.M.JR: Well, I think the American Bankers Association and other State organizations can be very helpful.

MR. SMITH: I think so, too.

H.M.JR: I think they can be very helpful, particularly as the deposits constantly go up.

MR. SPENCER: It wasn't more than six or seven months ago when these two percent bonds weren't too generously taken. That condition might come around again. (Laughter)

MR. BELL: We haven't forgotten it, either. (Laughter)

H.M.JR: And that was the fight that I made to establish the two percent rate.

MR. BELL: The ten-year maturity.

H.M.JR: I know. And then I had my fight on the three-eighths note.

Well, we have been successful, and having been successful, I haven't been pushed too hard - pushed the rates down, you know. When I came here in the middle of November, '33 - I think you (Smith) were here - I--

MR. SMITH: I was thinking about that today.

H.M.JR: The first issue I sold they told me I could sell a nine-months note. Then I remember they said, "Now, the next one we are going to sell a long one."

I said, "What is that? We can sell a long issue now." The next one was thirteen months. That was the second issue I sold.

MR. SMITH: Scared to death about the nine-month note, too.

H.M.JR: We sold a real long one; we sold a thirteen-months, and I don't forget those things. So I am very happy at the present situation. If we can go through and finance this war - the public debt of the Government now is just a little under two percent.

Now, if you people will continue to play as fair with me in the future as you have in the past, I will play fair.

MR. SMITH: That is all that is necessary.

H.M.JR: And don't let's either try to do the other. Now, we haven't in the past and we have got to raise a lot of money, and I think this picture that we have now - getting less and less from the banks - each war loan looks good.

MR. HEMINGWAY: We have stressed that in all of our statements and publications.

Well, Mr. Secretary, if it is agreeable to you, we will continue our discussions and leave a written memorandum with Mr. Bell...

H.M.JR: Would you do that?

MR. HEMINGWAY: ...on the conclusions that we reach.

H.M.JR: Fine.

July 15, 1943
3:30 p.m.

John Sullivan: ....substantial accord on the form. There were one or two very minor points that nobody's willing to die for....

HMJr: Yeah.

S: ....and I think that I can assure you that this form will go to the printer tonight.

HMJr: Wonderful.

S: Mr. Cann has already made those arrangements. He and Mr. Mooney, Captain Kades, Fred Smith, Surrey and Tom Atkinson are with me now and Judge Opper has just left.

HMJr: Well, I'm delighted. I think that's a great job and shows that we still can pull ourselves out.

S: Yes, it's still - it's still going to be somewhat complicated but it's an infinitely easier document....

HMJr: Well, I appreciate all your help, John.

S: That's what-I'm here for.

HMJr: What?

S: That's what I'm here for.

HMJr: And I hope you have a swell vacation.

S: Thank you, sir, I appreciate that and I hope you find Mrs. Morgenthau very much better.

HMJr: Thank you.

S: All right.

HMJr: Good bye.

July 15, 1943
3:32 p.m.

Ted Gamble: Mr. Secretary, I just wanted to let you know that I was going to be away tomorrow afternoon for three hours.

HMJr: Yeah.

G: I'm going to New York to meet with the Presidents of the picture companies to get them to prove their budget for the September drive of about a half million dollars.

HMJr: Okay.

G: I just wanted you to know that.

HMJr: All right.

G: I'm flying up and back and will be here other than during those hours.

HMJr: All right.

G: Thank you.

July 15, 1943

My dear Mr. President:

I am sending you herewith a draft of a proclamation which we would like to use in connection with our Third War Loan Drive.

I hope that this appeals to you as we are rapidly crystallizing our plans for our publicity, and we would like to feature your proclamation in our newspaper advertising and all other forms of publicity throughout the country.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

Recognising the fact that in carrying the war into enemy territory, we shall need greater amounts of money than any nation has ever asked from its citizens in all history, I, FRANKLIN D. ROOSEVELT, President of the United States of America, do officially proclaim that on Thursday, the ninth of September, 1943, the Third War Loan shall be launched.

As Commander-in-Chief, I hereby invoke every citizen to give all possible aid and support to this Third War Loan drive, not only so that our financial goal may be reached, but to encourage and inspire those of our husbands and fathers and sons who are under fire on a dozen fronts all over the world. It is my earnest hope that every American will realise that in buying War Bonds in this Third War Loan he has an opportunity to express voluntarily and under the guidance of his conscience, the extent to which he will "back the attack."

The American people supported well the first and second War Loan drives and in fact did even more than was asked of them. Our need for money now is greater than ever, and will continue to grow until the very day that Victory is won; so we must ask far more sacrifice, far more cooperation even than in the past.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the seal of the United States of America to be affixed.

DONE at the City of Washington, this fourteenth day of July, in the year of our Lord, nineteen hundred and forty-three, and of the Independence of the United States of America the one hundred and sixty-seventh.

FRANKLIN D. ROOSEVELT

BY the President

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FRANKLIN D. ROOSEVELT

BY the President

JUL 15 1943

Dear Dave:

I wish I had heard Lord Halifax on "We the People", but unfortunately I was in New York and missed it.

I'm glad to know, however, that he agreed to go on, and I can see from the script that it must have made an interesting sequence.

As an ex-master of ceremonies, I am very much interested in "We the People", and will keep it in mind, as you suggested.

Perhaps there is something we can do together again during the Third War Loan drive.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. David Levy,
Young & Rubicam, Inc.,
285 Madison Avenue,
New York, New York.

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YOUNG & RUBICAM, INC.

Advertising

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June 30, 1943

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

My dear Mr. Morgenthau:

I don't know whether or not you were able to find time to listen to "We the People" this past Sunday, but inasmuch as we presented Lord Halifax, I thought you might like to see a copy of his script.

I feel that to a large degree we owe Lord Halifax's acceptance to appear on "We the People" to the conversation you held with him before your recent trip to Cedar Rapids.

The statement which Lord Halifax delivered to the American people I think you will find a very timely one which will do a great deal to cement British-American relationships. Knowing that you are interested in the general aims of "We the People", namely to confirm better relations between us and our Allies and a better understanding of the war, we hope that you will feel free to further the appearance on "We the People" of any other leaders, such as Lord Halifax, whenever you so desire.

I hope to have the pleasure of working with you again.

Kindest personal regards.

Sincerely,

YOUNG & RUBICAM, INC.
Director, "We the People"

David Levy/jmp
Enclosure

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BOULTON...

Ladies and gentlemen, WE THE PEOPLE present the British Ambassador to the United States, Lord Halifax, in an exclusive interview. Lord Halifax speaks from the British Embassy in Washington. He will be interviewed by Leigh White. We take you now to Washington.

WHITE...

I suppose that's one of your favorite companions - that handsome little dachshund you have, Lord Halifax. Does your dachshund always stay in the study here with you?

LORD HALIFAX...

Only when my wife is away. Then he spends his time dozing in that big arm-chair across the desk from me. He probably hears as many secrets as the President's scottie - Falla.

WHITE...

Well, Lord Halifax, I see we're on the air now. Ladies and gentlemen, we're in the beautifully panelled, spacious study of the British Ambassador to the United States here in the British Embassy. It's just as you would imagine the friendly living-room of an English country home to be - with a great fireplace, books lining the walls, and deep red hangings at the windows. From its windows you can look out over the Embassy garden and across the countryside beyond, for the Embassy is on the outskirts of Washington. Lord Halifax, I know that only recently Mr. Churchill was a visitor here in this very study. Can you tell us what form he was in during his visit?

LORD HALIFAX...

In grand form, Mr. White. He rightly feels that he enjoys from the British people greater confidence than any other Prime Minister in our history. Not only Britain, but the whole world, owes him an unpayable debt for the courage, tenacity and vision he showed in the dark days of 1940 and has been showing ever since. On the human side, there could be no more genial friend. I like to remember how, the other evening, I looked down into the Embassy garden, and there was the Prime Minister, surrounded by Members of both Houses, to whom he was telling stories with great gusto, brandishing the usual cigar in one hand and some light refreshment in the other.

WHITE...

In contrast with that wonderful picture one thinks of what kind of appearance Hitler must make these days. Lord Halifax, did you ever talk with him?

LORD HALIFAX...

Yes, I did - at Berchtesgaden in 1937.

WHITE...

What were your impressions of him then?

LORD HALIFAX...

He talked at me, as if I were a party rally. I think Hitler was and is a fanatic. He seemed obsessed with a great sense of his own mission in the world. He believed he was a man of destiny.

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LORD HALIFAX...(CONT'D)

So he is - but not quite in the sense in which he originally meant it.

WHITE...

What do you suppose his feelings are about the talk of impending invasion?

LORD HALIFAX...

Mr. White, nothing delights me more than to imagine the contrast in his mind and in the German mind between today and three years ago, when the Naxis were signing "We Are Sailing Against England." At that time they were promised summer holidays in Hastings - since then the only German visitors near Hastings have been occasional nuisance bombers. We talk about reciprocal lend-lease; I like to think of forthcoming events as "reciprocal invasion."

WHITE...

Have you anything to say about where that invasion might come, Lord Halifax?

LORD HALIFAX...

Mr. White, let's all of us guess as much and as often as we like where the Allies' blow will fall. Because the more we guess, the more guessing Hitler himself will have to do. And when we hear Axis propagandists talk about the fortress of Europe and the difficulties of invasion, it is useful to recall this fact. There was once a Maginot Line.

WHITE...

As British Ambassador to the United States, what thought do you feel is most important to express to the millions of people listening tonight about the relations between your country and ours?

LORD HALIFAX...

There is one great purpose which I as His Majesty's Ambassador here naturally feel, and which goes for the war, and for all time afterwards. That is the building up of an unlimited understanding between your great country and mine. The future of the world is going to depend largely on the four great powers and, within that quadrilateral, on the close friendship of the United States and the British Commonwealth. It is an inescapable law of life that, whether you are a millionaire or a great nation, you cannot have power without responsibility. America has great power; so has the British Commonwealth; and it will be for each of our peoples to make up their minds how best they can discharge the great responsibility which goes with power.

WHITE...

Lord Halifax, do you feel our nations will be drawn together more closely even than they already have been?

LORD HALIFAX...

Yes, I do. I have had reports of how British and American soldiers fighting side by side in North Africa have expressed admiration for each other's ability and this is bound to reflect itself in the

LORD HALIFAX...(CONT'D)

feelings of those of us who have stayed home. The other day Drew Middleton, the New York Times correspondent in Tunisia, remarked that your boys now say "we" when speaking of British troops, and that's just the way we all want to think of each other, in the fighting line and behind it, now and after the war. I do not suppose that all the British and all the Americans are ever going to like each other all the time, but I do think that the best relations between our peoples will be built on the mutual respect, which this war will bring.

WHITE...

How about lend-lease? Do you think that has helped to strengthen the feeling between our two nations?

LORD HALIFAX...

The British people will always be grateful for the impetus given our war effort by having America's gigantic production machine behind them. But I am not sure that all Americans know that in England we have our own British lend-lease. In one war year alone we exported to our allies four times as many aircraft as we received from other countries and fifteen times as many tanks.

WHITE...

Lord Halifax, what would you say was the feeling today of those countries who are still neutral?

LORD HALIFAX...

I can answer that best in this way, Mr. White. The wind has changed. In 1940, most people, outside the British Commonwealth, were convinced that Germany would win; later on they came to realize that the forces against the Axis could not be beaten. Now I believe that everybody feels, the world over, that however long it may take, the war will end with the utter defeat of Germany, Japan and Italy.

WHITE...

Lord Halifax, I think Americans know that in addition to your own untiring efforts in furthering the accord between your country and ours, your personal sacrifice in the loss of your son, Lieutenant Peter Wood, at El Alamein last October, is one which you have shared with many British and American parents. In the months to come, great and heart-breaking sacrifices will be asked of the parents of America - the people to whom you are talking tonight. Have you any words that you feel would have a personal meaning for them?

LORD HALIFAX...

When we measure our cause, with all that it means for the future of the world, against our losses, grievous as these must be, we can only be proud for our sons and for ourselves. And we can find some comfort, surely, in the thought that all those from whom much is asked share the pride and the sorrow together. I would like to say this, too. When my youngest son came back badly

LORD HALIFAX...(CONT'D)

wounded from North Africa the other day - for he has lost both his legs - it was heartening to find that he - and I think he is typical - is as much alive as your President or our Prime Minister to the necessity of keeping the unity between our two countries as close in peace as in war. For his is the generation that must do this. I do not say that we can easily solve all our major problems by cooperation; but I do say that there will be very few that we can solve without it.

(MUSIC CURTAIN)

JUL 15 1943

My dear Mr. Secretary:

The Treasury Department is now revitalizing the War Bond program to increase the sale of War Bonds to the wage earners of this country through the Payroll Savings Plan. The financial demands of this war have forced us to raise our sights and seek to increase the income from the sale of War Bonds through the Payroll Savings Plan from approximately $420,000,000 a month to over $600,000,000 a month.

To reach this goal, it is vitally necessary that all employers in the country engaged on war production make an earnest attempt to increase by 50 percent their present record on War Bond sales.

With that in mind, I am writing you with a request that hereafter the issuance of the Army-Navy Production Award include as one of the conditions of award the operation of a Payroll Savings Plan that compares favorably with the national average, which is now approximately 9.1% of payroll. (See in this connection attached copy of the President's letter dated June 24, 1943).

All too often we find employers engaged on governmental war contracts reluctant to provide the facilities for, or to conduct, an efficient campaign to encourage their employees to invest as much as possible from their current income in War Bonds. It has been our experience that a properly conducted vigorous Payroll Savings War Bond campaign invariably results in increased production and at the same time decreases absenteeism among employees.

Because of the close relationship of the war financing program with the war production program, I believe the honorary award issued for excellence in production should be granted on condition that the company is also making a good record in the sale of War Bonds to its employees through the Payroll Savings Plan. Therefore, I would like to see a directive issued to the officials of the Navy Department in charge of these awards, instructing them that, before a company is nominated for the Army-Navy Production Award, the company have in operation a successful Payroll Savings Plan for the sale of War Bonds.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Secretary of the Navy,

Washington, D. C.

RHO'M:agd
Typed 7/13/43

File copies to Thompson,
Copy of ltr. and enclosure
in Diary.

THE WHITE HOUSE
WASHINGTON

June 24, 1943

My dear Mr. Secretary:

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

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

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

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

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

Sincerely yours,

Franklin D. Roosevelt

The Honorable,

The Secretary of the Treasury

JUL 15 1943

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Secretary of the Treasury

The Honorable,

The Secretary of War,

Washington, D. C.

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My dear Mr. Secretary:

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

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

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

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

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

Sincerely yours,

Franklin D. Roosevelt

The Honorable,

The Secretary of the Treasury

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 14, 1943

TO Secretary Morgenthau

FROM Fred Smith

Payroll Savings people would like you to sign the attached letters to the Secretaries of War and Navy, asking them to make payroll deduction plans a part of the conditions upon which Army-Navy flags are awarded industries.

I asked for some research on present Army-Navy plants, and found that less than a quarter of the sample taken can equal the National average. About a quarter of them have no payroll plan at all. The rest are somewhere in between.

This is not very good, and we will probably have a job selling the Army and Navy on putting this extra hurdle in the way of awarding flags.

TREASURY DEPARTMENT
FISCAL SERVICE
WASHINGTON

BUREAU OF ACCOUNTS
OFFICE OF THE COMMISSIONER

July 15, 1943

TO MISS CHAUNCEY:

With Mr. Bell's approval, I am going to be out of the city from July 18 to August 1. In case the Secretary should want to know about the follow-up on his desire to stimulate War Bond sales among American citizens employed by foreign missions, tell him that I have already made plans for follow-up and he can be assured that it will be done.

If we get a favorable reply to the Secretary's letter to Secretary Hull, Miss White will send down to you identical letters addressed to the heads of the various missions. I have procured a complete list of the persons in charge of the various foreign missions.

E. Bartlett

Commissioner of Accounts



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 15, 1943

TO: Secretary Morgenthau

FROM: John J. Louis

I have sent your suggestions on "Oklahoma" to Roy Welch who is on his way West to supervise some Star Parade productions.

7/15/43

Harry White

The Secretary.

Please fix me up a memorandum that I can sign by noon Thursday to the President notifying him what we have done with China in regard to letting them have $200 million worth of gold. I want to send a copy of it to Mr. Cordell Hull.

I'd like to have this by two o'clock, the latest - two oblock.

I think we also ought to ask the State Department to send a cable to the American Minister or Ambassador, which ever it is, in China, letting him know. I also think we ought to let T. V. Soong, too.

Finished —

Treasury Department
Division of Monetary Research

Date July 15, 1943 19

To: Secretary Morgenthau

From: Mr. White

China

1. Attached hereto are:

   (a) Memorandum to the President.

   (b) Copy of memorandum for Secretary Hull together with covering letter. (I had already informed Mr. Berle of this matter by telephone.)

2. In accordance with your suggestion, I have informed Dr. T. V. Soong of this matter by telephone.

3. With respect to the American Ambassador in Chungking, I am enclosing copy of cable which was sent to Treasury representative in China, which cable would automatically be brought to the attention of the Ambassador.

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JUL 15 1943

My dear Cordell:

I am enclosing herewith, for your information, a copy of a memorandum I have presented to the President dealing with the Chinese request to purchase $200 million of gold out of the $500 million financial aid as a means of helping to check inflation in China.

I am also enclosing a copy of cable, dated July 14, 1943, dealing with this matter sent to the Treasury representative in China through your Department.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable

The Secretary of State

Enclosure

File copies ret to White.
Copy of ltr. and enclosures
in Diary.

ISF/ofs 7/15/43

By Messenger Bailey 4.10

- - - -

MEMORANDUM TO THE PRESIDENT:

On July 14, 1943, we sent a message to Dr. H. H. Kung, the Chinese Minister of Finance, informing him that the Treasury is prepared in principle to agree to the Chinese request to purchase $200 million of gold out of the $500 million financial aid as a means of helping to check inflation in China. Dr. Kung was also informed that a formal request was, of course, necessary before any definitive decision and action could be taken.

The Chinese Government has already drawn on the Treasury to the extent of $240 million out of the $500 million financial aid:- $200 million has been set aside as backing for Chinese Government savings certificates and bond issues; $20 million was used to purchase gold, and $20 million is being used for the printing of banknotes and the purchase of relative materials. The purchase of gold with an additional $200 million will mean that in total the Chinese will have used $440 million out of the $500 million financial aid.

In the message to Dr. Kung, as well as in discussions with the representatives of the Chinese Government in Washington, it has been made clear that the Treasury is acquiescing to the Chinese proposal because the Government of China deems that the sale of gold to the public will aid its war effort by helping to fight inflation and hoarding and that, therefore, the decision to purchase the gold is primarily the responsibility of the Chinese Government. Furthermore, the Chinese have been urged to give careful consideration to the best ways of using the gold, particularly because of the great costs, difficulties and dangers inherent in the use of gold as a means of checking inflation under conditions existing in China at present. We especially stressed the fact that the Chinese Government will by this step be sacrificing large amounts of foreign exchange, which could be used in the post-war period to pay for imports needed for reconstruction and rehabilitation.

The use of gold coins as against bullion for the purpose was carefully considered. It was felt both by us and by the Chinese Government that this technique for selling the gold to the public would not be feasible in the present instance, primarily because it would be necessary to give the gold coins a fixed monetary value, while it is contemplated that the price of gold in terms of yuan will change frequently and substantially as time goes on.

The suggestion was therefore made to the Chinese representatives in Washington that the gold might be sold to the public in China in small bars of one or two ounces in order to reach the widest possible section of the Chinese public and such bars might have some engraving which might suggest the United States origin of the financial aid, if the Government of China so wished.

Secretary of the Treasury

SECRET

July 14, 1943

To: Adler, Chungking, China.

From: Secretary of the Treasury.

Please transmit the following message to Dr. Kung:

1. The Treasury has considered the proposal of the Government of China to purchase $200 million of gold from the U. S. Treasury out of the $500 million financial aid, which gold will be sent to China for sale to the public as a means of helping to check inflation.

2. We presume that the costs, difficulties and dangers inherent in the use of gold as a means of checking the present inflation in China have been fully taken into consideration.

3. Since the Government of China deems that the sale of gold to the public will aid its war effort by helping to achieve greater monetary stability, the Treasury is prepared in principle to agree to its proposal. It will be necessary, of course, for the Treasury to have a formal request from you before any definitive decision and action can be taken.

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July 15, 1943

My dear Mr. President:

Undoubtedly you will remember that when you had Madame Chiang Kai-shek for lunch, you asked me to see representatives of China in regard to giving them assistance. The enclosed memorandum is the result of several conferences with them, and I understand they are very pleased.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Copy of ltr. and enclosure in Diary.

Rec'd S.S. Agent 4:04 P.M. 7/15/43

MEMORANDUM TO THE PRESIDENT:

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(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

/ISF/efs 7/15/43

SECRET

July 14, 1943

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From: Secretary of the Treasury.

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3. Since the Government of China deems that the sale of gold to the public will aid its war effort by helping to achieve greater monetary stability, the Treasury is prepared in principle to agree to its proposal. It will be necessary, of course, for the Treasury to have a formal request from you before any definitive decision and action can be taken.

ISF/efs 7/12/43

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON -25

OFFICE OF THE CHAIRMAN

July 15, 1943.

Dear Dan:

This is in response to your letter of June 25, 1943, concerning the tentative Executive Order, "Regulation of Credit Under National Stabilization Program".

If the Order should be issued, the Board and its staff would wish to keep in close touch with the Treasury on any points where regulations under the Order would touch functions of the Treasury and its operations. I think this is evident from the ready acceptance of the suggestion made by the Treasury at the meeting in the office of the Director of Economic Stabilization. However, when the matter of an order was first broached to me, I stated, and I think you will agree, that, because of the difficulty of administering an order of such breadth, there would have to be some freedom of action subject, of course, to the overall control of the Director of Economic Stabilization as contemplated in the Executive Order which created that office. Accordingly, if the Order is issued, I doubt if it would be practicable for the technical staff of all of the agencies which might be affected to work on the regulations with our staff, although the Board, of course, would expect its staff to consult with the staff of any agency whose functions would be affected by a proposed regulation. Furthermore, I am sure that satisfactory liaison could be established and maintained with the Treasury without unnecessarily burdening your technical staff with work on all regulations. Within these limitations I am sure we can set up an entirely satisfactory working arrangement and you have my assurances that we would do so.

Sincerely yours,

Marriner

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

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JUL 15 1943

My dear Mr. Secretary:

In connection with the financial directives for the Operation Husky, I propose, with your concurrence, to obtain through the British Treasury the agreement of the British Government to the following understanding:

The United States and British Governments will act in unison in negotiations with occupied Italy concerning the allocation of the burden of military occupation expenditures. Neither Government will undertake separate negotiations or conversations with Italy and will, through advice and consultation, keep each other fully informed on current and prospective developments.

This matter has already been discussed with Mr. Feis of your Department and he is familiar with its background. I would appreciate being advised of your concurrence as soon as possible.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable,

The Secretary of State.

By Messenger Givens
File copies ret to
White's office -
Copy in Diary.

HTaylor
7/12/43

JUL 15 1943

My dear Senator:

This is to acknowledge your letter of July 9, 1943, enclosing a letter to you from Senator McCarran regarding the lend-leasing of 100 million ounces of silver to the Government of India to be returned to the Treasury after the war on an ounce-for-ounce basis.

As I explained in the meeting with the Senate Special Silver Committee, it is my opinion that the lend-leasing of this silver bullion to the Government of India will be helpful to the war effort of the United Nations. India is an important source of supplies for the forces of the United Nations in the Pacific areas. Large forces are now stationed in India, and it is quite likely that India will soon become the base for important military operations. Under such circumstances, everything necessary should be done to assure the fullest possible utilization of the resources of India in the war.

The people of India have from time immemorial been accustomed to holding part of their savings in the form of silver. If silver bullion is not available for this purpose, silver coin will be hoarded. Already large quantities of the old silver rupee coins have been melted down. Any substantial and further rise in the price of silver will lead to the withdrawal and disappearance of even the new rupee coins which have a much higher melting point than the old rupee coins.

In some of the rural areas of India, the hoarding of silver coin and the consequent shortage has resulted in a premium on silver coin and has to some extent hampered the production and marketing of crops. If the rural public cannot get silver bullion or silver coin to hoard, they will tend to hoard more wheat and other agricultural products that are essential to supply the people and the armies in the Pacific areas. Furthermore, the hoarding of coin, according to the Indian Government has increased the difficulty of meeting industrial payrolls and has led to dissatisfaction among factory workers. It is expected that the sale of additional amounts of silver bullion to the public will help stop the hoarding of coin and reduce the hoarding of goods.

There is another important aspect to the provision of silver bullion. The people of India are extremely sensitive psychologically to the price of silver. A rapidly rising price of silver would mean to them a deterioration in the quality of Indian currency. If the

By Messenger Givens

PHOTO File in Diary.

Orig. " ret'd to White's Office

Indian public should lose confidence in the soundness of their currency, the effect would likely be an extremely sharp inflation, with unfortunate consequences on industrial and agricultural production so important for civil and military supplies in India and in other Pacific areas. We have been informed that the rise in prices in India has been accelerated in recent months, in some part due to the sharp rise in the price of silver. It is the opinion of persons familiar with the economy of India that the rise in prices and the deterioration in the supply situation can be retarded by the sale of silver to the Indian people.

It is the intention of the Indian Government to sell silver bullion exclusively for the purpose of limiting an inflationary rise in commodity prices and in encouraging the continued production of agricultural and industrial goods. This can be accomplished by preventing a runaway and panicky rise in the price of silver without at the same time depressing the price of silver to undesirable levels. For several years it has been the policy of the Indian Government to maintain the price of silver in India at a level considerably above that in other parts of the world. The lend-leasing of silver bullion to India will not modify this policy of maintaining a high price for silver in India.

It should be pointed out that the lend-leasing of silver to India, far from impairing the world position of silver, will certainly strengthen it. The silver that is lend-leased to the Indian Government must be returned on an ounce-for-ounce basis after the war. Any silver sold by the Indian Government will have to be repurchased after the war. This will serve to sustain and strengthen the world demand for silver after wartime industrial uses have declined. Furthermore, the maintenance of a high regard for silver among the peoples of the East is not without its advantages to all silver-producing countries.

The Government of India, through its representatives here, have made strong presentation of the importance of obtaining this additional amount of silver as a means of preventing a deterioration of the Indian economy. The importance of maintaining a strong economy in India in the interest of the war effort of the United Nations impels me to the conclusion that it is desirable to lend-lease silver bullion to India, and I am recommending such action to the Land-Lease Administration. You will remember that the general consensus of the members of the Senate Special Committee on Silver who were present when Mr. Stettinius and I appeared before them to discuss this matter last week was that this step was warranted in the light of the situation. In my opinion nothing in Senator McCarran's letter warrants a change in that conclusion.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Elmer Thomas,
United States Senate,
Washington, D. C.

HDW/EMP/gra
7/13/43

United States Senate

COMMITTEE ON APPROPRIATIONS

July 9, 1943

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

Dear Mr. Secretary:

After our conference on Wednesday Senator McCarran addressed a communication to me giving his viewpoint with respect to one of the issues raised. The letter is self-explanatory and in order that you may know of his viewpoint I am forwarding the letter to you.

With every good wish, I am

Yours most cordially,

Elmer Thomas

Elmer Thomas

ST:DG
Encl.



United States Senate

COMMITTEE ON APPROPRIATIONS

July 7, 1943

Honorable Elmer Thomas, Chairman
Senate Special Silver Committee
Washington, D. C.

My dear Senator:

At our meeting with the Secretary of the Treasury and the Lend-Lease Administrator this morning I was greatly shocked to learn of the proposal to lend-lease 100 million ounces of Treasury silver to the Government of India for the purpose of "stabilizing" the market price of silver in India.

I wish to go on record as opposing any such proposition. Such a large amount of silver--more than twice the amount now carried as a reserve by the Government of India--is sufficient, in my opinion, to depress the market price of silver in India. I believe it is intended to be used for that purpose, rather than to stabilize the present price in the Bombay market.

I invite your attention to the fact that the Bombay bullion market quite recently passed a resolution restricting forward bullion deals for the purpose of reenforcing the anti-inflation measures previously taken by the Government of India. The result of this resolution has been to check speculation on the Bombay bullion market.

Within the past year the price of silver in Bombay has fluctuated from 60 cents to $1.20 an ounce, United States money. While the exchange value of the rupee has fluctuated very little during that period, it is noteworthy that the current exchange value is a fraction over 30 cents, while the par value of the rupee is 35 1/2 cents. At the present rate of exchange silver is quoted in Bombay at approximately $1.02 an ounce. If the rupee were exchangeable at parity, silver would be selling in Bombay at the equivalent of $1.20 in our money.

The British Government thinks this price is too high. No reason is given. Sometimes we hear that the price of silver is too

...t approaches the melting point of the coin. In this in-
... in view of the reduction of the fineness of the rupee in 1940
...916 to .500 fine, this excuse would be inappropriate.

The truth is that the authorities in India are disappointed ... greater quantities of the rupees of .916 fineness were not de-
...ded prior to May of this year when those rupees were deprived of ... legal tender status, especially in view of the fact that the Bombay ... price of silver has risen considerably higher than the melting ... (approximately 87 cents) of those coins. The authorities were ...dently counting on large receipts of these coins in order to in-
...ase their reserve stocks of silver used to swamp the market.

This is simply another occasion of furnishing the materials ...with which to build our own guillotine. As I have stated on many ...occasions, I am heartily in favor of utilizing a substantial part of ...our Treasury silver as a means of aiding the war effort. I do not ...agree that the 100-million-ounce stockpile now desired by the Govern-
...ment of India would aid, to any appreciable degree, in the defeat of ...the Axis nations. I am agreeable to lend-leasing reasonable amounts ...of Treasury free silver for legitimate coinage purposes to Governments ...affiliated with the United States in our common cause, but I am ...opposed to placing in the hands of Government officials of other ...countries any of our Treasury silver to be used by bullion brokers and ...their collaborators whose chief aim is to relegate silver to the ...category of an industrial metal and deprive it of its monetary status.

We should not put our Treasury at the disposal of any foreign ...government to be used for the purpose of beating down the currency of ...any friendly nation.

I have no objection to the submission by you to the Secretary ...of the Treasury and to the Lend-Lease Administrator of copies of this ...letter.

Sincerely,

Pat McCarran

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

July 15, 1943

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended July 7, 1943, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

E.M.B

FEDERAL RESERVE BANK

of NEW YORK

July 14, 1943

CONFIDENTIAL

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

I am enclosing our compilation for the week ended July 7, 1943, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosure

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended July 7, 1943 — Strictly Confidential

PERIOD	BANK OF CANADA (and Canadian Government) DEBITS: Total Debits	Transfers to Official British A/C	Others Debits	CREDITS: Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C: For Own A/C	For French A/C	Other Credits	Net Incr. (+) or Decr.(-) in $ Funds(d)	COMMONWEALTH BANK OF AUSTRALIA (and Australian Government) DEBITS: Total Debits	Transfers to Official British A/C	Other Debits	CREDITS: Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Dec. (-) in $ Funds(d)
First year of war (a)	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war(b)	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Third year of war (c)	525.8	0.3	525.5	566.3	198.6	7.7	-	360.0	+ 40.5	107.2	57.4	49.8	112.2	17.2	95.0	- 5.0
1942																
Sept. 3 - Sept. 30	46.3	-	46.3	53.6	13.2	-	-	40.4	+ 7.3	28.0	20.5	7.5	18.1	-	18.1	- 9.9
Oct. 1 - Oct. 28	44.9	-	44.9	51.5	16.6	-	-	34.9	+ 6.6	14.3	12.0	2.3	14.6	-	14.6	+ 0.3
Oct. 29 - Dec. 2	56.5	-	56.5	80.8	14.4	-	-	66.4	+ 24.3	10.2	5.5	4.7	9.4	-	9.4	- 0.8
Dec. 3 - Dec. 30	48.2	-	48.2	43.9	2.9	-	-	41.0	- 4.3	14.1	8.0	6.1	11.7	-	11.7	- 2.4
1943																
Dec. 31 - Feb. 3	52.5	-	52.5	217.1	-	125.0	-	92.1	+ 164.6	16.2	8.0	8.2	17.3	-	17.3	+ 1.1
Feb. 4 - Mar. 3	35.1	-	35.1	101.2	-	37.7	-	63.5	+ 66.1	15.9	15.0	0.9	16.0	-	16.0	+ 0.1
Mar. 4 - Mar. 31	36.2	-	36.2	51.6	-	-	-	51.6	+ 15.4	7.1	5.0	2.1	6.7	-	6.7	- 0.4
Apr. 1 - Apr. 28	29.0	-	29.0	39.6	-	-	-	39.6	+ 10.6	16.4	15.1	1.3	19.3	-	19.3	+ 2.9
Apr. 29 - June 2	79.9	-	79.9	95.8	-	-	-	95.8	+ 15.9	21.8	19.0	2.8	20.1	-	20.1	- 1.7
June 3 - June 30	53.8	-	53.8	77.2	-	-	-	77.2	+ 23.4	20.0	20.0	-	27.3	-	27.3	+ 7.3
WEEK ENDED:																
June 16	17.3	-	17.3	14.6	-	-	-	14.6	- 2.7	4.0	4.0	-	0.1	-	0.1	- 3.9
23	9.0	-	9.0	10.3	-	-	-	10.3	+ 1.3	-	-	-	0.3	-	0.3	+ 0.3
30	19.9	-	19.9	16.5	-	-	-	16.5	- 3.4	1.0	1.0	-	8.6	-	8.6	+ 7.6
July 7	15.7(b)	-	15.7	18.6(c)	-	-	-	18.6(f)	+ 2.9	8.3	7.0	1.3	11.6(g)	-	11.6(g)	+ 3.3

American Weekly Expenditures
first year of war — 6.2 million.
(July 7, 1943) — 8.9 million.
10.1 million.
8.9 million.

(a) For monthly breakdown see tabulations prior to April 23, 1941.
(b) For monthly breakdown see tabulations prior to October 8, 1941.
(c) For monthly breakdown see tabulations prior to October 14, 1942.
(d) Reflects changes in All dollar [illegible] or decrease in one year.
(e) Does not reflect [illegible]
(f) Includes $ 9.9 [illegible] banks.
from New York accounts of Canadian [illegible]
(g) Includes $5.0 million held for credit of U. S. [illegible] and $6.0 million credited to [illegible] to be applied against U. S. currency

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

Week Ended July 7, 1943

Strictly Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)										BANK OF FRANCE		
	DEBITS				CREDITS								
	Total Debits	Gov't Expenditures (a)	Transfers to Official Canadian Account	Other Debits	Total Credits	Proceeds of Sales of Securities (Official)		Transfers from Official Australian Account	Other Credits (c)	Net Incr.(+) or Decr.(-) in $ Funds (d)	Total Debits (e)	Total Credits (e)	Net Incr. (+) or Decr. (-) in $ Funds (d)
						Gold	(b)						
First year of war (g)	1,793.2	605.6	20.9	1,166.7	1,828.2	1,356.1	52.0	3.9	416.2	+ 35.0	866.3(f)	1,095.3(f)	+299.0
War period through December, 1940	2,782.3	1,425.6	20.9	1,335.8	2,793.1	2,109.5	108.0	14.5	561.1	+ 10.8	878.3	1,098.4	+220.1
Second year of war (h)	2,203.0	1,792.2	3.4	407.4	2,189.8	1,193.7	274.0	16.7	705.4	- 13.2	38.9	8.8	- 30.1
Third year of war (i)	1,235.6	904.8	7.7	223.1	1,361.5	21.8	5.5	57.4	1,276.8	+125.9	18.5	4.4	- 14.1
1942													
Sept. 3 - Sept. 30	56.1	37.1	-	19.0	81.6	-	0.5	20.5	60.6	+ 25.5	10.1	0.4	- 9.7
Oct. 1 - Oct. 28	46.7	27.4	-	19.3	57.5	-	-	12.0	45.5	+ 10.8	-	0.3	+ 0.3
Oct. 29 - Dec. 2	96.6	35.5	-	61.1	83.7	-	-	5.5	78.2	- 12.9	0.2	0.3	+ 0.1
Dec. 3 - Dec. 30	30.4	13.3	-	17.1	51.9	-	-	8.0	43.9	+ 21.5	-	-	-
1943													
Dec. 31 - Feb. 3	168.6	20.9	125.0	22.7	58.9	-	-	8.0	50.9	-109.7	-	-	-
Feb. 4 - Mar. 3	87.2	17.8	37.7	31.7	120.8	-	-	15.0	105.8	+ 33.6	-	-	-
Mar. 4 - Mar. 31	35.3	12.9	-	22.4	64.4	-	-	5.0	59.4	+ 29.1	-	-	-
Apr. 1 - Apr. 28	37.0	16.3	-	20.7	87.4	-	-	15.1	72.3	+ 50.4	-	-	-
Apr. 29 - June 2	90.4	74.3	-	16.1	103.4	-	-	19.0	84.4	+ 13.0	-	-	-
June 3 - June 30	31.6	11.6	-	20.0	130.7	-	-	20.0	110.7	+ 99.1	-	-	-
WEEK ENDED:													
June 16	6.7	3.2	-	3.5	32.0	-	-	4.0	28.0	+ 25.3	-	-	-
23	6.2	1.9	-	4.3	38.3	-	-	-	38.3	+ 32.1	-	-	-
30	6.3	3.5	-	2.8	19.2	-	-	1.0	18.2	+ 12.9	-	-	-
July 7	5.1	2.9	-	2.2	18.2(j)	-	-	7.0	11.2(j)	+ 13.1	-	-	-

Average Weekly Expenditures Since Outbreak of War
France (through June 19, 1940) $19.6 million
[illegible], 1940) $27.6 million
[illegible], 1941) $54.9 million
22.1 million

See attached sheet for footnotes.

(a) Includes payments for account of British Ministry of Supply Mission, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.

(b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to $334 million.

(c) Includes about $85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts.

(d) Reflects net change in all dollar holdings payable on demand or maturing in one year.

(e) For breakdown by types of debits and credits see tabulations prior to March 10, 1943.

(f) Adjusted to eliminate the effect of $20 million paid out on June 26, 1940 and returned the following day.

(g) For monthly breakdown see tabulations prior to April 23, 1941.

(h) For monthly breakdown see tabulations prior to October 8, 1941.

(i) For monthly breakdown see tabulations prior to October 14, 1942.

(j) Includes $4.3 million apparently representing current and accumulated dollar proceeds of sterling area services and merchandise.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: July 15, 1943, 1 p.m.

NO.: 1189

This is Adler's cable no. TF-139 which is a secret and strictly confidential message for the Secretary of the Treasury only.

From a reliable source I learn that Dr. Kung announced at a meeting of monetary experts which he called yesterday that the Chinese representatives at the monetary discussions in Washington informed him that until the Allied Governments are in agreement on the following points no conference will be held:

1. That it is vital that an international fund be established and that the contribution of the U. S. to the fund should be limited to $2 or $3 billion;

2. That contribution to the fund should be made by every country that participates;

3. That the initial rate of exchange between members be fixed;

4. That the quota be the basis, not wholly but to a certain extent, of the voting power.

Strong opposition was expressed to point 3 around which most of the discussion at the meeting centered. The majority present said that until some internal stability, both financial and economic, was assured it would be impossible to decide rationally upon the Chinese exchange rate. However, Dr. Kung insisted that China agree to all four points and overrode all objections. He argued that it would not be appropriate for China, because it would not assent to point 3, to hold up the conference.

It was also agreed at the meeting that instructions be given to the Chinese delegation to recommend that only two-thirds instead of three-quarters of 30 percent of the gold holdings of the member nations which have been wholly or partially occupied by the enemy be required.

The

The fact that the Generalissimo is strongly in favor of a stringent foreign exchange control and foreign trade in the post-war period as well as at present was indicated by Dr. Kung during the course of the meeting.

ATCHESON

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NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 232

Information received up to 7 A.M., 15th July, 1943.

1. AIR OPERATIONS

WESTERN FRONT. 13th/14th.

AACHEN. 812 tons dropped including 10 8,000 pound and a few 4,000 pound H.E. and 505 tons of incendiaries. In spite of considerable cloud many crews could see the ground marker bombs which had been well placed, but results cannot yet be estimated in absence of photographs. A photographic aircraft at about 8 A.M. following morning however reported heavy smoke up to 20,000 feet which almost hid the town and stretched as far east as he could see. Many fires were still burning.

14th. Following raids on airfields by U.S. Fortresses:

VILLACOUBLAY. 96 aircraft dropped 198 tons. Excellent weather, bombing good, moderate A.A. and fairly strong fighter opposition. 3 missing.

LE BOURGET. 55 aircraft dropped 118 tons. Clear weather, bombing on whole good, moderate A.A., strong fighter opposition. 4 missing.

AMIENS. 53 aircraft dropped 57 tons. Bombing good, moderate A.A. some enemy fighters. 2 missing, one crew safe.

Enemy casualties reported:

Fortresses	48, 35, 13
By supporting fighters	6, 3, 5

5 fighters missing.

Beaufighter and Typhoon bombers attacked airfields at ABBEVILLE and TRICQUEVILLE. A trainer Beaufighter destroyed a German bomber over the North Sea.

SICILY AND SOUTHWEST ITALY. On 12th/13th and 13th heavy bombers attacked airfields at VIBO VALENTIA, CROTONE, CATANIA, GERBINI and TRAPANI, dropping a total of about 400 tons. Several aircraft were destroyed or damaged on the ground. 13th. 921 fighter and 141 bomber sorties were flown. Enemy communications were attacked and many vehicles destroyed.

Enemy casualties during these operations:	26, 5, 24
Allied	6 missing.

All airfields in SICILY are now reported clear of enemy aircraft. Our aircraft are now operating from PACHINO, COMISO and LICATA.

TREASURY DEPARTMENT
1943 JUL 16 PM 12 25

7/16/43
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MEMORANDUM

For The

SECRETARY OF THE TREASURY

By The

SPECIAL COMMITTEE ON TREASURY WAR BORROWING

Of The

AMERICAN BANKERS ASSOCIATION

As requested by you we have reviewed the memorandum submitted by the Federal Reserve Board, and in this connection discussed the matter with Mr. Eccles and also with Mr. Bell, Mr. Haas and their associates in the Treasury Department. The Federal Reserve and the Treasury both agreed that the general present pattern of rates on government securities should be maintained within limits that, while permitting some market fluctuations, will not vary up or down to a degree that will shake the confidence of the public in the general stability of the rate structure. With this we fully agree.

Federal Reserve Memorandum

At the present time the supply of short-term Government securities running up to 10 years which are particularly suitable for bank investment is not, except in the case of 90-day bills, equal to the demand. The supply of 90-day bills at the present rate of 3/8 of 1%, even with the agreement of the Federal Reserve banks to purchase them at this rate, has reached the saturation point. At the present time it is obvious that any increase in the amount of bills outstanding will find their way into the Federal Reserve banks. This lack of short-term investments, other than 90-day bills, suitable for bank's investment, has caused many banks to buy long-term government

securities which were designed primarily for other investors and has put an undesirable pressure on the whole rate structure, tending to dislocate it and to lower the rate on long-term government securities to a point where investors other than banks will not buy them.

The Federal Reserve suggests that no more bills or year certificates be issued, but that instead 9 months bills or certificates, bearing 3/4% interest, be issued into which the present outstanding bills and 1-year certificates would be refunded as they mature and that the Federal Reserve banks would agree to purchase such 9-month bills or certificates at 3/4 of 1%.

While the proposal of the Federal Reserve System would tend to alleviate the present pressure for short-term securities available for bank investment, we believe that the same result might be obtained by not enlarging the amount of 90-day bills outstanding until the market has clearly demonstrated its ability to absorb them, and increasing the supply of 1-year 7/8 certificates, and supplying more 1 1/2% notes having a maturity of 5 years or less and of 2% bonds having a maturity of 10 years or less when the next offers designed primarily for banks are made by the Treasury. We believe it better to try this program to see if it would not remedy the situation rather than at this time adopt the Federal Reserve Board's suggestion.

If this does not remedy the situation, then some plan along the lines of the Federal Reserve should be given serious consideration. The objectives of the Federal Reserve and the Treasury are so nearly identical that close cooperation between the two in adopting a common objective and making effective a program should bring success.

In regard to the specific questions which are contained in the

memorandum submitted by the Under Secretary and on which we were requested to give our recommendations, they are made in the general light of the foregoing conclusion.

THIRD WAR LOAN

1. What securities should be in the basket for each class of investor?

We recommend for the basket the following:

7/8% 1 year Certificates of Indebtedness

2% Bond due 10 years callable 8 years

2 1/2% Bond due Dec. 15, 1969 callable Dec. 15, 1964

E, F, and G Savings Bonds

Present Series C Tax Savings Notes

We recommend the inclusion of 7/8 one year certificates because we believe that without them, it would be difficult and probably impossible to get corporate subscriptions to the amount estimated.

Simultaneously with the announcement of the basket we think that a statement should be made that the 7/8% Certificates of Indebtedness and the 2% Bonds will be offered to banks only not earlier than October 15 nor later than November 1 in a minimum amount of 2 1/2 billions, this amount to be increased as may be needed, of which a substantial amount will be of the 2% bonds. We believe such an announcement would tend to reduce the pressure from banks seeking to invest excess reserves during and immediately after the period of the drive.

2. Should the timing of the corporation part of the drive be separated from the individual part?

Answering question two we think that the corporation part of the drive should not be separate from the individual part.

3. Should banks be offered the marketable securities issued in the drive after the close of the drive?

The third question has been answered in connection with question one.

4. Should a partial payment system be established for the 2-1/2's; for large denomination E bonds?

Answering the fourth question there should be no partial payment plan for the 2 1/2's particularly if G's are offered and we see no practical way to provide for partial payment of E bonds on account of administrative expense, shortage of manpower and difficulty of policing.

5. Should the Treasury and the Federal Reserve publicly encourage the withdrawals of bank deposits for the purchase of war bonds during the drive?

Answering number five we recommend that that question be left to the State Chairmen and their committees acting in collaboration with the banks and because of the varied conditions that prevail throughout the country. This is particularly important in states where there are Mutual Savings Banks.

INTERIM FINANCING

Should a limitation on bank and other subscriptions be established on the August 1 issue; should subscriptions of $100,000 be allotted in full with 100 percent down payment required; should this offering be open only to banks?

We recommend that 3 billion of new 7/8% 1-year Certificates of Indebtedness be issued to take up the certificates maturing August 1, 1943 and to provide one and one-half billion new money. We suggest that holders of maturing certificates be permitted to exchange them for the new ones.

Answering your question, we suggest that bank subscriptions be limited to 100% of capital funds or 5% of deposits, whichever is higher, as shown by the last published figures, except that bank subscriptions up to $100,000 be alloted in full. As to subscribers other than banks, we think subscriptions of $100,000 should be allotted in full and down payment of 100% be required and that above $100,000 10% be required. Subscriptions should not be limited to banks.

QUOTAS

No. 1 - Over-all quotas.

There should be an overall quota. We haven't sufficient information to advise as to the amount, but it should not be set higher than you can reasonably expect to attain. It appears to us that the amount of 7 billions for individuals is too high.

No. 2 - Should over-all quota be broken down by States and other political sub-divisions?

We think state quotas should be fixed and that any further breakdown should be left to the State Chairmen and their committees.

No. 3 - Should any quota or quotas be broken down by types of securities?

No. We think impractical.

No. 4 - Should the total be broken down by classes of investors?

We think should be done for benefit of State Chairmen but not made public.

No. 5 - What quota or quotas should be made public?

Total quota should be announced and any other publicity on quotas should be left to the State Chairmen.

Filed 4:00 p.m. 7-16-43

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 16, 1943

TO Mr. George Haas

FROM Fred Smith

Attached is copy for the third issue of the War Finance bulletin. The Secretary asked that you take it with you to the farm so he can check it before we go any further.

If you will notice, there are some figures in piece, based upon the $25 billion goal for the year. If you change the figures at the farm, this will have to be changed.

Attachment

Issue No. 3 July 16, 1943

Compulsory Lending

Few things that might happen can cause us as much trouble in the Third War Loan Drive starting September 9 as the publicity which is appearing at this time about compulsory lending.

Congress having decided that there are to be no additional levies this year, either as additional income tax or in the form of a refundable tax such as compulsory lending, there is nothing to be gained, and much to be lost, by discussing compulsory saving and failing to give the voluntary bond program the support it needs and deserves. Publicity for the compulsory purchase of War Bonds, while it will raise not one dollar toward the financing of the war, can -- and is -- doing great harm to the voluntary bond program.

To talk as if compulsory lending could be substituted for voluntary lending, which is happening in some places, is to endanger a going concern for one which even if established could not reasonably be expected to do the job we have to do, if we are to raise the funds needed to finance the war from non-inflationary sources. No plan for compulsory lending that might conceivably be adopted would eliminate the necessity for a steady and periodically intensive appeal by the Treasury to individuals to invest in War Bonds -- an appeal that might be fruitless in the face of compulsory savings.

Compulsory savings can't get us as much money net; nor will it reach the inflationary money in the magnitude that is required, and perhaps even in the magnitude which we are now reaching it.

By its very nature compulsory lending is forced to operate like a tax, and because it operates like a tax the amount that can be levied on any income group is limited by the capacity to pay of those in the group least able, not most able, to pay. Our goal this year is to raise $25 billion from the sale of War Bonds to individuals and an estimated $14 billion in taxes from individuals -- $39 billion in all. To obtain $39 billion through taxes and compulsory loans present tax rates would have to be multiplied on the average almost three times. What is more, it would be impossible to levy such high rates in the upper brackets without going over 100 per cent, with the result that levies in the lower brackets would have to be more than three times present rates on the average - and this of course is obviously impractical when you consider that many people in the lower brackets still get pre-war incomes.

While a goal of $25 billion in War Bonds for individuals in 1943 is simply the height of fantasy on a compulsory basis, it is sound and sensible on a voluntary basis. Why? Because the voluntary method offers a flexibility of adaptation to the individual's varying circumstances utterly lacking in the compulsory method. The voluntary method differentiates between the war worker whose income has skyrocketed in recent years and the worker on fixed salary whose income has increased little if at all; between the individual already burened with heavy life insurance premiums and mortgage debt and the individual free of such contractual obligations; between the individual who is a member of a family of employed workers all living under the same roof and the individual who is the sole breadwinner of the family.

Making none of these distinctions, the compulsory method is bound to be clumsy and inequitable; a method designed to produce a minimum rather than a maximum of funds for the Government. The voluntary method is capable of making these vitally important distinctions, and thus of obtaining a maximum of funds with a minimum of hardship.

In much of the current popular discussion in favor of compulsory lending there has been a deplorable tendency to ignore these considerations. It is our job to bring them to the fore. Only by so doing can we demonstrate that there are no simple solutions to complex problems and, more importantly, that there is no substitute for the voluntary program.

A recent Gallup poll indicates that while 81 per cent of American families have purchased bonds and stamps "since the Treasury first began to issue them several years ago," only 60 per cent of America's families have purchased War Bonds or stamps since January 1 and that, from the point of view of the Treasury, the results "may be disappointing." Whatever the truth of the figures, the impression they leave is false and misleading. Advocates of compulsion may think this is grist for their mill. We don't. The 81 per cent figure is for two years; the 60 per cent for 5 months -- hardly comparable periods. What is more, millions of American business men and farmers, whose source of income is not as regular as that of salaried and working people, may well be expected to purchase War Bonds as income becomes available to them later in the year.

In the final analysis, the real answer to compulsory lending will be the success of the Third War Loan drive -- so let's get on with the job!

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 16, 1943

TO Mrs. Klotz

FROM Fred Smith

The Secretary asked me to remind him to see that no new tax bill is introduced during the Third War Loan Drive, or at least not on September 8, which is the present Congressional schedule.

I don't know what he intends to do about this, and my function consists solely in reminding him. I am gladly sharing this function with you.

Fred

MEMORANDUM FOR THE SECRETARY.

July 16, 1943.

Mail Report

Slogans for the Third War Bond Drive were sprinkled thickly through this week's mail, which was even heavier than that of last week. A few letters last Saturday, 30 on Monday, and 15 or 20 each day thereafter, contained from one to a dozen slogans each. The recent announcement of the slogan selected has not deterred those with others to offer. One writer amended the adopted slogan to read: "Back the attack with a barrage of Bonds". Altogether, several hundred, including some also working out poster suggestions in detail, have gone to the War Savings Division for acknowledgment and consideration.

Bonds of smaller denomination, not redeemable until maturity, continue to be suggested as an especially appropriate gift while goods are scarce, and further inflation is a threat.

Fewer Bonds were submitted for redemption, and reports of failure to receive interest due on Bonds were only a third of the number received last week. On the other hand, complaints about delayed delivery of Bonds purchased through various branches of the War Department jumped from 44 to 72 during the past week. One letter on the subject, from the Office of the Area Engineer, Oakland, California, carried 17 signatures. A number of the letters spoke of the writer's complaint as being made on behalf of many others in the same group.

Most of the correspondence in regard to taxes dealt with questions about the withholding tax, or personal problems in connection with tax payment. During the first part of the week the proposed tax

on excess profits of individuals threatened to become a general controversy but interest seemed to fade quickly, leaving the score even as to pros and cons. Aside from the high rates of the withholding tax, subjects of complaint included the discontinuance of tax notes of low denominations, loopholes open to corporations converting to partnerships, and the necessity for notarizing certain tax forms.

Letters dealing with Foreign Fund matters increased considerably during the week. There was a slight falling off in the objections to the new pennies, while protests about fees charged for cashing Federal checks, or for redeeming Bonds remained about as usual.

Gabrielle E. Forbush

General Comments

Dr. Richard Altgenug, Norwood, Mass. Enclosed please find check of $10.00 as a small contribution for the war effort. I shall repeat sending checks to you for the same purpose as often as I have the possibility to do so. Although we, my wife and myself, are enemy aliens, coming almost five years ago to the U.S.A. from Germany, we do not feel like enemies of this wonderful country, and to tell the truth, we even do not feel like aliens any more. Being over the draft age and not in the best of health, I can only do a little bit to help the war effort, such as buying War Bonds and helping in the civilian defense, but we feel that this is not enough done for the privilege to be able to live in this blessed country. * * * Will you therefore please accept this money and may it help to speed the victory for the United Nations?

G. O. Thacher, Corvallis, Mont. I have recently learned that I have the privilege of contributing to the cost of purchase of war munitions for my country. I therefore take very real pleasure in enclosing my check to your order for $50.00, toward same, as an unconditional gift. May it help lick the Japs!

The faithful Melchor Leon is with us as usual -- With reference to your letter #7092, I take the pleasure to inclose herewith New York draft in the amount of $187.48, equivalent to $909.27 Mexican pesos (at the rate of exchange of $4.85 pesos for $1.00), to which amounted the 25% of all purchases made by American citizens in this store, during the month of June, 1943, that is donated to the United States Government for "National Defense".

F. G. Davidson, Seattle, Wash. I wish to enter a protest, brief so as not to waste your time, but just as seriously felt as if I should write a long letter. The protest is about your new penny. There is not a week that passes that I can now say I have no loss on change. I honestly believe that these errors are real mistakes due to speed and poor lighting, yet I am out just as definitely as if a "con" man were dipping into my small cash each week. Won't you please do something to make the penny readily distinguishable from a dime? I'll gladly use wood or a coin with a hole in it -- which will stretch the metal supply -- or any other material that is for the assistance of our war effort. The only request is please do not continue our present losses by confusion.

Favorable Comments on Bonds

Madame Blanche, (Specialist in Wedding Cakes), N.Y.C. I have a valuable idea in regard as to the Bond selling campaign for the month of July. Trying to do my part in this effort I wish to offer you this suggestion -- I will very gladly donate a three tiered wedding cake to any bride in any part of the country whose family will buy the largest Bond for either the month of July or August, and will send it anywhere to her in the United States in time for her wedding.

H. Beatrice Logan, Toronto, Canada. A newspaper item re your War Savings Staff's search for a slogan for your Third War Loan Drive stirred a bit of a whimsy within me to offer these in the spirit of friendliness from one United Nations member to another. Should the idea back of any of them appeal, a member of your staff could give the necessary "twist" for publicity uses. * * * With every good wish for success in that Third War Loan Drive. * * *

Unfavorable Comments on Bonds

Alfred A. E. Hansen, Attorney & Counselor at Law, Detroit, Mich. This morning the writer appeared at the U. S. Post Office Station, Fisher Building, Detroit, Michigan, to buy fourteen $100 Defense Bonds and was told by Mr. Birch, Acting Station Manager, that they could not issue that amount, but that the writer would have to obtain them at the Main Post Office (which is about a two hours' round trip by street car). * * * However, when we wanted to invest $1,050.00 in Defense Bonds at one time at the Bank, we were told that we must buy a $1,000 Bond, and they refused to sell us any lesser denomination. Not succeeding in buying at the Post Office, I put the application through the Red Cross Booth in the lobby of the Fisher Building, and they were quite happy to add as large a purchase as $1,050.00 to their credit, but when the Red Cross applied for them at the Wabeck State Bank, the same thing happened over again -- the Bank refused to issue less than a $1,000.00 Bond on a purchase involving $1,050.00. It appears to me that the attitude of both the Post Office Station in the Fisher Building, and that of the Wabeck State Bank is one that would discourage a great many people from investing their savings, when the right to choose the size of Bonds they desire is denied them.

C. E. Broughton, Sheboygan, Wis. (Telegram) I am advised this afternoon that upon your order Mr. Walter Kasson becomes the State Chairman of the War Bond sales in Wisconsin, replacing myself. This information was given to me by Frank J. Kuhl, Collector of Internal Revenue, who acted as State Administrator with me. This seems a round-about way to replace a Chairman. I am very happy to have served in that position because it was a patriotic duty, and yet there are some things one cannot understand, and this happens to be one of them. As a member of the Elks Board of Grand Trustees,

I am leaving for Boston. Hence, this telegram rather than a letter. I think Wisconsin can be more than proud of the record it has made, and I am proud of the Committee that I had to serve with me, as Chairman. I had every opportunity to bring the radio stations and the newspapers into line because that was my forte. We have given thousands of dollars of space in my newspaper, and time over my radio station, for the cause of the Government, but it seems these things don't count. With events transpiring as they are, perhaps there is no need of tendering my resignation, but in order to keep the record straight, I am as of this date resigning as State Chairman of the Wisconsin War Savings Staff.

Cleve H. Park, San Diego, Calif. In an effort to comply with "pressure requests", I was induced to agree to deductions from my meager salary for subscriptions to one $18.75 War Bond each month while working for the U. S. Engineers during the time I was assigned at the Deming, New Mexico, Air Base last year. This was handled by the Albuquerque, N. M., Office of the U. S. Engineers, and deductions were made for June, July, August, and September of 1942. When no Bonds were received, I cancelled the obligation and purchased at the Post Office where I got the Bonds on purchase, same as postage stamps, and without delay. These Bonds have never been received and I am greatly concerned and much disappointed at the careless manner in which this matter has been handled, for I have written many letters without results and now am determined to write several more, but not to you unless a satisfactory reply is forthcoming. There is no sense in this delay, and if you cannot handle this kind of transaction -- why don't you let them alone? I propose to have these Bonds and am determined to write letters to parties there who will look into such matters and get them for me. * * * Yours for better service and fewer bureaus.

Albert A. Fair, President, California Builders Company, Inc., Oakland, Calif. Stories have been passed around the Bay Region to the effect that, in a conversation between you and a prominent citizen recently, you stated to him that if you had your way, after the war is successfully concluded, you would say to the purchasers and holders of your present Defense Bonds, "Thank you very much; you have made a fine contribution to the war effort". First, let me say that I am sure you have made no such statement; and I am equally sure that you have never had any such thought in your mind. This does not alter the fact, however, that if the story should be passed around quite generally, great harm would be done to our war effort. I am therefore passing it on to you quickly so that you may take any steps you deem necessary to counteract such an absurd rumor.

Arthur H. Jones, Berkeley, Calif. One of the handicaps we Democrats will carry in the 1944 campaign will be that we will be held accountable for a jillion mistakes being made by round pegs in square holes. * * Early in 1942 I was employed as a Civilian (Civil Service) by the U. S. Engineers, Galveston, Texas, and was assigned to Ellington Field. * * * On advice from the Galveston Office, Major Olmstead called a meeting of the personnel (civilian employees), outlining to us the advisability of all employees to buy Victory Bonds. We responded to his offer to collect on the salary deduction plan, he promising that delivery would be made as Bonds were paid for. I signed up because I have confidence in our Government, our President, our Secretary of the Treasury. * * * I worked for $600 a year less than I was offered in nonessential war work. After I had paid for five $25 Bonds and didn't get any of them, and after getting three letters stating I should buy more Bonds, that those already paid for would be delivered soon -- I became discouraged and put a "stop" on my deduction plan, and thereupon started buying for cash from my bank -- which seems to be able

to deliver what they collect for. Well, my dear Mr. Secretary, when I left Ellington Field on June 15, 1943, I could get no authentic information on my Bonds. Many rumors exist there, all the way from the story that they are stored in Ft. Knox, to the story that they are "frozen" for the duration as a guarantee for payment of income taxes. In response to a letter I wrote, I am informed the whole matter is in the hands of the Commanding Centralized Field Offices, F.D. 366 West Adams Street, Chicago, where a force of 2,500 people have been employed! * * * I wonder, Mr. Secretary, if this thing has worked out this way: that I worked for the Government for $600 less than I could have earned; that this $600 yearly helped support a Government Agency; that I paid income taxes which also helped support the Government Agency; that I paid cash in advance for Victory Bonds to support the Agency still further; and now the Agency tells me they have passed the matter along to a new Agency which has been set up?

Unfavorable Comments on Taxation

John P. Gaty, Vice President-General Manager, Beech Aircraft Corporation, Wichita, Kan. * * * The Management of this corporation is very proud of its record of its cooperation with the Treasury to further the sale of War Bonds to its employees. * * * This amounts to an average of almost $730.00 per employee, which we consider to be an outstanding record. However, our employees are quite disturbed about recent actions of the Treasury and the vacillating policy of the Treasury agents upon two occasions. There is a considerable amount of talk of cancellation of payroll deduction authorizations, and of other acts of reprisal by our employees. * * * The first action which they resent is that taken in January to make a deduction of 5% Victory Tax from their efficiency incentive payment that month, after advices previously were received from the Treasury Department that no such deduction would be made. The second is the recent reversal of the Treasury's ruling that payments of wages made after July 1 for the periods prior to July 1 would not be subject to the 20% deduction. In both cases, the employees were interested in these matters and at their behest we obtained advice from the local office of the Treasury and submitted this information to the employees through the medium of our open house organ. On both occasions, later rulings of the Treasury reversed the decisions to the disadvantage of the employees. Therefore, our employees feel that the Treasury Department makes up its own rules as it goes along, in accordance with its own advantage, and that it is not proceeding in accordance with law. They feel that no law can be so loosely written that you can say one thing one day and exactly reverse yourself the next day. * * * It is our opinion that the Treasury would gain if they adopted the most consistent attitude possible and refrained from these disturbing reversals of policy. * * *

Mrs. John C. Duane, Brooklyn, New York. When I filed my income tax in March this year, I sent a letter with same stating my inability to pay my tax. Reason being that I had to leave my position last November to stay at home to take care of my small daughter. * ** In previous years I have always paid my tax out of my income. I have no resources to meet $389.42 as tax on the $2,255.00 I earned in the first 11 months of 1942. Isn't there some way this amount of tax could be charged to me to be paid when and if I were able to be employed again -- that is, without interest piling up into a stupendous sum? My husband merely has his income as a New York City policeman, so it is impossible for him to help me. * * * I have received several communications from the Collector of Internal Revenue, and have replied to the same each time. Today I received a notice and demand for my tax. It is impossible to get blood out of a stone, and I have no money. I'm certain I'm not the only American in some such position -- isn't there some provision for us? I'm not attempting to evade my tax. If I had had the money, it would have been paid.

William G. Thumm, Jr., Certified Public Accountant, Baltimore, Md. I understand from the local branch of the Federal Reserve Bank that the sale of Tax Notes in denominations of less than $1,000 has been discontinued. To individuals like myself, who are not subject to withholding, this is a decided hardship. I could, of course, put so much aside every month to take care of my income taxes; but I am sure you understand human nature well enough to know that this doesn't work. Therefore, the only thing I see to do is to buy War Bonds monthly, and then cash them in when the time comes to pay my income taxes. I am sure that sufficient consideration was not given to those who are in my position (and there must be thousands of us) by those who were responsible for the discontinuance of the sale of the small denomination Tax Notes, and I trust something will be done to aid us in meeting our obligations to the Government.

C. Harrison Mann, Jacksonville, Fla. I have been most interested for some time in the brilliant literature issued from your office -- now I feel it would be unfair if I failed to compliment you on the last paragraph of page 10, of your latest issue, under the title, "Collection of Income Tax at Source on Wages", as follows: (Quotes above-mentioned paragraph.) Certainly this is a masterpiece that will live forever. The composer should take his place in our Hall of Fame -- and his glorious achievement heralded from the housetops of America. * * * Fearful that this marvelous composition escape the attention of the literary world, I am taking the liberty of sending a copy of this letter to the Honorable Senator George, Chairman of the Senate Finance Committee, our local Collector of Internal Revenue, and "Time". * * *

John J. Kessel, Miami, Fla. You will probably never see this because you are either too busy, or some secretary will throw it in the waste basket for you, but I'd like to "get it off my chest", and put in my two cents. I have just finished trying to get something out of the pay-as-you-go tax plan as furnished by my employer. If you know what it's all about, please tell me. Don't keep it a secret. I don't know where I stand. I don't mind paying taxes. I'm glad I live in a country where I can pay them. Glad that I don't live somewhere where they just take all your money. Here's what I'm griping about -- why make it so complicated? * * * Why make a lot of bookkeepers out of us? I should have said chiselers. You know damn well a lot of income tax reports show a lot of money given to churches and charities which stayed right in the taxpayers' pockets. I can't see how such loopholes should be allowed. Maybe a straight 20% income tax (less exemptions of course) would hit the little fellow too hard, or the big fellow not hard enough. Well, why not get more out of the big fellow? Sock him for 30, 40, 50%, or whatever you need. He'll get along. Maybe I didn't make any sense in this letter but I feel better.

Albert I. Stix, Jr., Life Insurance Estates, St. Louis, Mo. Many corporations are interested at the present time in providing Pension Plans for their employees. A great many of these companies have fiscal years ending in the middle of the calendar year, and they would like to complete these Plans before their fiscal year ends. However, since the regulations with respect to the 1942 tax law have never been issued, they do not feel justified in going ahead with these Pension Plans, since the penalties for violating the wage regulations are very severe. It has now been seven months since the last Revenue Act was passed, and it would seem reasonable to suppose that the regulations concerning it should be published by now. Anything you can do to expedite this matter will be of great assistance to both employers and employees. * * *

IMMEDIATE RELEASE JULY 16, 1943

STATEMENT BY THE PRESIDENT

I have today signed House Joint Resolution No. 147, which continues the Commodity Credit Corporation.

The bill includes an amendment to the Emergency Price Control Act of 1942 which prohibits the use of grade labeling to inform consumers and which restricts the use of standards in maximum price regulations.

The language in the bill relating to standards is so ambiguous that misconceptions have already arisen as to its effect. The matters involved are of the utmost public concern. The legislation was adopted after only fragmentary debate. In view of the uncertainty created, I feel it necessary to state my own understanding of the amendment, as drawn from the expressed intent of its sponsors.

The language of the bill appropriating funds for the Office of Price Administration was construed as prohibiting the Administrator from making use of standards in any case regardless of how essential they were to price control unless such standards had been previously established by industry acceptance or by government action. Such a construction would cripple price control because trade standards are frequently lacking or, as in the case of the grades of meats, incompletely established.

I am satisfied this bill has no such meaning. It was presented to the Senate and House to avoid the consequences that would have followed the adoption of the language in the appropriation bill. Senator Taft, who sponsored the language in the appropriation bill and the modification in this bill, stated expressly that the modification preserved power in the Administrator to "standardize" a commodity in any case in which this was "absolutely essential to an effective system of fixing prices". These assurances are in accord with the purpose and the terms of the compromise amendment and must be taken as controlling. It is with this understanding that I have signed the bill.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau — July 16, 1943

FROM Mr. O'Connell

If you have an opportunity between now and your luncheon date with Mr. McConnell next Tuesday, I think you ought to read the attached memorandum which he prepared some weeks ago.

As you will see, it makes some interesting suggestions with respect to ways of keeping the peace after the termination of present hostilities. In general, McConnell believes that by taking away Germany's facilities for the production of synthetic gasoline and nitrogen, and by prohibiting it from accumulating stockpiles of raw materials essential for the prosecution of a war, we will render Germany impotent, militarily speaking, regardless of what the will of the people in the country may be.

I realize that this is a far cry from the post war problems that have been concerning you, but it will give you something of a slant on the way McConnell has been thinking.

He is what you might call a "raw material" man, and believes very sincerely that control of raw materials is the key to a lasting peace. His whole background has helped to produce this. He is, as you know, a mining engineer by profession; has been, over the years, very active in the development of oil properties; played an important part, at the end of the last war, in getting out of Germany the technical information which formed the basis for the German synthetic nitrogen industry during the last war; was one of a group of engineers who urged the stockpiling of stragetic and critical materials as long ago as 1935; and in the early days of OPM was one of those who took the lead in urging that our supplies of strategic and critical materials, such as rubber, quinine, quartz crystals, and the like, be built up.

Joseph J. O'Connell Jr.

Attachment

C O P Y

June 25, 1943

The first interest of Americans today is in a victory as a means to the end of establishing and maintaining a lasting peace. We do not want an armistice or a peace agreement which is designed for any other purpose than a lasting peace on earth. We do not wish to reap vengeance on the German people. We do not want to restrict or interfere with the lives of German people except to preclude in so far as possible their ability to start another war. We are honestly anxious to establish world conditions which will effectively prevent another war, with as little disturbance to German economy and the German's way of life as possible.

The technicians and the industrialists who know the requirements of modern war in essential raw materials can point out procedure which will prevent Germans from equipping for war for generations, but such procedure must be practical to administrate. To initiate and firmly establish the system of administrating, it will be necessary to extend the armistice period over a long enough period of years to firmly establish the succeeding civilian administration. There will always be grave danger of eventually relaxing control measures as

years go by. The more firmly any control is established during the armistice period the longer that control will function. Therefore, the longer the armistice period, within reason, the longer the succeeding peace will last. The perquisite of a lasting peace is the acceptance of the concept of a long armistice.

An examination of the <u>essential</u> raw materials for war leads to the inescapable conclusion that there are several materials without any one of which a successful war could not be waged. If such materials do not occur in the natural state within the territorial limits of a country, that country to start a war must either (1) conquer a country at the outset that does have the essential material or (2) manufacture that material synthetically or (3) import a stockpile in peacetimes sufficient to last for the duration of the war.

The outstanding example pertaining to Germany, of course, is oil. It is essential in large quantities. Germany has practically no production and there is very little available in all of Europe. Further, it is essential in such large quantities that it cannot be stockpiled in sufficient quantities to meet war requirements. Synthetic oil and gasoline is produced from coal in Germany in quantities sufficient to supplement the relatively small supply obtained from the Rumanian oil fields.

The synthetic product is of poor quality, it is expensive to produce and requires large and complicated chemical plants.

Synthetic gasoline of an inferior quality costs Germany about four times as much as the superior gasoline costs the Allies who have access to the world's oil fields. However, without the existence of these non-commercial German synthetic gasoline plants to augment the meager production from Rumania, Germany would have been defeated in 1940.

These plants are war plants built for war purposes. German submarines, airplanes, tanks, trucks and guns would be useless without gasoline and oil. It is inconceivable that the next Allied peace commission will allow such plants to remain. They should be dismantled and removed out of reach of the German government. Also the plants which are necessary to make the equipment required by a synthetic gasoline plant should be restricted in their equipment and operations so that even after restrictions are relaxed after a long term of peace years, it would still require several years to reinstall gasoline plants in Germany.

The Germans can sustain the operations of such uneconomical gasoline production only through government subsidy. Either by direct subsidy or through exorbitant tariffs on imports of gasoline and oil. There is no purpose of such subsidy except

a war purpose. The German people pay for such subsidy either in taxes or in higher prices for gasoline and oil. The elimination of such a burden on the German people would benefit the national economy and raise the German standard of living. So that this essential war preventative measure is an actual material benefit to the German people.

Now this credit may be applied toward another war prevention measure -- the removal of all NITROGEN fixation plants from the continent of Europe. No nation could now conduct a large scale war without using a large tonnage of atmospheric fixed nitrogen, even though she could import nitrates freely. The entire production of all Chile's capacity in natural nitrates would not supply one half Germany's present wartime requirements. Nitrogen in one combination or another is the essential base for practically all modern explosives and propellants. There are only two ways to get it -- from the mines in Chile or by fixation of the nitrogen in the air. In 1914 Germany prefected efficient and economical processes of nitrogen fixation by combining nitrogen with hydrogen at very high pressures to form ammonia which is easy to convert into T.N.T., gun cotton, nitrocellulose and all propellants and explosives. High pressures and heavy equipment are essential to handle gasses at high pressures. This requires heavy forgings

of special steels. The same plants that make the equipment for the nitrogen plants can make the big guns and heavy plate for the army.

Fixed nitrogen is also universally used in peace times for fertilizer and many other uses. For many purposes and in many places the artificial atmospheric nitrogen may be produced at much lower costs than the natural Chilean nitrate can be imported. The fixation plants are complicated to build but require but little labor or power to operate. The dismantled German plants could be readily moved to Allied countries and their production sold competitively to fulfill German peacetime requirements.

While a few hundred German operators and technicians would be thrown out of work and be required to find similar occupations in other plants, such a disturbance would effect only a fraction of one percent of German economy and to the German people would be outweighted many times by the advantages gained through cheaper gasoline and oil. The fact that ocean freight from the Western hemisphere or Asia may increase by 10% or 20%, the cost of fixed nitrogen to Germany may be offset every year by one day of war.

The third freedom from threat of war is the prohibition of stockpiling of materials beyond normal efficient peacetime requirements. Every industrialist knows the unnecessary burden of

carrying excessive inventories. Large inventories and slow turn over increases costs of production, increases the hazard of price fluctuations and is in every way an uneconomical policy which has been resorted to by the central powers for war purposes.

In times of peace the Germans, Japanese, and the Italians have accumulated immense stockpiles of essential war raw materials. Germany waged World War No. 1 on stock piles. When the stockpiles were exhausted the war was ended. World War No. 2 is being fought by Germany on her stockpiles accumulated in the thirties. When they are exhausted this war will be over.

A partial list of important raw materials of which Germany requires large quantities in stockpiles before starting a war will include iron and steel, scrap iron, copper, nickel, mica, tin, sulphur, tungsten or molybdenum, manganese, platinum, bauxite, antimony, quartz, crystals, chromite, diamonds, graphite, lead, mercury and vanadium.

Germany, Italy and Japan are "Have not" nations in the sense they do not have within their own territories a great majority of the minerals and materials essential for the conduct of war.

Control of the Allied sea power of the sea transport and import of these minerals and materials above peacetime requirements

would not be complicated or expensive.

In resume the four requirements for freedom [sic from] for future wars are:

1. A long armistice.
2. Dismantle and remove synthetic gasoline plants which would reduce the cost of gasoline to Germany from $1 to 20¢
3. Dismantle and remove synthetic nitrogen plants which will increase the cost of fertilizer to Germans 10% to 20%.
4. Prohibition of excessive stockpiles of certain raw materials which will lower the cost of production of many products.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 16, 1943

TO Secretary Morgenthau

FROM Randolph Paul

Effect on Foreign Funds Control of
President's Order Settling Wallace-Jones Dispute

Foreign Funds Control is not directly affected by the Executive Order of July 15, 1943. The Order contains no reference to either the Treasury Department or Foreign Funds Control. It relates primarily to defining the respective functions and responsibilities of the Board of Economic Warfare (now Office of Economic Warfare), the Reconstruction Finance Corporation (and its subordinate agencies), Office of War Mobilization and State Department in the field of foreign economic matters.

The Order does affect the Treasury (and Foreign Funds Control) in the following respects:

(1) It abolishes the Board of Economic Warfare on which you were a member and makes Leo Crowley the Director of the Office of Economic Warfare with the powers formerly vested in the Board.

(2) It gives Leo Crowley control of the Export Import Bank (Harry White is a member of the Board of Trustees), with the power to reconstitute such board.

(3) It provides in section (4):

"The functions of the Office of War Mobilization shall include the authority to arrange for the unification and co-ordination of the activities of the Federal Government relating to foreign

supply, foreign procurement and other foreign economic affairs in conformity with the foreign policy of the United States as defined by the Secretary of State. In providing for such unification the Office of War Mobilization may utilize the facilities of other departments and agencies, including the machinery for the coordination of foreign economic affairs established in the Department of State." (Underscoring added)

Under this provision it is at least theoretically possible for the Office of War Mobilization, with the approval of State, to arrange for the unification of Foreign Funds Control with the Office of Economic Warfare or to arbitrate policy disputes between such agencies. In the same sense, however, the Office of War Mobilization has the theoretical powers over all of Treasury's functions in the foreign economic field.

Of course, the implications of the Order may be much broader. For example:

(1) Crowley could say that both Foreign Funds and the Office of the Alien Property Custodian should be made a part of the Office of Economic Warfare and push for a new Executive Order to such effect. On the other hand he may find himself so absorbed in his new responsibilities that the Foreign Funds Control-Alien Property Custodian friction will disappear.

(2) Crowley may very well play the State Department line against Treasury. There has been recent indications of this and the Order certainly reflects that possibility.

(3) Crowley, through the Office of Economic Warfare, will now be in on the reoccupation program and this may have repercussions on the cooperative attitude toward Treasury which BEW has in the past evinced in this field.

(4) Crowley no doubt will want a larger voice in the field of post-war planning in the foreign economic field.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Chungking, China.

DATE: July 16, 1943, 9 p.m.

NO.: 911

FOR ADLER FROM THE SECRETARY OF THE TREASURY.

Please transmit the following message to Dr. Kung:

1. The Treasury has considered the proposal of the Government of China to purchase $200 million of gold from the U. S. Treasury out of the $500 million financial aid, which gold will be sent to China for sale to the public as a means of helping to check inflation.

2. We presume that the costs, difficulties and dangers inherent in the use of gold as a means of checking the present inflation in China have been fully taken into consideration.

3. Since the Government of China deems that the sale of gold to the public will aid its war effort by helping to achieve greater monetary stability, the Treasury is prepared in principle to agree to its proposal. It will be necessary, of course, for the Treasury to have a formal request from you before any definitive decision and action can be taken.

HULL
(AAB)

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: July 16, 1943, 1 p.m.

NO.: 1200

This refers to the Department's telegram no. 658, dated May 24, 1943.

This is a strictly confidential message, TF 38, from Mr. Adler for the Secretary of the Treasury only.

1. I have been requested by Dr. Kung to submit for your consideration an alternative proposal outlined as follows:

(a) The Bank of China in Chungking is to be allowed to transmit remittances, including airmail and telegraphic transfers, to people in enemy occupied China from the Bank of China in New York, these two banks being the Central Bank of China's designated agents.

(b) The procedure prescribed in General License 75 would be observed in effecting these remittances. It would be the function of the Central Bank of China in Chungking, as the designated agent of the Chinese National Government, to be accountable for determining the desirability of the beneficiaries receiving these remittances and for reviewing each remittance. Caution to make sure that hostile forces would not derive benefit from the remittances would be exercised by the Government of China through its designated agent, the Central Bank of China, or such other agent or agents as the Chinese Government may deem proper to designate from time to time.

(c) The same as outlined in the Treasury proposal.

(d) In the event the Hong Kong Bank makes a direct application to the Central Bank, the Central Bank of China will at that time take under consideration the designation of the Hong Kong Bank as an agent to make remittances as set forth in paragraphs (a) and (b).

2. Dr. Kung's proposal will be seen to project the Central Bank into the most prominent position and stress its importance as the Chinese Government's appointed agent,

which

which is the chief deviation from the Treasury proposal. This fortifying of the strength of the Central Bank is in accord with a present tendency which has heretofore been reported.

3. The Chinese members refrained from commenting on the proposal when it was presented for discussion at the most recent Board meeting, because the Board members knew that Dr. Kung had previously made known his thoughts on the proposal. The Chinese members abstained from committing themselves other than to state that the plan was taken note of by the Board. In private talks prior to the meeting, however, the Chairman suggested general approval of the Treasury proposal, while Pei recommended that the Board be named reviewing agent, with the Bank of China extending its facilities to the Board to meet its requirements. A compromise might be to retain the essentials of the Treasury proposal, while adding the provision that the Board act as reviewing agent and according some recognition to the Central Bank by referring to it in one or two places.

4. Because of doubt as the the Board's future Chairman, the meeting was called more than a month late, thus occasioning delay in replying to your telegram.

ATCHESON

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTIL NO. 233.

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

1. AIR OPERATIONS

WESTERN FRONT. 15th. Escorted Typhoon and Boston Bombers attacked POIX and ABBEVILLE Airfields. On these and other operations enemy casualties - 9, 2, 6. Ours - 7 missing.

15th/16th. Aircraft despatched: MONTBELIARD near BELFORT (Peugeot Motor Works) - 165 Halifax's (5 missing), MUNICH - 6 Mosquitos, Intruders - 38, Anti-shipping - 4 (1 missing). Preliminary reports indicate successful attack on MONTBELIARD. 8 Enemy aircraft operated over KENT and ESSEX. One was destroyed by a Mosquito.

SICILY and SOUTHERN ITALY. 13th/14th. Night Fighters shot down 6 enemy aircraft. Wellingtons dropped 55 tons at PALERMO and also bombed MESSINA, 3 missing. 28 medium and light bombers raided ENNA and 48 attacked road targets and M.T. in CENTRAL SICILY.

14th. 184 heavy and 86 medium bombers with escort were sent to MESSINA where 525 tons were dropped. 74 tons were dropped at ENNA by medium bombers. PALERMO, Northwest of CATANIA, was also bombed. 143 Mustangs attacked objectives at MILAZZO, SCALIETA, SAN CATERINA and BRONTE. Beaufighter sank a ship in convoy off CORSICA and destroyed a tanker and left another on fire off SARDINIA. Spitfires flew 264 Sorties over beaches and on escort duty. Enemy casualties: 5, 2, 1. Allied: 9 missing.

July 17, 1943
10:00 a.m.

HMJr: Are we making a record?

D. W. Bell: Yes, sir.

HMJr: Well, now I've got these boys here and we're getting along. Now the main thing I wanted to say to you and Gamble....Hello?

B: Yes, sir.

HMJr: When Haas gets back - they started to tell me - it's the only - they had a steak at half past one in the morning in Poughkeepsie - I don't what they did before or after....

B: A steak?

HMJr: Yeah.

B: My God! They can't get that in Washington.

HMJr: George looks good, too.

B: That's fine.

HMJr: When he gets back to Washington Monday I think if you and Ted and whoever Ted wants should sit down and have an agenda for Tuesday and Wednesday.

B: Oh, yes.

HMJr: Hello?

B: Yes, sir.

HMJr: I'm very anxious to have that....

B: All right.

HMJr: ....and particularly on the quotas.

B: Yes, sir.

HMJr: Now, what we're talking about here is - the boys have got a State quota - and then I used the example - take the steel industry for the State of New York. I suppose there'll be some one person representing the steel industry - and then each steel mill in New York, I think, should have a quota. Hello?

B: Yes.

HMJr: And then after all - we get this industry going and if the Lackawanna Steel in Buffalo has a quota, those people know what's expected of them, they'll go to town and they'll generate their own salesmanship which is far better than anything - pressure we could put on them from the outside.

B: Well, isn't that something that the State Chairman should work out with the steel....

HMJr: Yes, but we should give it to them as a policy.

B: Oh, in the meeting on Wednesday you mean.

HMJr: Tuesday isn't it?

B: Tuesday and Wednesday they'll be here.

HMJr: Yeah but we should have that as a policy. I think we should not only tell them we expect to have a state quota but we ought to tell them that every factory in the state should have a quota.

B: All right.

HMJr: And every industry should have a quota. The boys will tell you. They're with me on it - I think Gamble will be too.

B: I think Gamble has already done something on it.

HMJr: Is he there?

B: He's shaking his head. He has already had some thoughts on it.

HMJr: Well, let me just talk to him a minute.

B: All right.

Ted Gamble: Hello.

HMJr: Ted.

G: Good morning, sir.

HMJr: Good morning. If - I don't know - there are five steel mills in the State of New York - I don't know where they are....

G: Yes.

HMJr: ....and one man is appointed chairman for the five steel mills....

G: Yes, sir.

HMJr: ....and each steel mill has a quota....

G: Yes, sir.

HMJr: ....those boys can generate far more enthusiasm and salesmanship than we could ever organize between now and September 9th.

G: We couldn't even do a job on them if you didn't give them a quota.

HMJr: Right.

G: They wouldn't - it wouldn't mean anything - the whole drive would be meaningless as far as those plants are concerned.

HMJr: Well, we didn't have it last time....

G: And that was the missing link.

HMJr: All right.

G: For we had it in the Kaiser Ship Building Company and we did a good job.

HMJr: You're with me on it?

G: Well, 100%. I talked to Tickton about it, too.

HMJr: Yeah. The boys here are with me.

G: Yes.

HMJr: And they say that that's the way they got the payroll savings thing up.

G: Well, that's correct.

HMJr: They said the only industry that's behind....

G: Yeah.

HMJr: ....in proportion is the railroad industry.

G: That's correct.

HMJr: Well - my bean is working as good as it can this morning.

G: Well, I'm not only with you on that but do you know the hope that we have with these two organizations that we're bringing in - the retailers and the movies - is to hang a quota on every one of them.

HMJr: Well, I - I think that they - I may repeat myself - each industry within a state should have a chairman.

G: That's....

HMJr: Each - uh - say there are five steel mills and each steel mill should have an independent quota.

G: That's correct.

HMJr: And then we can say to Mr. Jones who is looking after five mills, "How are you going?"

G: That's right. And anything short of his quota - he's not going so well.

HMJr: Right.

G: That's right.

HMJr: And I think that all of Monday should be spent on this.

G: Yes.

HMJr: Getting it ready for Tuesday.

G: I agree with that.

HMJr: Now, the boys tell me the thing that they are really worrying the most about is the farming thing.

G: Yes.

HMJr: And I wonder if Bill Meyers is going to be down Monday, Tuesday and Wednesday.

G: Well, we'll see if we can get him here.

HMJr: Order him here.

G: Yes.

HMJr: I mean, if he's going to be there, he just - now is the time.

G: Yes.

HMJr: And I'm very much interested in this partial payment plan for farmers....

G: Yes.

HMJr: ....that the boys had.

G: Yes.

HMJr: See?

G: Yes.

HMJr: But as I say, I think all of Monday I'd forget about posters and every other thing and just get ready for your Tuesday meeting.

G: That's correct. Although you have no objection on Tuesday and Wednesday if we also plan as a part of this agenda to show these people how far we've advanced with the promotional material?

HMJr: I - I - if you don't mind, I'd do that at the end.

G: Well, I'll do it - that's fine.

HMJr: I want to get them....

G: You want to get them saturated with this first?

HMJr: Well, I want to get the quota thing....

G: Yes.

HMJr: ....and the basket settled first.

G: I'm agreeable to that, sir.

HMJr: And then whatever time you've got left over you can do on the other.

G: Fine.

HMJr: How's that?

G: Fine.

HMJr: What?

G: We added a little word of warning to these fellows when sending these invitations to be here that we also wanted to find out how far along they were with their organization plans.

HMJr: Well, that's all right. But I think the first crack out of the box should be on the baskets and on the quotas.

G: I agree on that, sir.

HMJr: And then we should have a plan and I'm all for this plan for every factory and every industry in every state.

G: Right. It's the only ultimate solution, Mr. Secretary.

HMJr: I don't see anything else.

G: There's no other answer to it. You'll do more - then it doesn't make any difference regardless of what anybody says, how many quotas you have within a state for industries or for businesses.

HMJr: Right.

G: Because they won't work without them.

HMJr: Right. Well, now that was my reaction. The main thing I wanted was to have you fellows set aside Monday to work on an agenda....

G: Right.

HMJr: ....and then to get Meyers down.

G: Well, we'll do that. We'll do both of those things.

HMJr: Anybody want to say anything to me?

G: Yes, I do. I want to tell you that I have an idea that I'd like for you to be turning over in your mind about an advertising man.

HMJr: Go ahead.

G: I - when I was in New York yesterday - I talked to these people - we had the representatives there of 8200 theatres.

HMJr: What's that?

G: We had the representatives there of 8200 theatres.

HMJr: 8200 dead?

G: Theatres.

HMJr: Theatres?

G: Yes, sir. In New York - this meeting yesterday....

HMJr: Yeah.

G: ....as well as the presidents of this company - these various picture companies.

HMJr: Yeah.

G: They voted these funds to do this job - the industry itself.

HMJr: Yeah.

G: They're going to put up the money.

HMJr: Yeah.

G: The 8200 theatres, representing over half the theatres in America....

HMJr: Yeah.

G: ....as well as the Trade Association representatives were there of the other 8000 theatres.....

HMJr: Yeah.

G: ....pledged their 16,000 theatres to go all out in this September drive.

HMJr: Yeah.

G: I tell you this just by way of background. At this meeting also were the leading advertising men of the motion picture industry....

HMJr: Yeah.

G: ....as well as the theatre industry and I got an idea there about the possibility of taking the head of the Loew's Theatre Advertising Department for this job....

HMJr: Head of Loew's Theatres?

G: Advertising Department.

HMJr: Yes.

G: It's the most successful chain of theatres in America.

HMJr: Yes.

G: They have all - nothing but metropolitan theatres in large cities.

HMJr: Yeah.

G: They are great users of space - they are the people who originated years ago Major Bowes' Program, The Capital Theatre Program.

HMJr: Yeah.

G: They've owned portions of radio stations in various cities. They are great users of radio space. They are great users of newspaper space. They are great purchasers and users of outdoor advertising.

HMJr: Yeah.

G: They use all the media.

HMJr: Yeah.

G: The men are not people who have been specialized in one field or the other but they have general background of knowledge and information in the advertising field, because they have to use all the media.

HMJr: Yeah.

G: In other words, they know how to turn to good people in these different fields to get what they want.

HMJr: Yeah.

G: Now, this man that I'm thinking of will require, I think, a call from you if we're going to get him.

HMJr: Yeah.

G: His name is Oscar Doob.

HMJr: Oscar who?

G: Doob. D-o-o-b.

HMJr: D?

G: D-o-o-b.

HMJr: The second or fourth letter in the alphabet?

G: D is the fourth.

HMJr: Yeah. That's D double-O?

G: D double-o-b.

HMJr: It isn't Boob?

G: No, it's Doob.

HMJr: (Laughs)

G: And he is the dean of all of the practical advertising people in the theatre industry.

HMJr: Yeah.

G: And in addition to that, he is a very cultured little fellow, and I think a happy balance of the kind of a man that we want for the job.

HMJr: Well, why not telegraph him and see whether he wouldn't come down to see me.

G: Well, I can get Doob if you could get Nick Schenck to let him come, but I don't think we can get him - I don't think we can even.....

HMJr: Oh, I don't think Schenck can afford to turn me down.

G: He wouldn't turn you down.

HMJr: No.

G: He wouldn't turn you down, but he would - I think - turn anybody else down, Mr. Secretary.

HMJr: Look what Schenck did on that picture - you know....

G: Yes, inflation film.

HMJr: Well, what did - where did Howard Dietz figure....

G: Well, you see Howard is in the publicity department of the picture company.

HMJr: Yes.

G: Howard is the director of publicity for Metro-Goldwyn-Mayer.

HMJr: Well, is Doob under him?

G: Doob is in the theatre department.

HMJr: But does Doob come under Dietz?

G: Not - not - no, they are two different departments, Mr. Secretary. Doob is the - as a matter of fact - Doob would be a greater loss to Schenck than Dietz would be, because Dietz has kind of graduated into the elder statesmen's class. He's not one of the working men.

HMJr: How old a man is Doob?

G: I should say Doob is 46 years old - Or 47 years.

HMJr: Well, get him down and we'll talk to him.

G: And, I'll have him come down Monday so you can see him.

HMJr: I won't be there Monday.

G: Tuesday. If you can squeeze in a minute.

HMJr: Yeah.

G: I think we ought to get him as quickly as we can. Now, that's the only nomination I have made for this job.

HMJr: Yeah.

G: And I do it with some apprehension because....

HMJr: Let's have him down Tuesday.

G: All right, sir. I'll have him here.

HMJr: Let's say Tuesday afternoon.

G: I've talked to Fred about him. Fred thinks that he's got just the kind of background - he thinks that's the answer to the kind of a fellow we want.

HMJr: Well, it sounds interesting to me.

G: Yes.

HMJr: Fred likes the idea?

G: He likes the idea because he knows this fellow has a nose for news and he's got some showmanship and that - we've got all the counterbalancing effects we need with the groups that we've set up like the Advertising Council.

HMJr: Well, you've told me enough now.

G: All right, sir. (Laughs)

HMJr: What else?

G: That's all I have to say to you this morning. You might be interested to know we settled our application forms and our training manuals and our descriptive folder problems and have them all going into the mill today.

HMJr: Good. Now let me talk to Fred a minute.

G: All right, sir.

Fred Smith: Hello.

HMJr: Fred.

S: Yeah.

HMJr: Do you like the sound of Doob?

S: I like the sound of the job that the guy's got. I don't know him but if he's a good man - his background, I think, is made to order.

HMJr: Now, one thing that I want to have you be thinking - you to be thinking about over the week-end....

S: Yeah.

HMJr: ....and that is once we get these forms out on the withholding tax....

S: Yeah.

HMJr: ....what we're going to do to bring that to the people and educate them.

S: That's right. Well, that already has been - we're worried about - we're worrying about that. I had a meeting yesterday for about three hours with Bill Horne and Chick Schwartz and three men from the O.W.I.

HMJr: Good.

S: And we are planning a - a campaign that will - uh - do a good job after the forms are out and then we are considering a campaign early in August before the forms are available just on the business of taxes and why taxes and war finance - and why people ought to pay taxes and like to pay them and stuff like that - without particularly referring to the - to the September 15th operation. See?

HMJr: You're on top of it? What?

S: ~~What?~~ Sure, we're on top of it.

HMJr: All right then I'll forget about it 'till I get back.

S: Okay.

HMJr: Has Mr. Bell got anything.

S: (Aside: Mr. Bell, you got anything?) He'd just like to know how Mrs. Morgenthau is.

HMJr: Well, she's coming along nicely, thank you.

S: All right.

HMJr: That's all, thank you.

S: Okay.

HMJr: All right.

S: All right.

July 17, 1943.
11:54 a.m.

Operator: All right, sir.

Dan Bell: Hello.

HMJr: Hello, Dan?

B: Yes, sir.

HMJr: Is - uh - is....

B: Ted and Smith?

HMJr: Yeah. Is....

B: Right here.

HMJr: Is Charlie Bell in there?

B: Not in here. No.

HMJr: Well, just - would you have somebody just ask for him to come in? I want to ask him a question.

B: All right. Done.

HMJr: What?

B: It's already done.

HMJr: All right. Now, the boys have left and the reason we're so short is because so much progress has been made....

B: Uh huh.

HMJr: ....and I'm very much pleased.

B: Good.

HMJr: One thing - uh - I think is terribly important and I know - is Gamble around?

B: Yes, right here.

HMJr: I'm going to have a little trouble with him but he's a nice fellow and I think he'll be amenable - and that is, I think that we're going to be able to say, "This is going to be an intermediate bond" - say, somewhere between seven and ten years or something like that - you see?

B: Uh huh.

HMJr: And we're able - going to be able to say, "It's going to be a 2½% long bond." See?

B: Yeah.

HMJr: But I don't think we're going to be able to tell them on the 23rd the exact terms. I think it's too dangerous because it's two months off and we just don't - we can't hit it, and I think he'll have to be thinking about - after all it's instructing the salesmen. If they want to teach them how to sell a long 2½ whether it's 65, 69 or 64, 68 doesn't make an awful lot of difference.- If it's an intermediate bond as long as they know how to sell a bond between seven and nine years. But I think we ought to not fix the definite price for another month. At least that's the way I feel today.

B: Oh - I - uh-uh - no.

HMJr: Well, sleep on it. That's....

B: Yeah. I will. I don't like that.

HMJr: All right.

B: Uh - the only thing I'd like to see done is - have this wait and the types of securities rest on the market for a couple of days and then see what reaction we get.

HMJr: Well, you think about this one, will you?

B: Yep.

HMJr: Because, as they pointed out, this situation in the bill market has all developed in the last two months.

B: Yeah, but that really doesn't affect this bond a bit - uh - so much.

HMJr: Well, you got - think about it over the week-end.

B: I will.

HMJr: Yeah.

B: Well, I have already thought about it as a matter of fact, and....

HMJr: And you're also going to have trouble with me to selling more than 2½ billion of notes in August - that's certificates, I mean.

B: You won't have any trouble with me.

HMJr: (Laughs) Wonderful.

B: (Laughs) Because that was my recommendation but I - I wouldn't feel too strong about going to three billion.

HMJr: Well, I want them to go into September with their tongues hanging out.

B: (Laughs) They will have to wait 'till October.

HMJr: Uh....

B: But that's all right. I don't think that a half a billion dollars makes a lot of difference to tell you the truth.

HMJr: I feel lots better since I've had this - the progress all of you made - I can see daylight now.

B: Uh huh. Well, I think we're in pretty good shape as far as our end of it's concerned. I have a little feeling here for Ted. He's being crowded into a very short space of time to do an awful lot of work - particularly on the printing and you know every printing house in the country is sewed up....

HMJr: Well, we....

B: ....and we're having a little trouble with that but I think that....

HMJr: I'll bet you I could go into New York City and find fellows that haven't got any work.

B: Well, not to do - not to put out ten million pamphlets.

HMJr: Well, on the lower east side they'd just grab some of this work.

B: Yeah. The Government Printing Office has pretty well got the printing plants of any size sewed up through October.

HMJr: Well, there are a lot of little jobbers. I'll bet you if we went to New York we could find a flock of little fellows - they'd each take a piece of it.

B: Uh huh.

HMJr: I'm serious.

B: Well, maybe.

HMJr: Have - let Hall look into that for us in New York.

B: Well, I think the Government Printing Office has already had a complete report on the printing facilities of the country.

HMJr: Well, let them take....

B: (Clears throat) Hall has seen that report.

HMJr: Little fellows?

B: Well, Hall has seen the full survey.

HMJr: All right. Uh....

B: And that's the reason I went to Boston last week to see about Forbes Company. We got that from the Printing Office report.

HMJr: Is Charlie Bell there?

B: Yeah.

HMJr: Let me....

B: Okay.

Charlie Bell: Yes, sir.

HMJr: Charlie.

B: Yes, sir.

HMJr: By God, you had me embarrassed this morning.

B: How?

HMJr: Well, George Haas and the boys thanked me so profusely for my treating them to tickets Sunday night.

B: (Laughs) Well, you know, I got an indirect order that they wanted to go to a show.

HMJr: Well, how indirect was it?

B: Very indirect. You said that you would release them Sunday in time to go to a show.

HMJr: Well, who told you that?

B: What?

HMJr: Who told you that?

B: The grapevine.

HMJr: Well, who's the grapevine?

B: I guess Norman Thompson....

HMJr: Well, anyway, they thanked me first for getting the tickets and second for treating them.

B: Well....

HMJr: So I said, "Well, I'll be honest. I don't know anything about it but it's on me and I'm delighted."

B: Well, swell. It's not on you though.

HMJr: Oh, yes.

B: Oh, we don't do all of this for Milton Schubert who owns that theatre for nothing - he's just giving them passes.

HMJr: Oh.

B: You know Milton Schubert?

HMJr: No.

B: He's the fellow we've been working with on the Theatre Wing Canteen.

HMJr: Oh.

B: So there's no cost on it.

HMJr: Well I didn't know. I told them that if that's what you said, I'd stand by them and I was delighted. We had quite a lot of fun about it.

B: (Laughs) Okay, sir.

HMJr: Well, if they cost or don't cost - either way - I told them I'd be glad to pay for them.

B: Okay, sir. The move is coming along good.

HMJr: The what?

B: The move.

HMJr: Good.

B: He gave me seven days. I'll give you two of them back.

HMJr: Wonderful. But we had a lot of fun joking about it. As a matter of fact - Is Bell listening?

B: Yes, sir.

HMJr: The boys didn't get in until - last night until I don't know what time in Poughkeepsie and they had a supper-breakfast at 1:30 in the morning. They had steak and, of course, George has a weak stomach....

B: (Laughs)

HMJr: ....and then the American Legion were there singing all night. So George wanted to know couldn't he show up Monday noon. I told him, "No",I was very sorry. He doesn't like to ride on a sleeper, so I told him I needed him there Monday morning.and he could stay over some other time. I don't know whether the man will speak to me or not.

B: So they'll be back Monday morning.

HMJr: Well, yeah. I can't - if George gets sick on a sleeper, that's just his bad luck.

B: Well, we'll get them fixed up on that 12:50.

HMJr: Yeah, but George won't ride on a sleeper. I think the other boys will.

B: Well, if he wants to fly down, I'll fly him down.

HMJr: Well, let him - he's up at the Nelson House. I don't know that he flies. Let him work it out himself, will you?

B: All right, sir.

HMJr: But anyway, thanks for looking after them.

B: Okay, sir. Anything more?

HMJr: That's all, thank you.

B: Well, here's Fred Smith.

HMJr: All right.

Fred Smith: Hello.

HMJr: Yeah.

S: Say, you remember that stock telegram that you have been signing a lot of about 10% payroll?

HMJr: Yeah.

S: Well, I rewrote it and I want to check it with you so Ted can get it out.

HMJr: Well, how long is it?

S: Oh, about ten lines.

HMJr: Well, if you fellows agree on it it's all right.

S: Okay.

HMJr: I don't want to do any more business. I'm exhausted.

S: All right. That's fine.

HMJr: If you and Dan Bell and.....

S: Ted.

HMJr: ....it's all right with me. You can show it to me Tuesday.

S: All right.

HMJr: Cheerio.

S: Cheerio.

Farm 168

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUL 17 1943

TO Secretary Morgenthau

FROM Captain Kades

Attached hereto is a draft of a letter to Judge Jones sending him a copy of the cable from Casaday on the food distribution system used in England.

In my memorandum to you of July 14th, I stated that the schemes used in England for the purchase and distribution of various food items differ widely from commodity to commodity, but that in general the British use area or regional or local offices in allocating supplies. You asked me to expand on this local allocation method. The purpose of this memorandum is to indicate the method used in controlling the distribution of meat.

As you know, the Ministry of Food is the sole purchaser and distributor of all meat in the United Kingdom. Meat is distributed on the basis of the actual number of individuals registered with retail butchers in each local food area, but not on any broad regional or county basis. The individual ration is fixed according to value. The mechanism for distributing meat to consumers is complex but operates roughly in the manner described below.

Retail butchers have set up voluntary organizations known as retail buying committees. There is usually one committee for each local food office. All retail butchers, large caterers and other groups which normally buy meat at wholesale are members of this committee. The main functions of the committee are (1) to appoint allocation officers, and (2) to supervise generally the process of all sales and payments to be made by retailers.

The allocation officer of the retail buying committee makes known to the manager of the wholesale depot how much meat the retailers in his committee will require for the week. There are 913 wholesale meat depots in the United

Kingdom. The functions of these depots include (1) splitting carcasses into sides and quarters, (2) making working arrangements for transporting meat to retailers' shops, and (3) keeping track of the amounts of meat sent and money owed.

These wholesale meat depots operate on behalf of wholesale meat supply associations. There are 8 such associations in the United Kingdom. These associations are made up of all firms and individuals who were engaged in the wholesale meat trade just prior to the war. They function as agents of the Ministry of Food and they are reimbursed on a fixed commission for the volume of meat they handle. This commission is sufficient to cover all reasonable expenses of the associations and to leave a small surplus for the reimbursement of its members on a pro rata basis, based on the proportion of the total turnover which each firm handled during a prewar period.

When the manager of one of the wholesale meat depots, carrying out the actual work of such an association, receives from the allocation officer of the retail buying committee the amount required for the week, he forwards this requirement, together with others, for his collection of butchers (normally 50) a week in advance to the area meat and livestock officer. This officer in turn computes the total demand for his area and forwards it to the central office of the Meat and Livestock Division of the Ministry of Food. These requirements are reasonably accurate because they are based upon amounts determined by the number of individuals rationed with the retailers of each retail buying committee.

The area meat and livestock officer then tries to fill the needs of the wholesale depots with the forthcoming supply of meat from collection centers nearest the depots. This officer knows how much domestic meat will be coming forward in each locality from notices compiled by collection centers. These collection centers, of which there are about 600 in the country, are places to which farmers bring their livestock for the purpose of having it graded by a "certifying authority". This authority is made up of the

auctioneer, a farmer and a butcher. The grading is done to ascertain the deadweights of the live animals and not for quality, since payment is made on a liveweight basis except in the case of pigs.

The farmers must make it known to the head officer of the nearest collection center that they desire to bring forward livestock at least 12 days before it is scheduled to be sold for slaughter. All such notices are summarized in each collection center and are passed on to the area meat and livestock officers. These officers make summaries for the whole area under their jurisdiction and pass them on to the central office of the Meat and Livestock Division of the Ministry of Food. It is from these notices that the area meat and livestock officer knows whether the forthcoming supply of each collection center will meet or exceed the needs of the wholesale depots nearest to it, and if there is a surplus, arrangements are made to have the excess meat sent to the next nearest depot in the area which has a deficiency. If there is a deficiency which cannot be filled by surplus of a depot, the area meat and livestock officer then gives directions for imported meat to be delivered from nearby stores of the Meat Importers National Defense Association, Ltd. to the wholesale depots. Since home-killed supplies are usually less than demand, it is usually necessary to introduce imported meat to the distribution system through this Association which is made up of all prewar importers of meat and is responsible for handling the meat on arrival, storing it and finally delivering it to the wholesale meat depots as needed. This Association is under control of the Ministry of Food which acquires the meat abroad.

After the wholesale meat depot manager physically collects the necessary home-killed and imported meat to satisfy the requirements of the butchers in his area, the allocation officer of the retail buying committee decides just which kinds and qualities of meat and which specific sides or quarters or whole carcasses are to go to each retailer. The retailers rely on the allocation officers'

judgment entirely and express no choice with regard to the type of meat they would like, but the allocation officers try to secure an equitable adjustment of the proportion of good and poor meat going to each retailer over a period.

Some retail buying committees at their own expense have established reallocation depots where some of the meat may be cut up more meticulously than at the depot. For example, a butcher who wants to concentrate on steaks can get steaks by swapping at a reallocation center other meat which he obtains there with a fellow retail butcher who wants fewer steaks and more soup bones.

It is noteworthy that, when the meat is sold to the retail buying committee, it leaves the direct ownership of the Ministry of Food for the first time. The Ministry of Food purchases the livestock either abroad or at the collection center (through county auctioneers who act as agents for the Ministry of Food) and slaughters such livestock at slaughter houses managed by full time officers appointed by the Ministry. The actual slaughtering is done by contractors working on a fee basis. There are only 700 slaughter houses now in the United Kingdom, as against 16,000 before the war.

This results in a bottleneck through which the whole supply of meat flows. This bottleneck, combined with the licensing of all handlers of meat through the mechanism summarized above, permits manageable and efficient control of the distribution of meat there.

H.K.

Attachment

July 17, 1943.

MEMORANDUM FOR THE FILES:

A letter dated June 29, 1943 was received by Mr. White, signed by Secretary Hull, advising that he believed special attention should be given to problems of international arrangements relating to long-term international investment. The letter stated Secretary Hull was asking Warren Lee Pierson, Marriner S. Eccles, Lauchlin Currie and Mr. White to accept membership on a Special Committee on Long-Term International Investment and report conclusions to the Interdepartmental Committee on Post-War Foreign Economic Policy, and that Mr. Berle would maintain contact between the State Department and the Committee. Secretary Hull said he would appreciate Mr. White's acceptance.

Mr. White brought the letter to the attention of Secretary Morgenthau, telling him he thought this was a Treasury matter which required decision by the Secretary. The Secretary stated that he would take the matter up with Mr. Hull personally. When he subsequently called on Secretary Hull he took the letter with him. Secretary Hull asked him to leave the letter, which Secretary Morgenthau did. We therefore do not have a copy of the letter in our files.

H. D. White

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 17, 1943

TO Secretary Morgenthau

FROM Mr. White HDW

This is a comparative statement of the earnings and expenses of the Stabilization Fund for the months of May and June, 1943.

Earnings	May, 1943	June, 1943
Interest earned on investments	$ 20,220.69	$ 19,514.93
Profits on handling charges on gold	111,678.62	112,464.41
Handling charges on gold (Stabilization) accrued	---	12,500.00
Miscellaneous profits	3.92	6.03
Total	$131,903.23	$144,485.37

Expenses		
Salaries	$ 21,845.49	$ 22,123.66
Travel	82.57	159.89
Subsistence	389.00	216.50
Telephone and telegraph	1,143.71	3,977.73
Stationery	21.91	105.40
All others	469.71	516.73
Total	$ 23,952.39	$ 27,099.91
Net earnings	$107,950.84	$117,385.46

This report was completed from figures supplied by Mr. O'Daniel.

JUL 17 1943

To: Adler, Chungking, China.

From: Secretary of the Treasury.

Reference is made to your cable of March 28, 1943, No. TF-103.

1. Treasury has received a number of applications to release U. S. dollar proceeds of U. S. dollar-backed savings certificates. Some of the applications would involve transfer of funds to London.
2. The Treasury would, therefore, appreciate receiving a definitive reply to its cable of March 5, 1943, No. 300. Treasury is holding up these applications and no action has been taken with regard to them.

ISF/efs 7/16/43

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking

DATE: July 17, 1943, 1 p.m.

NO.: 1209

From Adler to Secretary of Treasury only. Strictly confidential and urgent. TF141.

Reference is Section 2 of State Department's telegram 882 of July 9.

SECTION I

(a) Beneficial effects in checking inflation would undoubtedly be produced by the institution of an effective scheme for this use of gold in China - with adequate controls. For the scheme to yield significant advantages, it is clear that the gold would have to be sold in China at a price or prices which must never fall below approximately 5000 on dollars per ounce. Also, it is impossible to make even a rough estimate on the basis of existing information:

1. Of the scale on which there would be absorption of gold by the Chinese public at a price or prices which would make the sales a worthwhile means of combatting inflation; tentatively it is suggested that sale of gold at less than, say, 7 to 10 times the price equivalent at the official rate of exchange to 35 U. S. dollars per ounce would not be worthwhile.

2. Of the extent of decline in current prices of gold (see D, 2, below) which would be caused by substantial imports of gold.

Necessarily, therefore, in its initial stages a rational scheme for selling gold in China would have to be experimental.

In view of this and in order to increase the chances of maximum advantages accruing to China, I would venture to suggest that before the Treasury agrees in principle, and certainly before it makes any specific commitment to sell substantial amounts of gold to China, it should await the submittal by the Chinese Government of a concrete plan to the Treasury. It appears from the information

available

available here that as yet the Chinese authorities have not worked out any such plan. Perhaps the Treasury could discreetly ask the Chinese Government for information concerning its specific plans.

(b) 1. Reference your (b) 1. It is my impression that there is a rather vague anticipation of selling the gold to bullion dealers and the banks as well as to the public.

(a) As the Central Bank could expand the note issue for the specific purpose of acquiring gold, a course which would defeat the whole point of selling gold to China, and the other Government banks could use their facilities for borrowing from the Central Bank to acquire gold, which also would lead to an increased issue of notes by the Central Bank, it would be desirable from the point of view of obtaining the maximum anti-inflationary effects to prohibit the Government banks from buying gold except as intermediaries for reselling it to the public. The Chinese Government would probably be reluctant to adopt a measure prohibiting all Government banks from buying gold to hold - this is especially the case because of the current trend to strengthening all Government banks in relation to commercial and private banks and to strengthening the Central Bank in relation to the othsr Government banks. Such a prohibition could be circumvented by the Government banks having private agents buy the gold for them, but to some extent the prohibition might serve as a deterrent.

(b) The sale of gold to modern style commercial banks and to native style private banks or to the bullion dealers, or to the public, would not be open to the above objection.

Your (b) 2. Watertight controls to prohibit any (repeat any) of the gold from getting into Japanese hands would be impossible to adopt. However, given the wholehearted cooperation of the central Government's special services and of the various authorities of the provincial governments, such leakage could be kept to fairly low levels. How far such wholehearted cooperation would be received is doubtful, particularly in the case of such provincial governments as that of Yunnan. The registration of all purchasers is an additional suggested check. However, some prospective purchasers might fear that the information in the registration records might subsequently be used by the authorities to obtain the gold from them on terms disadvantageous to them but advantageous to the authorities, and this fear would tend to discourage purchasers.

ATCHESON

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: July 17, 1943, 1 p.m.

NO.: 1209

CONTINUED FROM SECTION I.

For your relevant information:

(a) It is reliably reported that recently there has been smuggling of small amounts of gold from India to Yunnan and thence into Indo-China.

(b) It is currently reported that recently an agent or agents were sent into Free China by Chinese in Shanghai with 25 million CN dollars with which United States dollar backed savings certificates were to be bought.

3. Reference is made to your (b) 3. On this point also no clear view is held here as to whether gold should be sold in form of bars or should be minted into gold coins. In view of the difficulties of giving gold coins a fixed value in CN dollars and in view of the danger that coins would probably be in smaller denominations than bars and would have a tendency to displace FAPI as a medium of exchange and circulation, sale in the form of bars would appear to be preferable. Some indication that the gold coin or bars constitute part of U. S. financial aid to China might most appropriately be imprinted on them.

SECTION II.

I would like to submit the following for your consideration in view of the fact that in its first stages a satisfactory scheme would be experimental and in view of the need for checks and safeguards:

1. If and when decision was taken by the Treasury to agree in principle to sell gold to China, it might suggest that a beginning be made by the Chinese Government by selling the 48,000 ounces of gold which is now in the possession of the Central Bank and such other amounts of gold acquired from current production as the Government now has. (See D, 3, below).

2. During

2. During the sale of the gold now in China the Treasury might agree to sell say U. S. $10,000,000 of gold to the Chinese Government and (?) observe how the sale in China of this gold goes before it makes any further sale of gold to the Chinese Government. As a saving in transportation expenses, a swap, preferably with the Indian authorities and alternatively with the Australian or South African authorities, whereby India or South Africa or Australia would send the gold to China while the same amount could be earmarked with the Federal Reserve Bank of New York for the sender would be desirable.

3. It would certainly be desirable from the point of view of the interests of China, and it might be possible, to tie up the Board with any arrangement for selling gold to China and to give power to the Board to fix price or prices of the gold and to have some supervision over its sale. The Board is goven power by paragraph one (C) of the 1941 Agreement to deal in gold for account of the fund; in any revision of the 1941 Agreement this power could perhaps be broadened to enable the Board to exercise these functions.

Bringing the Board into the picture would have advantages which are obvious as its participation would increase the chances of success and curtail abuses of any scheme that is worked out. In case objection were raised by the Chinese Government to participation of the Board in any plan for selling gold in China on the ground that the British member had nothing to do with the sale of the gold, the objection could perhaps be overcome by having a committee of the Board consisting of the American representative and the Chinese member function for this purpose

ATCHISON

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: July 17, 1943, 1 p.m.

NO.: 1209

SECTION III.

I have been gathering together all the scanty information on gold market in China that is available but it is not such as to illuminate the main question of how much the market can absorb at a price or prices which would make the project worthwhile. I shall of course transmit any further data that can be obtained. I summarize as follows the main items which are of interest:

1. Gold markets exist in Chungking, Kunming, Kweilin, Chengtu, Kweiyang and Sian.

2. At Chungking the "agreed" price of gold currently is 11,500 CN dollars buying and 13,000 CN dollars selling (the unit being the sueliang or Chinese ounce equal to 1.00471 troy ounces). At Kunming the price is about the same as at Chungking. The Price at Kweilin is lower. There is a drain of gold from these centers to Chengtu where the price is now 12,000 CN dollars buying and 15,200 selling. It is safe to assume that the price in Free China will continue to go up concomitantly with other rising prices unless and until it leaks out that sizeable imports of gold are impending or there is actual importation of gold for sale.

Recent reports from Shanghai indicate that recently the Shanghai gold market has become more active as the result of relaxation of Japanese control over it. The price there is 6,500 CRB dollars per Chinese ounce. At last reports the Central Reserve dollar was exchanging in Shanghai for 1.4 CN dollars.

3. No estimates are available on the amount of gold traded in in Free China. However, the amount is quite small absolutely and in comparison to other amounts which China contemplates purchasing the volume traded in is negligible. Neither is there any estimate of the actual amount of gold in Free China.

4. The supply that goes into the markets comes from private hoarders of jewelry and gold bars plus what can

be

be smuggled from current Chinese production and some smuggling from India.

B. I am forwarding by pouch a translation of an article published by the Head of the Chinese Geological Survey in December 1942 in the magazine MINING AND METALLURGY. According to the article there was an increase in production of gold in Kweichow, Szechwan, Yunnan, Kwangsi and Sikang from 39,200 Chinese ounces in 1935 to 68,200 ounces in 1939. Gold is also purchased in Kiangsi, Hupeh, Fukieh and Hunan and the northwestern provinces. The article states that efforts of the Government since 1937 to encourage gold production have resulted in annual gold production reaching 300,000 Chinese ounces in 1939 and 1940, but it is not indicated whether production of Shanghai and Sinkiang, where control of gold supply was and still is monopolized exclusively by the provincial governments, is included in this figure. As a result of the maintenance of the official price of gold while all other prices were rising since the outbreak of the Pacific War, gold prices have fallen off. But--the article suggests--annual production might again reach 300,000 Chinese ounces with the lifting of the old official price.

The article also indicates that in the last few years the Government banks have bought about 1 million ounces of Chinese gold which the author assumes would be now at the disposal of the Government in China. This assumption, however, is at variance with statements of a number of responsible officials to the effect that no gold is at the Government's disposal except the 48,000 ounces in the Central Banking Division. These officials say that the rest of the gold was transported before the Pacific War broke out and that the Government has since purchased little or none.

C. I am reliably informed that Dr. Kung is quite confident that large amounts of gold will be sold to China by the Treasury, the basis of his confidence being his understanding that when Madam Chiang Kai-Shek submitted the proposal to the President that China purchase large amounts of gold from the United States the President gave his consent.

END OF MESSAGE

ATCHESON

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: July 17, 1943, 3 p.m.

NO.: 1211

Reference State Department's 882 of July 9, Part 1.

During a call on Dr. Kung on July 15, I took the opportunity, in accordance with your suggestion, to have an informal discussion with him to make sure he fully understands the position of the Treasury with regard to the revision of the 1941 agreement. The impression he gave - deliberately, I think - was that China was not particularly anxious to have a stabilization loan. In this I presume he may largely be jockeying for a bargaining position. He intimated also that certain specific changes in the 1941 agreement would be asked for by China, but he gave no indication what these changes would be.

ATCHESON

COPY

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PARAPHRASE

A telegram of July 17, 1943 from the American Embassy at Chungking reads substantially as follows:

Mr. Adler of the Treasury Department has been kind enough to furnish us with a summary of Generalissimo Chiang Kai-shek's book on economics. We expect to send this summary to the Department by mail soon and also to send our translation of the book in due course when it is completed. In the meantime, the following memorandum of comment on the book has also been furnished to us by Mr. Adler.

(BEGINNING OF COMMENT).

1. The book was written by Tao, a graduate of the Imperial University of Tokyo and former Professor of Economic History at the National University of Peking. He is also the author of China's Destiny. Tao feels antipathy toward both Westerners and returned Western students, which may be due to his being a Japanese returned student. His book on Chinese Economic History is very uneven. He has a reputation in the academic world of being somewhat crack-brained and of being plagiaristic and sciolistic. Both of these books, Chinese Economics and China's Destiny, are poorly written.

At the present time Tao is living with Chang Kai-shek's closest secretary, P.L. Chen. During the early 1930's he was the right-hand man of Wang Ching Wei. In 1940 he came back to the Chungking fold. His reason for doing so was that the Central Government gave him more money than he received from the puppet government, according to popular report. The revelations which he made concerning Nanking sold successfully.

2. Tao's latest book and also the one which preceded it are a part of a systematic and deliberate campaign to maintain that the culture of China is superior to that of Western countries. The Government is actively promoting this campaign, and Tao is its chief theorist. It is another reflection of the phases of mordant and morbid nationalism which are being currently experienced by the Kuomintang. If this kind of nationalism is persisted in and encouraged, it will not be very conducive to China's wholehearted cooperation in the period following the war. Those who take part in this campaign, it should be noted, do not take the trouble to assay proofs but stick to assertion and reiteration.

3. The book shows a definite Fascistic tendency in ideology. Mention of official attitudes with which the book is permeated is not encouraging from the standpoint of the development of China's democracy.* Romantic idealism is the dominant note with ludicrous falsification of the history of China. There is significance in this connection in the fact that the Western economist whom the author

*Repetition has been requested.

singles out for praise is the Austrian fascist who discovered in Adam Muller's romantic mediaevalism a justification for a Fascist stand. Adam Muller was an extreme German nationalist of the early nineteenth century, and, incidentally, his doctrine is considered as beneath contempt by all competent Western economists.

4. The intellectual level of the book is extremely low. It contains no sign of any appreciation that economics is an integrated and coherent discipline and no sign of reasoned or systematic analysis. The whole approach is pre-scientific. Following are the most important points which are worth commenting upon:

A. In general the economics discussion is based on Chi Wu Chi, Chinese characters which were first used by the Japanese to translate economics into their language. Translated literally, these characters mean the supply of things and the management of the world. When these characters are taken litterally, as is done in Tao's book, the result is an erroneous impression concerning the content and scope of economics as the Western world understands them.

B. The book bases its discussion of economics in China principally on scattered comments concerning economic policy contained in the classics and histories of China. By no means systematic, these comments do not justify in any way the thesis that there was a school of economics in China or that this school of economics is superior to the economics of the West. Using the Old Testament's sporadic comments on economic policy as a basis for an inference that a Hebrew school of economics existed would be just as logical, and it would be more logical to infer from Plato's and Aristotle's discussions concerning the theory of value and of economic policy that a Greek school of economies existed. A complete lack of understanding of economics as a science is also betrayed by the listing of a few prime ministers as typifying Chinese economics. Besides, Sun Yat Sen's writings and their bearing on economic policy are frequently referred to. However, that a separate Chinese science of economics existed would never have been claimed by Sun Yat Sen.

(C) The book's discussion of economics in the West is little more than a catalog and is sophomoric if not infantile. The conclusion reached by the reader is that Tao did not take the trouble to become familiar with the actual works of the principal economists of the West but merely leafed through an elementary textbook on the history of economic theory. He makes no effort to classify Western economics according to schools, and his discussion is inaccurate in the detailed evaluation of individual Western economics as well as on general principle.

5. The publication of this book would add nothing to the reputation of its actual author or its ostensible author, and it is not surprising that it has been withdrawn from limited circulation.

(END OF COMMENT).

A paraphrase of this telegram should be sent to the Treasury Department.

Copy:bj:7-27-43

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COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 234

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

1. NAVAL.

Early this morning Motor Torpedo Boats torpedoed an Italian Cruiser which had passed through MESSINA Strait making for TARANTO. One E-Boat has been sunk; one probably sunk and two severely damaged by Motor Torpedo Boats in actions in the Strait of MESSINA. On 15th one of H.M. Destroyers drove off E-Boats attacking shipping east of Sicily and sank one of them. Anti-aircraft and Coastal Defence Batteries are now operating at AUGUSTA. One of H.M. Cruisers was torpedoed 16th east of SICILY but reached port under her own power. 14th/15th one of our Motor Gun Boats was sunk by gunfire from shore batteries in MESSINA Strait.

2. AIR OPERATIONS.

WESTERN FRONT. 15th/16th.

MONTEBELLIARD. 374 tons dropped. Bright moonlight clear visibility. Bombing well concentrated on markers ground defences negligible no searchlights. Four transformer stations in Northern Italy each attacked by six Lancasters, two of which were lost by collision over objective. The remainder landed safely in North West Africa. 16th. Marauders dropped fifteen tons on ABBEVILLE Railway Centre and Spitfires provided cover and flew diversionary sweeps scoring 3. 1. 5. without loss. 16th/17th. Aircraft despatched transformer stations near MILAN 18 MUNICH 6 Leaflets 7 Intruders 12. No landing reports yet from MILAN Aircraft. All others returned safely.

SICILY AND SOUTHERN ITALY

14th/15th and 15th Allied Bombers dropped total of 324 tons on NAPLES Harbour and Airfields causing considerable damage. 14th/15th. 48 Medium Bombers attacked PALERMO. Wellingtons sank a ship and set on fire a destroyer North East of SARDINIA. Twenty fighters patrolling over Eastern SICILY destroyed 12 enemy aircraft. 15th. 595 Bomber and Fighter sorties flown, Radio Location Station MARSALA bombed and communications continuously attacked, many enemy vehicles destroyed or damaged. TORMINA Harbour also bombed.

TREASURY DEPARTMENT

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SECRETARY OF TREASURY

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BRITISH MOST SECRET
U.S. SECRET

TREASURY DEPARTMENT

OPTAL No. 237

Following is supplementary resume of operational events covering the period 10th to 17th July, 1943.

1. NAVAL

The Home Fleet operated off NORWAY as a diversion to Sicilian operations. It was sighted and reported by a reconnaissance aircraft which was later shot down by an aircraft from one of H.M. Ships. Sicilian landings were covered to westward and in IONIAN SEA by H.M. Battleships, aircraft carriers and cruisers. Close gun support was provided by H.M. and U.S. cruisers, destroyers and light forces. CATANIA, AUGUSTA and many smaller targets have been bombarded as required. Although heavy ships have been seen with steam up at GENOA, SPEZZIA and TARANTO, there has been no interference by the Italian Fleet. H.M. Destroyers sank one E-boat east of SICILY. H.M. M.T.B's. torpedoed one Italian Cruiser, destroyed three E-boats, probably sank another and damaged three. Enemy aircraft sank one U.S. Destroyer and one fully lighted British hospital ship 10th (all patients rescued), and there have been a few casualties among transports and light craft. H.M. Submarines report two ships sunk east of CORSICA, one escorted tanker sunk off DARDANELLES, three caiques sunk in DODECANESE.

SUBMARINE WARFARE. Summary of anti-submarine attacks in July reported up to noon 14th July. Number of attacks by aircraft 38, by carrier-borne aircraft nil, by warships 25. Sunk and probably sunk by aircraft 9, by warships nil. Possibly sunk by warships 2, probably damaged by aircraft 7, by warships 3. Possibly damaged by aircraft 4.

SHIPPING CASUALTIES. From 10th to 16th 10 ships were reported to have been torpedoed. A British ship east of the CANARY ISLANDS; a U.S. ship, probably by submarine in the South Atlantic; a British, a Greek and a U.S. ship in South Indian Ocean; in the Mediterranean a British ship was sunk probably by submarine; one British and 2 U.S. ships in convoy were torpedoed but reached port safely and a small Turkish ship was sunk in Turkish territorial waters. The U.S. ship reported last week torpedoed with a Norwegian ship in convoy off the ST. LAWRENCE but still afloat was torpedoed off the AMAZON and has now sunk. Two large British liners and another British ship in convoy were set on fire by aircraft west-southwest of CAPE FINISTERRE. The first two were sunk by our forces but the third reached port. A British ship was damaged by aircraft off CAPE ST. VINCENT but able to proceed. In June, a Norwegian ship is now known to have been sunk by a Raider northwest of FREMANTLE and a Portuguese ship was sunk by mine or torpedo near the HAIPHONG Estuary.

In Sicilian operations casualties by aircraft were one British Hospital Ship sunk and another damaged, one British, one Dutch and one U.S. Ship sunk, and one U.S. ship damaged in convoy and one U.S. ship sunk by an unknown cause. Shipping losses in June from enemy action at 118,000 tons were the lowest since November, 1942. U-boats accounted for 101,000 tons of total. Only one ship sunk by U-boat in North Atlantic. 5 tankers lost, totalling 33,000 tons. 32 ocean convoys arrived at destination without loss.

TRADE. Imports in convoy into UNITED KINGDOM week ending 9th - 947,000 tons, of which 330,000 oil. German tanker which entered AEGEAN 6th reported sunk off TENEDOS on 7th.

2. MILITARY

SICILY. German forces in SICILY at start of operations amounted to two divisions with about 200 tanks. Herman Goering Division in Eastern SICILY recently reconstituted after losing half its strength in TUNISIA.

15th Panzer Division in Western SICILY believed to be formed from various units, most of which arrived in Island during past two months. Revival of 15th Panzer Division which was totally lost in Tunisia presumably due to reasons of prestige. At outbreak of operations Italian Garrison in SICILY concisted of 5 Field Divisions situated strategical points inland in counter attack role and a first line defence provided by five Coastal Divisions, strength of latter estimated at 114,000.

So far one Field Division and at least one Coastal Division routed. Selection of Southeast corner of SICILY due to necessity of having continuous fighter cover over beaches during initial landings. U.K. and Canadian Forces (reconstituted 8th Army under GENERAL MONTGOMERY) given task of seizing East Coast southward from SYRACUSE to include PACHINO Peninsula. U.S. 7th Army under GENERAL PATTON given the task of landing further west and seizing airfields at COMISO, BISCAAI, PONTE-OLIVO and LICATA. Assault preceded by landing of British glider-borne troops behind SYRACUSE, and U.S. parachutists north of GELA. In spite of high wind losses remarkably light and most objectives captured. Seaborne landings slightly delayed but within 3 hours of landing tanks and artillery were being put ashore. Enemy undoubtedly unprepared and confused as to extent of attack. Resistance small on beaches and only slight opposition encountered and that chiefly by U.S. troops in GELA area. Shipping losses unexpectedly light.

BURMA. Successful raid on MAUNGDAW on 8th by one company of U.K. troops. About 20 Japanese killed.

3. AIR OPERATIONS

WESTERN FRONT. Night. 1,084 sorties, 42 aircraft missing. Very successful attacks on AACHEN and TURIN. Latter the heaviest operation by home-based aircraft on ITALY yet undertaken. MONTBELLIARD raid also successful. Several direct hits on essential parts of Peugeot Works.

Day. Heavy attacks by Fortresses on French airfields, total tonnage dropped exceeded 500 tons. Smaller raid by R.A.F. light and fighter-bombers on airfields and railway centres in FRANCE. Beaufighters struck coastal shipping off NORWAY and Northern FRANCE.

Enemy. Over 3 nights total of about 56 aircraft operated over Eastern and Southeastern Counties. No effective concentration was achieved and 5 enemy aircraft were shot down.

MEDITERRANEAN. In support of our landing operations upwards of 1,000 sorties a day were flown by fighters, protecting convoys, patrolling landing beaches and harbours, escorting bombers and attacking enemy troops, M/T and gun concentrations. Allied Bomber Forces maintained heavy attacks against airfields, ports, ferry terminals, railways and military concentrations in ITALY and SICILY, and in support of military operations. Outstanding were the successful attacks on MESSINA, NAPLES, REGGIO and SAN GIOVANNI, and the destruction by U.S. Liberators of the enemy's Sicilian H.Q. at TAORMINA. Of the very small bomber forces which the enemy operated at night, 6 aircraft were destroyed by night fighters. At sea aircraft sank two cargo ships and one tanker and left another tanker and one destroyer on fire. From all these operations 47 Allied aircraft are missing.

RUSSIA. Over the KURSK Salient the Russian Air Force was heavily engaged in defensive fighter operations and in close support of their ground troops. Great activity was maintained until the end of the week when bad weather set in. The Russians have succeeded in holding their own against the German Air Force. German air operations were also intense and during the first few days of their offensive probably exceeded 1500 sorties per 24 hours, although later reports suggest this scale has subsequently fallen by half.

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

WUPPERTAL. Now confirmed that almost entire weight of heavy attack on 29th/30th May fell on BARMEN where damage is among greatest yet seen. 90 per cent of the fully built up areas and more than half of the less congested areas are devastated.

DUSSELDORF. Final assessment of damage shows that the town has been heavily devastated by fire and H.E., especially in the business centre. Out of 47 damaged factories, 5 are of great importance and include leading producers of heavy machine tools and heavy armaments. Estimated 35 per cent of built up areas destroyed and 26,000 families homeless.

AACHEN. Although in first photographs after attack the town is largely hidden by smoke it is obvious that damage is very heavy especially to industry and includes factories making textile machinery, optical glass and electrical equipment.

VILLACOUBLAY. Day attack 14th July. About 420 craters within the airfield boundary. Severe damage to large hangar and 10 damaged aircraft among wreckage. Direct hits on runway and an air raid shelter.

LE BOURGET. Day attack 14th July. Many craters on airfield and TARMAC. Some Hangars damaged.

5. HOME SECURITY

Estimated civilian casualties week ending 14th - killed 145, seriously wounded 256.

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COPY NO. 13

OFFICE
SECRETARY OF TREASURY
1943 JUL 19 AM 11 55
TREASURY DEPARTMENT

BRITISH MOST SECRET
U.S. SECRET
OPTEL NO. 235

Information received up to 7 a.m., 18th July, 1943.

1. NAVAL

Early 17th, our light forces attacked a convoy of 3 Coasters escorted by 2 Trawlers off the DUTCH Coast and sank 1 ship. Later other enemy vessels apparently engaged survivors of enemy convoy and set 2 on fire. On the night of the 15th, 2 of H.M. Minesweepers were slightly damaged in an air raid on SYRACUSE. 2 U.S. Cruisers with one of H.M. Monitors bombarded LICATA, PORTO EMPEDOCLE and AGRIGENTO. During the action with the Italian Cruiser in MESSINA Strait 17th morning, referred to in Optel No. 234, one of our Motor Torpedo Boats was sunk by gun fire.

2. AIR OPERATIONS

WESTERN FRONT. 17th. At 4.30 a.m., escorted Special Beaufighters off NORWAY made several hits amidships on a 2,000 ton ship which was left well on fire. A total of 329 Fortresses were sent out but owing to adverse weather were recalled and 275 made no attack. 31 dropped 65 tons on objectives in Northwest GERMANY and 21 dropped 45 tons at the Fokker aircraft factory, AMSTERDAM. 1 Fortress missing and 1 crashed. Crew safe.

17th/18th. Aircraft despatched: Intruders - 23 (1 missing), Anti-shipping - 7, Leaflets - 4.

NORTHERN ITALY. 16th/17th. Home based Lancasters dropped a total of about 48 tons on transformer stations near MILAN and PARMA. One aircraft bombed SPEZZIA Harbour causing two large fires. Crews report successful attacks. 1 aircraft missing.

SICILY and SOUTHERN ITALY. 15th/16th. Wellingtons attacked 4 airfields on the mainland. 110 medium bombers attacked railway communications and bombed and machine gunned motor transport in Central and Northeast SICILY. Railway crossing at ADRANO was hit.

16th. Liberators dropped 100 tons at BARI airfield. 102 Fortresses bombed the ferry terminus at SAN GIOVANNI. Escorted Mitchells attacked VIDO VALENTIA airfield and Mitchells bombed VALGUARNERA. Enemy casualties: 13, 7, 2. Allied: 5 missing.

1. NAVAL (Additional)

16th/17th. In enemy air raid on AUGUSTA, heavy service casualties caused in one of H.M. L.S's.I.

July 19, 1943

Dear George:

I have referred your letter of July 5, to Fred, Ted and fellow members of the last minute planning committee for speeches. We all think the plan set forth is a good one, and hope it works.

We all know you are not complaining, and we all share your desire to have them done ahead of time. However, there seem always to be complications that keep us from doing it, but it is a worthy aim.

I think we will have to get together very soon to get ready for the first speech in the Third War Loan. As soon as we decide under what circumstances the speech will be made, Fred will give you a call.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. George Albee
White Stone House
Route 1
Accord, New York

Initialed copy of reply to Thompson.
File in Diary.

FS:gr
7-19-43

WHITE STONE HOUSE ROUTE 1 ACCORD, NEW YORK

5 July 1943

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

Dear Mr. Secretary:

I have received your kind notes - with my usual astonishment that you should be able to find the time to dictate them.

If THE CLUE TO HISTORY does as much for you as it did for me, in revealing the deep springs of motive underlying this war, perhaps you will also care to read another book I have found helpful. CONDITIONS OF PEACE, by Carr -- both of the authors, I believe, are Scotsmen -- is the exact opposite of this first book. It is as objective as an engineer's blueprint; in fact, it is exactly that: a blueprint of a plan for the postwar world. There have been plans aplenty; but Carr tells how we may arrive as a postwar balance. He offers a method and a 'state of mind' necessary for the method's success.

I wonder if you will ask Fred, Ted and fellow members of the Last-Minute-Planning Committee For Speeches (speaking of plans) if the following meets with their approval:

As soon as it becomes clear what points you wish to get across in the first speech opening the new drive, I would be very happy to come to Washington and work with Fred roughing them

WHITE STONE HOUSE ROUTE 1 ACCORD, NEW YORK

out. Then, taking them home with me, I would prepare a sort of basic manuscript, crammed with Churchillian figures of speech and sundry other splendid bits of literature.

It would then be possible to use this basic manuscript as the central foundation-pier on which to build the actual speech, with its new material, when we all go to work later.

I hope nobody will interpret this offer as a complaint, on my part. Fred knows me well enough to know that it is nothing of that sort. It is only that speeches put together at the last minute sometimes sound as if they were put together at the last minute -- and that is something we do not want to happen to anything representing the Treasury Department, of all Departments! The Treasury, like the Supreme Court, stands for solidity.

I may be in Washington on Wednesday the 7th. If I get there I'll try to telephone to you. I have a new story for you.

Kindest wishes

George Albee

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 19, 1943

TO Secretary Morgenthau

FROM Mr. Haas

Subject The Proposal of the Federal Reserve Board for the Issuance of 9-Month Treasury Bills

The Federal Reserve memorandum of July 13 recommends that the entire outstanding amount of bills and certificates combined be stabilized, for the time being, at its present level and be refunded into a new series of 9-month bills, for which a buying rate of 3/4 of 1 percent would be established. The new bills would be issued as the outstanding securities mature, but at a rate not to exceed $1 billion a week. The memorandum also recommends that the maturity of new 2 percent bonds be extended from 7-1/2 - 9-1/2 years to 8-10 years and, if necessary, to 9-11 or 10-12 years.

The purpose of these changes is to narrow the total spread in the pattern of rates of securities available for bank purchase by increasing short rates and decreasing long rates (or at least increasing the term of long securities of the same rate). Such a reduction in the spread between short and long rates is stated to be necessary in order to maintain the existing pattern to which the System is committed.

As evidence of the necessity of a reduction in the spread of rates, the memorandum points out (1) that the Federal Reserve System has had to absorb the entire increase in the supply of Treasury bills (about $2 billions) since the end of April, and (2) that the 2 percent sector of the market has been very strong during the same period and has now absorbed the entire Federal Reserve portfolio of long 2 percent taxable bonds.

In our opinion, the proposed consolidation of outstanding bills and certificates into new 9-month 3/4 percent bills would be an unwise move for the following reasons:

(1) The pattern of rates is a means and not an end. It was generally agreed by the Treasury and the Federal Reserve System a long time before Pearl Harbor that this war, if it

should occur, should not be financed upon the basis of rising interest rates, as was the case in World War I. Rising rates during a wartime period not only increase war costs directly, but also discourage subscriptions to Government securities as purchasers tend to await more favorable terms on later issues. This desire to avoid a progressive increase in interest rates during the wartime period is the cornerstone for the mutually-agreed-upon policy of the Treasury and the Federal Reserve System. In order to implement this policy, the Federal Reserve System has established and maintained a "pattern of rates" in the Government security market. This pattern of rates, however, should be viewed strictly as a means and not as an end. The end is orderly and economical war finance, not the maintenance of any particular pattern of rates.

(2) The difficulty alleged to exist in the present pattern of rates is not new. The difficulty inherent in a rigid "pattern of rates" has been recognized by both the Treasury and the Federal Reserve System from the beginning and, in consequence, the Treasury has consistently urged that the rigidity of the pattern be de-emphasized and that the pattern be kept as fluid as consistent with the underlying objectives of financing the war as cheaply as possible and of maintaining the demand for Government securities.

The fundamental difficulty of a pattern of rates is, of course, that if confidence in the pattern becomes perfectly established in the market, buyers will tend to crowd into the longer maturities where the return is higher, while the shorter maturities at lower returns will find no purchasers. The effect of this would be to increase substantially the average cost of borrowing without reducing the real obligation of the Government to maintain the liquid character of the outstanding debt.

This difficulty is a long-run difficulty, however. It has existed ever since the pattern of rates was established, and its importance at the present time is unduly magnified in the Federal Reserve memorandum. Actually, the spread between short and long rates is much less now than it was during most of the Thirties, and the profits from "rolling down the curve" are consequently smaller. While it is true that such profits are more certain than they were in a free market, it must be recognized that a great many investors have not adapted their market policy to the existence of a pattern of rates; and others, who have thought the matter through, are simply unwilling to take a chance on the

permanence of the pattern, and consequently prefer the contractual protection of a short-term obligation. Such frictions and doubts will probably continue for a long time to come and will make possible the continuance of a substantial spread between short and long rates.

(3) The recent absorption of Treasury bills by the Federal Reserve System is not conclusive evidence of unwillingness of the market to absorb additional short securities. The fact that the Federal Reserve System has absorbed the entire increase in the amount of Treasury bills since the end of April does not mean that the market wants no more short securities. The market for certificates and notes continues very strong -- in fact, as strong, relative to the pattern of rates, as that for bonds. The current situation in bills does indicate that the market has enough, at least for the time being, but this situation does not extend to short paper generally. Treasury bills have become a sort of secondary excess reserves, and commercial bank holdings of them vary inversely with their need for reserve funds. It is not surprising, therefore, that commercial bank holdings of Treasury bills have run off during the past two months as their required reserves have risen, due to the drawing down of War Loan Deposits, while the Federal Reserve System was supplying additional reserve funds in no other way than by purchasing bills at the posted rate. As of July 14, the most recent reporting date, 65 percent of the outstanding amount of Treasury bills was still held outside of the Federal Reserve Banks.

The evidence submitted in the Federal Reserve memorandum seems to indicate that the bill market needs a rest, but goes no further.

(4) The Federal Reserve Banks ought to purchase at least enough bills to cover the increase in Federal Reserve notes outstanding. The Federal Reserve Banks must acquire some asset dollar-for-dollar for every increase in Federal Reserve notes outstanding. Sound central banking policy dictates that the assets so acquired should have a low earning rate, or none at all. During the Thirties the asset acquired by the Federal Reserve Banks per contra to the increase in Federal Reserve notes was gold. During the war period 3/8 percent Treasury bills provide a satisfactory alternative. Fifty-four percent of the increase in Federal Reserve holdings of bills so far this year can be set off against the increase in

Federal Reserve notes outstanding. If the proposal to issue 9-month bills were adopted, the lowest rate in the market and the rate against which currency would be issued would be 3/4 of 1 percent. This is an unconscionable rate to pay for issuing paper money.

(5) The proposed bills would reduce the effectiveness of Federal Reserve control of the money market. As was pointed out above, Treasury bills are being used to an increasing extent as quasi-reserves. Treasury bills are now outstanding in the amount of about $12 billions, thus providing potential quasi-reserves of this amount. Certificates of indebtedness, which are not at the present time considered equivalent to reserve funds, are outstanding in the amount of more than $16 billions. If the present amount of bills and certificates were converted into 9-month Treasury bills with a posted rate, the potential amount of quasi-reserves would be increased to about $28 billions, or more than double the present amount. Obviously, the existence of such an increased amount of instruments available for use as quasi-reserves would increase the difficulty of changing the reserve position of member banks by the use of the customary instruments of Federal Reserve policy.

(6) The issuance of the proposed bills would weaken the position of the New York and Chicago money markets. The proposed use of 9-month Treasury bills would create an important incentive for the removal of bankers' and other balances from New York City and Chicago by providing an alternative employment for these balances at a guaranteed rate of 3/4 of 1 percent. Such withdrawals might well be sufficiently large to remove the New York City and Chicago banks from the market for Government securities for some time to come. This would have consequences beyond its dollar amount, because of the position of leadership in the Government securities market customarily exercised by central reserve city banks.

(7) Bank earnings are adequate. The Federal Reserve memorandum states that one reason for the proposed change is ". . . an extension of maturities by commercial banks because of the need for larger earnings, particularly by the smaller banks." A press release by Mr. Crowley, dated June 22, referring to all insured commercial banks, states:

> "At $441 million, net profits after taxes but before dividends represented a return of 6.3 percent on total capital funds. This rate of return has

> been exceeded only twice since the establishment of the Federal Deposit Insurance Corporation: in 1936 when unusually large profits and recoveries on securities were reported, and in 1941. It is estimated that net profits before income taxes were higher than in any other year of deposit insurance except 1936."

As far as the situation of small banks is concerned, the net profit for 1942, after income taxes, for all insured commercial banks with deposits of under $1 million amounted to 6.5 percent of capital funds.

(8) The issuance of the proposed bills would itself constitute a substantial "breach" in the pattern of rates. Finally, it is important to note that, although the stated purpose of the issuance of the proposed bills is to preserve the existing pattern of rates, such issuance would, in fact, breach the existing pattern very materially. The argument seems to be that it is necessary to change the pattern in order to maintain it. We see no merit in this argument. The whole business of maintaining a pattern with a substantial difference between short and long rates is essentially a rear-guard action, in which it is unwise for the rear guard to retreat any faster than necessary -- since, when it does, it must recommence the action all over again on the new line. The longer the retreat from 3/8 to 3/4 can be postponed, the longer it will be before a new action will have to be started to defend the 3/4 line against a further retreat to 1 or 1-1/4. There is no point in taking time by the forelock, for time is of the essence, and a successful rear-guard action will greatly reduce the ultimate cost of war finance.

195-A

Not read by the Secretary and the original was returned to Mr. Paul

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Statement on special wartime reserves

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Statement on special wartime reserves

I. Summary of statement

This statement consists primarily of an analysis of specific reserves which have been advocated as allowable deductions in the computation of taxable income. As a background for the discussion of these specific reserves, the general reasons for which special wartime reserves have been proposed are considered. Reserves have been advocated: (1) to secure equitable taxation by allowing costs clearly attributable to the war to be charged against war revenues; (2) to make certain that the resumption of peacetime production will not be retarded by cash shortages; and (3) to weaken incentives for making uneconomic expenditures during the war. These three approaches are identified in this statement as the accounting approach, the cash approach, and the incentive approach.

An authoritative statement on the accounting approach to the problem of postwar reserves has been made by the American Institute of Accountants. The desirability of recognizing their proposed list of 11 specific reserves, plus one other, as deductions in computing taxable income is given detailed consideration. The basic test which such reserves must satisfy is that of accounting acceptability in principle and feasibility in practice.

Most of the present statement consists of a discussion of the extent to which the proposed specific reserves meet this test. Consideration is also given, however, to the other two general approaches under which reserves have been proposed and to the probable effect of reserves on the competitive structure of industry.

The principal conclusions of the statement are that: (1) adequate statutory authority is now available for the deduction of the costs and losses for which five of these specific reserves have been proposed; (2) of the remaining specific reserves, three provide for costs and losses which are not sufficiently measurable to constitute allowable deductions for tax purposes; and (3) further detailed examination should be given the four remaining reserves, namely, (a) a reserve for inventory price declines, (b) a reserve for deferred maintenance, (c) a reserve for postwar reconversion costs, and (d) a reserve for separation allowances to employees discharged at the termination of the war. The case for these four reserves is sufficiently strong that the Treasury may desire, after further examination, to propose that they be authorized as allowable deductions for

tax purposes. 1/

These conclusions have been based primarily on an accounting analysis, but they receive additional support from an examination of the effect of reserves on the cash problems and prospective postwar competitive structure of industry.

II. The accounting approach

A. Reserves recommended by American Institute of Accountants

The accounting approach is the basic test which any reserve for a specific purpose must meet. Unless the costs or losses for which reserves are set up can be measured and allocated to fiscal periods with reasonable precision, they do not constitute legitimate accounting charges to current income. 2/ Deductible reserves for tax purposes which cannot be so allocated partake of the character of general subsidies and must be judged on grounds entirely different from reserves designed to refine the definition of taxable income. Indeed, non-allocable reserves would probably create more inequities than they would alleviate, since no objective criteria for the amount of reserve to be given to each taxpayer would be available.

An authoritative statement on the accounting approach to the problem of postwar reserves has been made by the Committee on Accounting Procedure of the American Institute of Accountants. 3/ The Committee recommends, primarily as a guide to the accounting policies of individual enterprises, that serious consideration be given to the establishment of special reserves for costs and losses arising out of the war. The Committee further recommends that at least some of these reserves be recognized by the Government as deductions in the determination of taxable income.

1/ The reserves for inventory price and for deferred maintenance were proposed by the Treasury in 1942 but were not accepted in Congress.

2/ ". . . wartime revenues should be charged with all reasonably determinable costs and losses fairly applicable thereto. Specific charges in the income statement should, however, have a reasonable basis of measurement and of allocation to fiscal periods." Accounting Research Bulletin No. 13, published in The Journal of Accountancy, February 1942, p. 158.

3/ Loc. cit.

Eleven specific reserves are recommended. 1/ They may be classified as follows:

Reserves for depreciation, obsolescence, and maintenance .

1. Accelerated depreciation of facilities as a result of intensive use and of operation by less experienced personnel.

2. Accelerated obsolescence of facilities due to intensive research during the war in an effort to increase productive efficiency.

3. Amortization of the cost of additional facilities acquired, the usefulness of which is expected to be substantially reduced at the termination of the war.

4. Decline in the useful value of plant and equipment due to excess capacity resulting from war construction.

5. Repairs and maintenance deferred as a result of pressure for war production.

Inventory reserves

6. Losses which may be sustained at the end of the war in the disposal of inventories useful only for war purposes, or in the adjustment of purchase commitments then open, including any amounts which may be paid for the cancellation of such commitments.

7. Losses which may be sustained in the disposal of inventories not necessarily applicable to war production, due to decline in the price level, which, on the basis of past experience, usually follows a pronounced rise in prices.

Rearrangement and alteration of facilities

8. Amortization of cost of rearrangement and alteration of existing facilities which will probably be rearranged in the postwar period.

9. Restoration or alteration of facilities to peacetime production at the end of the war, if it is reasonable to assume that such restoration and alteration will then be made.

1/ The order in which these reserves are listed in the Bulletin has been revised. However, the description of the individual reserves has been directly quoted. The Bulletin states that these suggested reserves are presented as an illustrative list rather than as an exhaustive compilation.

Other reserves

10. Separation allowances which may be paid to employees who are discharged at the termination of the war.

11. Losses from destruction of property as a result of the action of armed forces or from seizure thereof by the enemy.

One other proposal, namely, a reserve for deferred advertising, will also be considered in this statement.

B. Bearing of accountants' recommendations on tax practice

Some of the proposed reserves are allowable under the existing law. However, special legislative authority would be necessary for others. From the point of view of accounting theory, the suggested reserves are, for the most part, reasonable. The most difficult problem in the use of these reserves, as the accountants emphasize, is the determination by acceptable, objective criteria of the amounts properly applicable to current revenues. The accountants, themselves, state that some of the listed reserves do not meet this requirement even for the published or internal accounts of individual firms. For tax allowances more severe standards of measurability must be required. If the decisions of individual firms for their own reports are unduly conservative, competitors will not be harmed. Excessive tax deductions by one taxpayer, however, mean that a disproportionate relative burden is placed on other taxpayers.

Nevertheless, too rigid insistence on the danger of tax avoidance may impede rather than further the cause of tax equity. A reserve which would improve the definition of taxable income for most taxpayers should not be refused recognition merely because under it relatively small numbers of taxpayers would receive somewhat excessive deductions. In this regard, it should be recognized that errors in amounts deducted as reserves are partially self-corrective. Since all allowable deductions in the form of credits to a reserve must eventually be offset by equivalent charges against the reserve, excessive deductions in one year will result in higher incomes or smaller losses in a later year. 1/ With this background the specific reserves previously listed may be discussed.

1/ However, if excessive amounts credited to the reserve are eventually taxed at less than wartime rates, or perhaps not at all if postwar losses exceed these amounts, tax liabilities may be unjustifiably reduced. Moreover, regardless of the rates at which the unused reserve balance is taxed, expenditures properly allocable to postwar revenues will actually be offset against wartime revenues to the extent that excessive amounts are accumulated in the reserve.

C. Discussion of proposed specific reserves

The proposed specific reserves may be divided into the following categories: (1) items deductible for tax purposes under present law, (2) items of an immeasurable character non-deductible for tax purposes, and (3) items non-deductible for tax purposes for which the establishment of reserves should be considered.

1. Items deductible for tax purposes under present law

(a) Losses from destruction of property as a result of the action of armed forces or from seizure thereof by the enemy

The deduction of war losses was provided for in the Revenue Act of 1942. Under this Act property destroyed or seized by military operations after December 6, 1941, and property within or under control of enemy countries, may be treated as an allowable deduction in the computation of taxable income. However, if such property is subsequently recovered, it must be included in gross income in the year of recovery. 1/

(b) Amortization of the cost of additional facilities acquired, the usefulness of which is expected to be substantially reduced at the termination of the war

Adequate provision for amortization of emergency facilities is provided in Section 124 of the Internal Revenue Code. Reserves are not needed for this purpose. Indeed, excessive amortization deductions against war revenues are allowed if the facilities have any postwar value, since the law allows amortization against war revenues of the full cost of the facilities.

The anomalous situations arising from this provision in the event that the emergency facilities do have a substantial postwar value are illustrated by the following examples. Suppose that a manufacturer continues in peacetime to produce his wartime product with his emergency facilities and scraps his old facilities. Under the present law the cost of conversion to wartime production is deductible from wartime

1/ This statement is highly simplified. The details of the statutory requirements are given in Section 127 of the Internal Revenue Code and in Section 19.127 of Regulations 103 as amended by T.D. 5258. It should be noted that taxpayers may receive a substantial windfall under Section 127. If the tax rate is lower in the year of recovery than in the year of loss the taxpayer will receive a tax benefit that may amount to a substantial percentage of the value of his property.

revenue, the new facilities are completely amortizable against such revenues, and the value of the old facilities may be deducted when scrapped. The manufacturer would enter the peacetime period with the depreciable basis of his facilities reduced to zero. Clearly, this practice does not result in a correct accounting allocation of costs against revenue.

The manufacturer may decide to sell his emergency facilities rather than to continue to operate them in the postwar period. Since the basis of these assets will have been reduced to zero by the amortization claimed, the full sales price will be reported as a capital gain and taxed at the rates applied to capital gains. The manufacturer obtains a substantial windfall. He is allowed to write off the full cost of the assets against wartime revenues and probably to reduce his taxable excess profits by this amount, even though the assets have a substantial postwar value. When the assets are sold in the postwar period, he will be taxed only at the relatively low capital-gains rate. This windfall conceivably may amount to more than 50 percent of the sales value of the asset. 1/

(c) Amortization of the cost of rearrangement and alteration of existing facilities which will probably be rearranged in the postwar period

The cost of rearranging and altering existing facilities in the transition from peacetime production to wartime production constitute deductible expenses in the year of rearrangement if they do not add to the life of the rearranged assets. 2/ Section 19.23(a)-4 of Regulations 103 provides: "The cost of incidental repairs which neither materially add to the value of the property nor appreciably prolong its life, but keep it in an ordinarily efficient operating condition, may be deducted as expense.. . ." The costs of rearranging property for war production are wholly analogous to such incidental repairs.

1/ For example, the full cost of the asset may have been offset against revenues that otherwise would have been taxed at an 81-percent rate. Under present law gain from the sale of this asset is taxable at 25 percent. The windfall to the taxpayer under these conditions will be 56 percent of the sales value of the asset.

2/ Conceivably sufficient wartime revenues may not be available in the year of rearrangement to absorb these costs. However, the carry-over of net-operating losses and unused excess-profits credits will almost always make adequate adjustment for this temporary inequity.

(d) Accelerated depreciation of facilities as a result of intensive use and of operation by less experienced personnel

The present law is broad enough to allow deductions for accelerated depreciation. The Bureau of Internal Revenue has specifically recognized this fact. 1/ However, cases undoubtedly will arise where the Bureau and the taxpayer will differ as to the reasonable amount of accelerated depreciation. Such differences in judgment, however, cannot be completely removed by additional statutory provisions.

An attempt to resolve these differences by an arbitrary statutory formula providing for increased depreciation allowances would create more inequities than it would remove. Such a formula would give some taxpayers more adequate allowances but only at the expense of granting grossly excessive deductions to many other taxpayers. By their very nature, equitable accelerated-depreciation allowances must be based on careful investigations of individual cases and not on a rigid overall formula.

(e) Accelerated obsolescence of facilities due to intensive research during the war in an effort to increase productive efficiency

Extraordinary obsolescence resulting from war research presents substantially more difficult conceptual problems than accelerated depreciation of equipment resulting from more intensive use. Accelerated depreciation obviously takes place at a definite time, while the specific date at which obsolescence actually occurs is much more difficult to determine. Generally speaking, if the retirement of old equipment is mandatory within a short time because superior new equipment is

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1/ The following statement of the Bureau position is taken from Bulletin "F" (pp. 3-4) on depreciation and obsolescence, revised January 1942:

> "It is recognized that the useful life of some depreciable property, or items thereof, may be affected by a radical increase or decrease in plant activity, or diversion in use, extending over a period of time so that depreciation in excess of, or less than, the amounts allowable under normal operating conditions or use may be sustained. Such increase or decrease in depreciation is dependent upon the decrease or increase, respectively, in the normal useful life resulting from the exceptional operating conditions or use. However, where factors of obsolescence and inadequacy and decay control the useful life of property, no increase or decrease from normal depreciation will be allowed."

being introduced by competitors, current charges for the obsolescence of the old equipment are justified. However, under more complex conditions the appropriate allocation of obsolescence is much less determinate.

Suppose, for example, that material shortages have forced the temporary discontinuance of the production of a given peacetime product, and that the peacetime productive equipment has been stored. During the war advances in technique make the early replacement of the peacetime equipment almost certain, once production is resumed. However, this equipment is not scrapped, since it may be useful for a year or two while the improved equipment is coming on the market and changeovers are taking place. Is the obsolescence properly charged to the year in which the new invention is made or to the year in which the new equipment is actually installed, either by the taxpayer or by his competitors? The problem is difficult to decide on logical grounds. The case for delayed recognition of such obsolescence is at least as strong as that for its immediate recognition.

The Internal Revenue Code is sufficiently inclusive to allow at least the first of these instances of unusual obsolescence. However, the Bureau places rigid restrictions upon the allowance of unusual obsolescence charges. The Bureau requires that the taxpayer prove his claim for obsolescence "by facts and evidence that are definite and indisputable." Moreover, the date at which the facilities will be retired must be clearly predictable. Finally, no obsolescence can be allowed retrospectively in the light of subsequent events not anticipated during the period for which obsolescence is claimed. 1/

1/ This quotation, taken from Bulletin "F" (pp. 1, 3), states the Bureau position with reference to obsolescence deductions.

> "Obsolescence may be defined as the process of becoming obsolete due to progress of the arts and sciences, changed economic conditions, legislation, or otherwise, which ultimately results in the retirement or other disposition of property. . . .
> "Extraordinary or special obsolescence rarely can be predicted prior to its occurrence. However, this does not necessarily imply that the asset already must have been completely discarded or become useless, but merely that a point has been reached where it can be definitely predicted that its use for its present purpose will be discontinued at a certain future date. Deductions for obsolescence of this type may be taken over the period beginning with the time such obsolescence is apparent and ending with the time the property will become obsolete. In every case the burden of proof is entirely upon the taxpayer to establish a claim for obsolescence by facts and evidence that are definite and indisputable. No amount may be charged off in any year merely because, in the opinion of the taxpayer, property may become obsolete a number of years later. . . . Nor can obsolescence be allowed retrospectively in the light of subsequent events or happenings not anticipated during the period for which the obsolescence is claimed. In no case may the deduction for obsolescence be extended to include shrinkage in value due to other causes, as, for instance, a general drop in the price of commodities."

If these requirements are strictly enforced, many legitimate deductions for obsolescence will be denied by the Bureau. Obsolescence, by its nature, often cannot be demonstrated by "facts and evidence that are definite and indisputable." Moreover, sufficient obsolescence may occur to reduce substantially the value of an asset without making the date when the asset will be discarded definitely predictable. On the other hand, if the Bureau did not judge claims for obsolescence by severe standards, many taxpayers would be allowed excessive deductions.

At the present time, when tax rates are highly variable and obsolescence may be expected in unusually large amounts, the possibility that obsolescence may be inadequately recognized should be reflected in the formulation of tax policies. However, a specific reserve for obsolescence would not remedy the situation. The basic problems are not legal but administrative in nature.

2. Items of an immeasurable character non-deductible for tax purposes

a. Decline in the useful value of plant and equipment due to excess capacity resulting from war construction

Decline in value of plant and equipment may result directly from the excessive quantity of plant and equipment, itself, or indirectly from the excessive output of such plant and equipment. In the latter event, the loss due to the decline in the price of the product as a result of its oversupply cannot be imputed with even moderate precision to individual assets or classes of assets. In the former event, excess capacity of the facilities themselves would probably result directly in a decline in the market value of the plant and equipment. This situation may develop in many areas if wartime facilities are thrown on the market.

The Bureau does not allow deductions for shrinkage in value resulting solely from price fluctuations. The disallowance of such deductions is consistent with accounting principles and tax procedures, both of which base depreciation deductions on cost rather than on current market value.

On theoretical grounds, it is doubtful if declines in value because of excess capacity should be recognized when the additional capacity was built, or when it became excessive, that is, when demand fell back to a peacetime level. Moreover, if such deductions were to be allowed at all, consistency would demand that income be reported for increments in value as a result of decreases in capacity, increases in cost of production, and even, perhaps, increases in demand.

Declines in the value of facilities resulting from excess capacity could not even be approximately measured. 1/ To segregate such declines, full knowledge of the other economic variables affecting the problem, such as conditions affecting the demand for the assets, would be necessary. The administrative difficulties that would be encountered in such an endeavor would be insuperable. The accountants themselves list losses due to excess capacity after the war as not constituting legitimate deductions from income computed in the customary manner. 2/ If such losses are not sufficiently determinable to constitute legitimate accounting deductions, clearly they would not satisfy the more rigorous requirements which must be set for tax deductions.

b. Losses which may be sustained at the end of the war in the disposal of inventories useful only for war purposes, or in the adjustment of purchase commitments then open, including any amounts paid for the cancellation of such commitments

Losses on surplus inventory stocks are clearly chargeable to war revenues. However, the taxpayer will suffer such losses only if the Government fails to reimburse him for them on war-contract termination.

Since contractors operating under cost-plus-fixed-fee contracts will ordinarily suffer no inventory losses, no reserves need be established for such losses. Inventories held by these contractors are actually owned by the Government.

However, contractors operating under fixed-price contracts may suffer inventory losses. The present termination clauses in contracts

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1/ For example, in recent testimony on renegotiation before the House Naval Affairs Committee, Mr. Gibbons, Senior Vice-President of the Aluminum Company of America, stated that the two major postwar problems of this company would result from:
(1) overexpansion of facilities; and
(2) wartime growth of substitute products.
He was asked: "Do you think it is possible at the present time to anticipate and forecast the exact amount, or to an approximate degree, of reconversion and adjustment which a company such as yours will have to go through?"
Mr. Gibbons replied: "In the case of our own company, I could unqualifiedly answer that in the negative." (Underscoring supplied.) Proceedings of Committee on Naval Affairs of House of Representatives, June 22, 1943, as published by The Bureau of National Affairs, Inc., p. 765.

2/ The Journal of Accountancy, op. cit., p. 158.

provide that reimbursement will be made for inventories as well as for settlement of commitments to subcontractors; that is, fixed-price contracts become cost-plus contracts. However, the Government may refuse to reimburse contractors for some inventories, claiming that the inventories are sub-standard, that the purchase price was too high, or that the purchase of an item for a specific contract has not been proved. The extent of these losses, therefore, will depend upon the rigor of the contract-termination audit. In principle, contractors operating under fixed-price contracts may legitimately establish reserves for their inventory losses. However, since the magnitude of these losses will be determined by the auditing policies of the military establishment, their amount cannot now be ascertained with sufficient precision to justify a current deduction for tax purposes.

c. Deferred advertising

If normal advertising expenditures are curtailed during the war because of material and manpower shortages, it may be equitable to allow a deductible reserve for deferred advertising. Such advertising may be necessary in order to keep a company's name in the public mind.

Although a reserve for deferred advertising may be acceptable in principle, the insoluble administrative problems which it raises necessitate its rejection. In the first place, it would be impossible to define advertising expenditures. Advertising takes multifarious forms, such as, newspaper and periodical advertisements, extensive reliance on salesmen, pleasant shopping environments, special services, special discounts, and special packaging. In the second place, even if advertising could be defined, the amount necessary to maintain a firm's goodwill without improving it could not be determined. Such a determination would be necessary to administer the reserve in an equitable manner. Because of these administrative difficulties such a reserve is impracticable.

3. Items non-deductible for tax purposes for which the establishment of reserves should be considered

a. Losses which may be sustained in the disposal of inventories not necessarily applicable to war production, due to decline in the price level, which, on the basis of past experience, usually follows a pronounced rise in prices

During consideration of the Revenue Act of 1942 the Treasury proposed that a deductible reserve for inventory price declines be established. Such a reserve, if operated efficiently, would clearly improve the definition of taxable income. The Treasury proposal was not accepted by Congress, largely because of its administrative difficulties. In place of an inventory reserve, and of other specific reserves, Congress enacted a general carry-back of losses and unused

excess-profits credits.

The theoretical case for an inventory reserve is as strong now as it was in 1942. In practice, however, in many industries the need for such a reserve is now at least temporarily less acute. In large areas of the economy, partial inventory liquidations are taking place because of the shortage of peacetime commodities. Moreover, price rises in 1943 will probably not be large because of Government price controls. If the anti-inflationary program should prove to be inadequate, however, the need for inventory reserves may again become acute. Unless the inflationary controls do break down, the carry-back of net-operating losses and of unused excess-profits credits should constitute an adequate substitute for an inventory reserve, provided that they are not also forced to offset too many other losses.

b. Repairs and maintenance deferred as a result of pressure for war production

Maintenance expenditures are necessary to insure an asset's productivity over its economic life. These expenditures represent reasonable charges against current revenues, if they do not prolong an asset's life or increase its capacity. If maintenance expenditures are postponed as a result of material or manpower shortages, or because the pressure for production does not permit maintenance work, reasonable maintenance expenses will not be charged against current revenues. Current income will be overstated during the war and understated in the postwar period, provided that the previously postponed maintenance is then made good.

The problem may be even more severe for railroads and other industries employing replacement, rather than depreciation, accounting. Under replacement accounting, the replacement cost of assets is deducted in the year of replacement and not depreciated over the life of the asset. Inability to replace as well as to maintain assets may result in a sharper distortion of income in the war period than mere postponement of maintenance.

Accountants and informed Government officials have expressed the opinion that current undermaintenance is limited to particular assets and firms and does not constitute a general problem of significant magnitude. Undoubtedly, many individual assets are being operated under such pressure that adequate maintenance is impossible. However, other assets of a firm may receive more than adequate maintenance. Undermaintenance of specific assets will result in an overstatement of taxable income during the war period only if it is not offset by overmaintenance of other assets owned by the same firm. In those instances where net undermaintenance is present, it will probably be limited in amount.

c. Restoration or alteration of facilities to peacetime production at the end of the war, if it is reasonable to assume that such restoration and alteration will then be made

Reconversion costs, in the narrow sense of the term, are clearly proper charges against war revenues. Such costs would be limited in the simplest situation to the restoration of a plant to its prewar condition in order to produce the prewar product. No increase in the capacity or life of an asset would be involved in the pure case. For example, the band-instrument industry has shifted its production almost completely to war products, necessitating the removal and storage of the band-instrument equipment. At the end of the war, resumption of peacetime production will require the removal of war equipment, partitioning and space reallocation in the plant, and reinstallation of machinery. 1/

The situation is slightly different, however, if wartime facilities remain in use during the postwar period. Even though these facilities remain in use, reconversion costs may be necessary before peacetime production can be resumed. The discussion of the deduction for the amortization of emergency facilities has pointed out the excessively generous treatment which taxpayers may be allowed. For this reason, it may be desirable to require taxpayers to capitalize reconversion costs pertaining to wartime facilities, as distinct from peacetime facilities, even though such reconversion costs do not prolong the life of the wartime facilities. However, reconversion costs in the technical sense would often constitute only a small percentage of the postwar value of wartime facilities. In such instances the recommended treatment would only partially offset the excessive deduction against wartime revenues allowed on emergency facilities with substantial peacetime values.

The proper treatment of reconversion costs becomes more and more difficult to determine as situations such as improved productive organizations, outlays for recapturing markets, and developmental costs necessary for new peacetime products, are considered.

These broader reconversion costs will undoubtedly be of much greater quantitative importance than more narrowly conceived reconversion costs. However, the uncertainty with respect to the nature and size of such costs makes the establishment of reserves meeting minimum accounting standards of measurability administratively impossible. Aside from these administrative difficulties, many of these

1/ For this and similar examples of reconversion, see Hearings before the House Naval Affairs Committee on Renegotiation, June 10 1943-June 30, 1943.

reconversion costs in the broad sense do not constitute appropriate charges against wartime revenues and should be regarded as new capital expenditures to be written off against subsequent peacetime production. Moreover, disregarding these objections, reconversion costs in the broad sense could be consistently charged to war revenues only if offsets to such deductions were made for the creation of new markets by the war, for developmental costs of war products which will have peacetime uses, for benefits from improved productive techniques developed during the war, and for other similar benefits derived from the firm's wartime activities.

In summary, reconversion costs in the narrow sense of restoring facilities to their prewar condition clearly constitute appropriate charges to war revenues. Moreover, such costs may be sufficiently definite to make the accumulation of reserves to meet them feasible. If the reconversion costs pertain to wartime facilities, however, it may be preferable to capitalize them rather than to charge them against war revenues. As soon as the concept of reconversion is broadened, the administrative and conceptual difficulties to an acceptable accounting reserve become insurmountable.

d. Separations allowances which may be paid to employees who are discharged at the termination of the war

Dismissal compensation for workers in war industries may constitute a postwar expense of major magnitude. Wartime employment in many industries is greatly in excess of the levels of employment which can be expected to prevail in peacetime. Workers who have been brought into defense centers to take war jobs will, in many instances, have to look elsewhere for work once war orders cease. Whether or not a wartime employer has entered into contracts to pay separation allowances to workers dropped from his payroll at the end of the war, social pressures may require such payments.

Dismissal compensation paid to workers no longer needed in war jobs constitutes a proper charge against wartime revenues, since it is an expense which is directly attributable to war production. No employer can, of course, predict either the date of termination of the war or the exact number of employees whom he will be obliged to dismiss at that time. Nevertheless, if reserves for dismissal compensation were allowed as a deduction for tax purposes, rough approximations of the probable magnitude of dismissal wages could be made. Furthermore, taxpayers' accounts could easily be audited after the war to determine whether the reserves set aside for separation allowances were actually used for this purpose.

III. The cash approach

The cash approach to the problem of special wartime reserves sees

in such reserves a guarantee that the resumption of peacetime production will not be impeded by cash shortages in the immediate postwar period. Business firms will need funds at that time for a multitude of purposes. Unless adequate funds are readily available, the smooth transition to a peacetime economy will be impaired.

While corporations in general appear to be in an unusually liquid position at the present time, undoubtedly cash shortages will present serious difficulties to many individual firms and to specialized industries. Firms which have expanded many times their peacetime level, and are consequently operating with a very small margin of equity capital, are most likely to be in a stringent cash position in the immediate postwar period if their inflow of funds is even temporarily held up. Such firms may find it difficult or impossible to meet their current liabilities immediately after the termination of their wartime production. The need for cash will, therefore, depend largely on the promptness with which contract-termination payments are made.

Wartime reserves to provide for postwar cash needs have been advocated on two sharply divergent principles. The first approach emphasizes the necessity of making funds available to firms out of wartime revenues to the full extent of their claims on the basis of equity and accounting principle. The second approach, emphasizing the economic importance of large business expenditures in the postwar period, advocates large-scale distribution of funds to business, irrespective of equity considerations. In this way, it is hoped that these funds will be used for employment-creating purposes.

Reserves recommended for consideration on an accounting basis in the preceding section receive additional support from the cash approach. Cash needs for separation allowances, in particular, will be acute immediately upon the cessation of war production. Funds will also be needed, although generally in much smaller amounts, for reconversion purposes, narrowly conceived, and for restoring undermaintained plants. On the other hand, an inventory reserve for price declines would relieve cash shortages when prices are rising rather than in a postwar period of declining prices. Indirectly, however, such a reserve would strengthen the postwar financial position of business. The taxpayer has a legitimate claim on funds to be used for all of these purposes, since such expenditures constitute costs properly chargeable to wartime revenues.

Postwar needs for cash will not be limited to the above purposes. Additional funds will be needed for the purchase of new machinery and other equipment, for the development of products for peacetime markets, and for the acquisition of inventories. These needs will be no less real than those mentioned above. However, funds spent for these purposes constitute costs which should be borne by peacetime products. If such funds were provided tax-free out of wartime revenues, they would amount to subsidies.

If the postwar needs of enterprise are to be met by Government subsidies, reserves providing for expenditures allocable to peacetime production constitute one method of administering such subsidies. Similar results could be achieved by partial cancellation of wartime taxes levied on business profits, or by overt Government grants to enterprise. The essential difference between these methods of subsidizing business lies in the extent of Government control over the use of funds.

Direct cancellation of tax liabilities would place no restriction on the use of funds by the taxpayer. Taxpayers would receive such funds even though the funds were not needed and were not used for employment-creating purposes. Subsidies in the form of reserves, however, could be restricted to employment-creating uses. Although the Government could control the employment-creating uses of such funds, it would be impossible to delimit the areas in which the investment could be made.

Neither of these two methods of subsidization would limit funds to taxpayers with no alternative financial resources. Consequently, the amounts expended from accumulated reserves would not all represent net additions to employment-creating expenditures.

As opposed to these two methods, the Government might make direct grants to specific enterprises for investment in designated areas. This method of subsidization provides the Government with the maximum opportunity to determine the areas in which investment will be made and to control the amount of this investment.

Regardless of the position taken on granting subsidies to private enterprise for postwar uses, if the need for cash in the immediate postwar period arises primarily from delays in settlement and payment of terminated war contracts, interim loans and not subsidies constitute the proper corrective.

IV. <u>The incentive approach</u>

Another possible objective of special wartime reserves is to remove incentives which lead taxpayers to make socially unnecessary expenditures during the war. Incentive considerations apply only to two of the proposed specific reserves, namely, the reserve for deferred maintenance and the reserve for deferred advertising. Expenditures for maintenance and advertising constitute deductible expenses under the existing tax law. With tax rates as high as 81 percent, taxpayers may be induced to spend more than the absolute minimum necessary to maintain wartime production. If deductible reserves could be established for deferred maintenance and deferred advertising, the incentive to make these particular expenditures in excessive amounts during the war would be reduced or eliminated. As a result, badly

needed resources might be released for more useful participation in the war effort.

However, there are serious limitations to the efficacy of special reserves in inducing the postponement of expenditures for advertising and maintenance. If a firm can obtain the resources necessary for such purposes, its tax liabilities will be the same as if it postponed them and took a reserve deduction. Moreover, its productive equipment and goodwill will be benefited at least to some extent by these outlays. Maximum postponement of this type of outlay would probably require some form of tax premium, such as an allowance of, say, 120 percent of the postponed outlays as a deduction from wartime revenues.

V. Implications of reserves for the postwar competitive structure

The allowance of postwar reserves may have an important bearing on the competitive structure of industry. Consequently, final judgment of these reserve proposals must take these effects into account.

The refinement of the definition of taxable income resulting from appropriate reserve deductions would be particularly beneficial to firms with highly fluctuating incomes. In general, the incomes of small firms tend to fluctuate more severely than those of large enterprises. Moreover, small firms have less access to outside capital resources, and consequently their expansion tends to be more nearly limited to their retained earnings. Discriminatory taxation will also have particularly severe effects on firms that have greatly expanded on a small margin of equity and have, therefore, been placed in a highly unstable financial condition. If discriminatory tax burdens are removed, additional funds will be made available to such firms as these and will enable them to compete more effectively for postwar markets.

Unless the cash approach is extended to include subsidies, it differs from the accounting approach only as it emphasizes the importance of the prompt availability of funds. However, subsidies in the form of reserves, granted in the name of the cash approach, may have marked effects on the industrial competitive structure. Firms with the highest rate of wartime profits will receive relatively larger subsidies than firms with more moderate profits. War-casualty concerns and concerns with wartime losses will receive no funds whatsoever from these indirect tax reductions; thus they must compete under a double handicap with prosperous firms for postwar business. New firms organized after the war will also have to overcome the competition of entrenched enterprises receiving subsidies.

It seems clear that the maintenance of a competitive structure in the postwar years can be furthered by a judicious use of special wartime reserves. Reserves set aside out of wartime revenues will

undoubtedly be of help in effecting a smooth and speedy transition from wartime to peacetime production. Without such a cushion, small business, in particular, may find its competitive position weakened, or even its survival threatened.

On the other hand, the allowance of excessive reserves as deductions against wartime profits would be likely to enhance the position of those firms which profited most from the war, while denying equal opportunities to those adversely affected by wartime conditions. Even after paying high wartime taxes, current business profits are at record levels. The further subsidization of war businesses by allowing them a larger share of their war profits may therefore be unjustified.

Treasury Department
Division of Tax Research

July 19, 1943

ECB:JkB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION CONFIDENTIAL

DATE July 19, 1943

TO Secretary Morgenthau

FROM Mr. Ha[illegible]

Subject: The Business Situation,
Week ending July 17, 1943.

Summary

Price control: Further efforts to reduce living costs are indicated in Price Administrator Brown's recent statement that a fundamental aim of the OPA is to reestablish the general relationship of prices and wages which prevailed on September 15, 1942. Despite a decline in food costs in June, the BLS index of living costs for the month will stand at least 5 percent above last September's levels.

Commodity prices: Although prices of wheat, steers and cotton declined further last week, the BLS index of basic commodity prices showed only a slight decrease. After declining 1 percent in the previous 3 weeks, the BLS all-commodity index in the week ended July 10 was unchanged at 103.0 percent of the 1926 average.

Stock prices: Industrial, railroad and utility stock price averages all rose to new highs for the year last week, although the net advance was relatively moderate despite increased trading activity. Industrial stock prices in London, after an extended period of narrow price changes, advanced last week to the highest level since September 1937.

Department store stocks: At the end of May, department store stocks were 30 percent below last year's level, with all major items showing declines except furs and women's dresses. The WPB has launched a six-point program designed to forestall the necessity of clothes rationing. In addition to other features, retailers will be expected to discontinue "scare" sales talks and undue advertising and promotional activity.

Oil supplies: East Coast stocks of petroleum products available for civilians have continued to rise, and in the week ended July 10 reached 34.0 percent of normal, as compared to a record low of 25.5 percent in the first week of May. Sharp differences of opinion continue to exist between the OPA and the PAW with respect to gasoline rationing and the need for higher crude oil prices.

- - -

Further cuts in living costs sought by Price Administrator

In reply to charges of confusion and lack of policy in the OPA, Price Administrator Brown indicated last week that the basic aim of the OPA is to reestablish the general relationship of prices and wages which prevailed on September 15, 1942. This will obviously be a difficult task. Despite some reduction in June resulting from lower food costs, the BLS index of living costs for the month will still show an increase of at least 5 percent over last September. The Price Administrator states that this increase must be erased to avoid unfairness to labor; consequently he will press the subsidy rollback program on meats and butter, along with other measures, in order to cut back living costs.

In this connection, President Murray of the CIO stated last week that his organization will withhold for the present a threatened campaign against the "Little Steel" formula and the hold-the-line order. Last month the CIO leader issued a virtual ultimatum to the effect that unless an effective rollback of prices were carried out by mid-July his union would demand that the "Little Steel" formula be scrapped.

Commodity prices steady

Commodity price averages show little net change in the latest weeks reported. The BLS index of basic commodity prices sagged fractionally last week, with further declines in wheat, steers, and cotton, which were largely offset by an upturn in hog prices and a continued advance in the price of rosin. (See Chart 1.)

Wheat prices declined last week under increased hedge selling, more favorable crop reports, and on the Price Administrator's statement that no increase in the corn ceiling was contemplated. A group of wheat state senators, however, led by Senator Reed of Kansas, last week called for an increase in the present "clearly illegal" flour ceiling and an advance of about 20 cents in wheat prices to the parity level. Apparently influenced by this pressure, the Price Administrator said at a press conference on Thursday that forces beyond his control might bring about a price increase on wheat, but that Commodity Credit funds would be used, if necessary, to stabilize bread prices within hold-the-line limits.

The BLS all-commodity index in the week ended July 10 held unchanged at 103.0 percent of the 1926 average, after the substantial decline of 1 percent in the previous three weeks. (See Chart 2.) The earlier downturn had been due almost entirely to the rollbacks in meat and butter prices, together with weakness in live hog prices and a seasonal price decline for fruits and vegetables.

Corn-hog price problem somewhat less urgent

A decline of fully 2 cents a pound in hog prices over the past 3 months has reduced the profit in feeding corn to hogs, and should thereby help, at least temporarily, to make more corn available for other uses. The waning of agitation for a higher cash price for corn may also bring some increase in sales by farmers. Price Administrator Brown said last week that the corn price ceiling would be kept at the present level, and that corn is moving to market "now that price uncertainties have been eliminated." Food Administrator Jones also mentioned an accelerated movement of corn from farms. However, the statistics on corn receipts at leading mid-western markets show no recent increase.

As an aid in correcting the corn-hog price disparity, press reports last week indicated that the OPA and WFA may announce soon that they do not intend to support hog prices at $13.75 after September 30, 1944, when the present commitment expires. An announcement of this intention now would tend to discourage a further expansion in the hog crop, and perhaps to discourage the feeding of hogs to heavy weights. Some such change in feeding habits, and probably even more drastic changes, will be necessary to prevent a more serious corn shortage next year.

Heavy hog marketings congest packing plants

The continued heavy marketings of hogs, which have been chiefly responsible for the declining trend of hog prices over the past three months, reached proportions early this month that taxed the capacity of packing plants. The situation over the Fourth of July holiday, according to the latest Department of Agriculture report, "proved too much for many plants throughout the country, when capacity became congested, and prices declined badly. Not in years has such a condition existed, evidencing the toll of war in man-power from the packing industry, labor apparently being the main bottleneck."

The extent of the decline in hog prices over the past 3 months is indicated in Chart 3, which shows also the effect

of the recent rollback on wholesale prices of hog products. The packers' gross margin on pork products for civilian use, as shown by the lower line on the chart, has again reached a relatively profitable level after allowance for the subsidy payment.

Increased food goals for 1944 announced

The Department of Agriculture announced last week its general food production goals for 1944, apparently those largely formulated under the previous Food Administrator. A record crop area of 380,000,000 acres is called for, as compared with 364,000,000 acres this year. The principal increase will be in the acreage of wheat--an increase probably easiest to attain--for which the goal is set at 26 percent above that of the current year.

Specific goals for other crops and for livestock will be announced later, when the feed supply and crop production figures for the current year are more accurately known. Further sharp acreage increases for such important war crops as peanuts, soy beans, flaxseed, and potatoes are expected. Press reports indicate that the Food Administrator intends to present the detailed plans to Congress before putting the program into effect.

Stock prices advance to new highs

The Dow-Jones average of railroad stock prices finally rose above the previous 1943 high on Tuesday of last week, following previous new highs for the industrial and utility groups. Some observers interpreted this move as a signal for a further general rise in stock prices, but despite fairly active trading, prices on the whole were unable to make any further real headway during the week. At the close on Saturday industrials were only fractionally higher than a week earlier, while railroad and utility stocks showed gains of 2 percent and 1 percent, respectively. (See Chart 4.)

Since last January, industrial stock prices in the London market have levelled out, while industrials on the New York exchange have continued to advance. As a result, the disparity which began to develop in the closing months of 1941 has now been substantially reduced. (See Chart 5.) However, aided by the favorable course of war developments, the London market recently has shown some signs of resuming its earlier rise. Thus as a result of steady gains last

week, industrial stock prices in London on Friday touched the highest level since September 1937. (The persistent rise in our market since early May last year, when the war news took a more favorable turn in the battle of the Coral Sea, will be particularly noted on the chart.)

Department store stocks much below 1942 levels

Although seasonally-adjusted department store sales in recent months have fallen below the boom levels of the early part of the year, they have continued to make a strong showing, with the FRB index of sales in June rising to 129 from 125 in May. (See Chart 6.) The continuing strong pace of sales has prevented any significant recovery in the FRB index of department store stocks, which on an adjusted basis declined almost without interruption from the peak of 140 last July to 87 in April. A slight recovery carried the adjusted index of stocks up to 89 in May, with figures for June not yet available. (Refer to Chart 6.)

At the end of May, department store stocks were 30 percent below the corresponding date in 1942. The widest decline occurred in stocks of major household appliances, which were down 73 percent from last year's level. Of all items separately classified, only women's dresses and furs showed gains over stocks on hand at the end of May 1942.

WPB launches program to forestall clothes rationing

Asserting that there is a supply of textiles and textile products adequate to meet all military and essential civilian needs, WPB Chairman Nelson last week announced a six-point program intended to make clothing rationing unnecessary. A feature of the program will be an attempt to accelerate output of mass produced low-priced clothing, in contrast with recent trends toward emphasis on expensive fabrics. Production of essential textiles is expected to be maintained at present record levels, and wherever possible it will be stepped up.

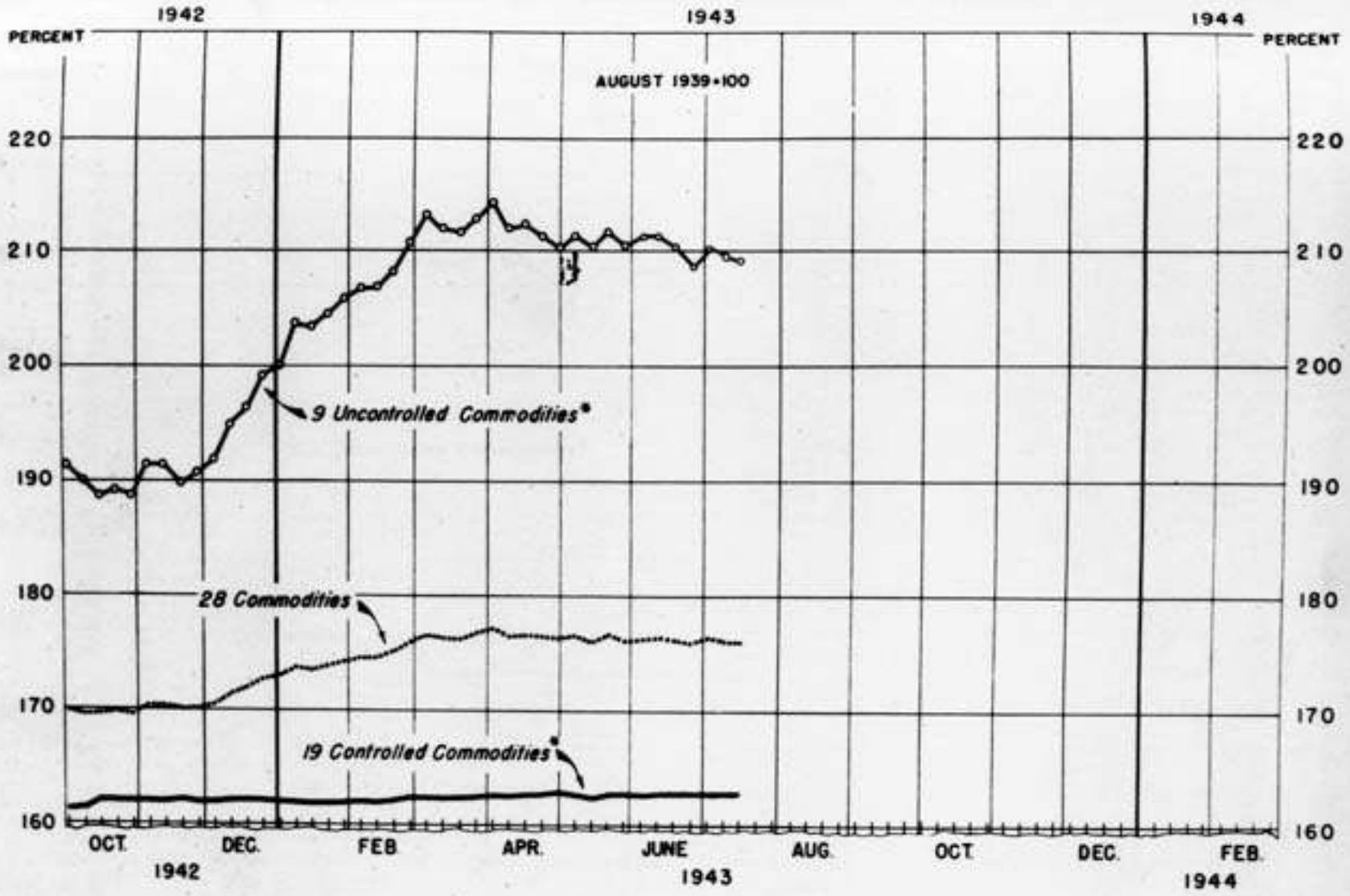
In addition to other measures, burlap imports are to be increased as a result of the reopening of the Mediterranean, and this is expected to release cotton now going into the manufacture of bags for farm crops. In order to achieve adequate and orderly distribution of available goods, a program is also under way in the retail field whereby stores will agree to discontinue "scare" sales talks as well as advertising and promotional activity designed to incite unwarranted consumer buying.

East Coast oil supplies improved

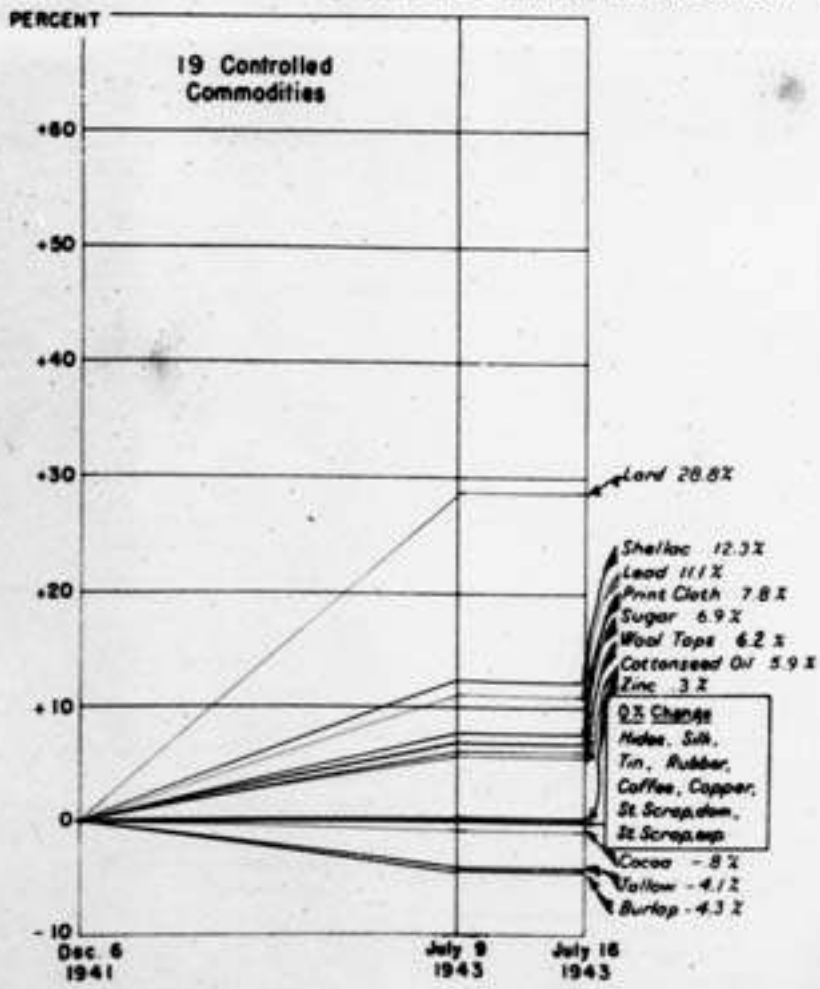
After falling to a record low of 25.5 percent of normal in the first week in May, East Coast stocks of petroleum products available for civilians have shown a steady rise in recent weeks and reached 34.0 percent of normal in the week ended July 10. (See Chart 7.) In view of the recent improvement in supplies, Price Administrator Brown expressed the opinion last week that gasoline supplies of Eastern motorists have been cut too sharply. However, this point of view was promptly challenged by the Petroleum Administrator, who stated emphatically that East Coast civilian consumption of gasoline cannot be increased except at the expense of military operations. To further emphasize the divergence of viewpoints on the East Coast gasoline situation, Transportation Coordinator Eastman has just stated that the present reduced gasoline allotment for civilians impairs essential transportation, and that he is in favor of doubling the present A coupon allotment.

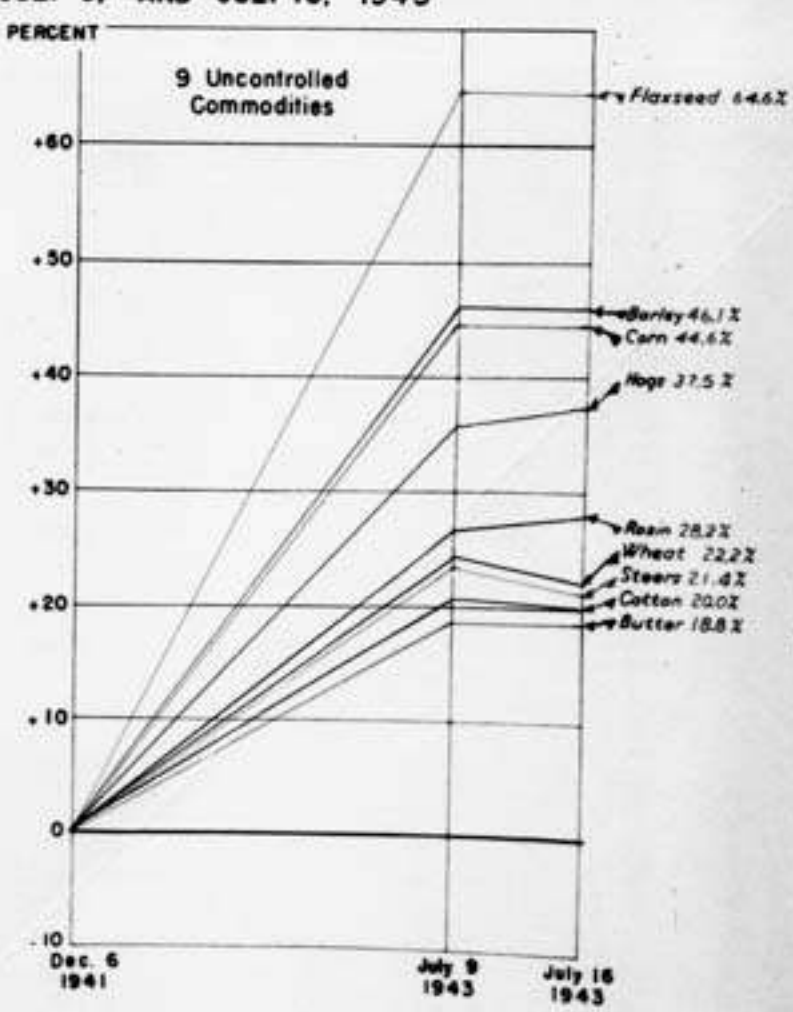
In a new effort to get at the root of the problem, the Director of War Mobilization last week opened what was described as a thorough investigation of the domestic gasoline and fuel-oil situations. In addition to conflicts over rationing, the controversy over crude oil prices is still hanging fire. Two Congressional committees recently added their recommendations to that of the Petroleum Administrator that crude oil prices be raised as a stimulus to production. However, OPA has refused to recede from its position that a general crude oil price advance is unwarranted, and would constitute a violation of the hold-the-line policy.

MOVEMENT OF BASIC COMMODITY PRICES



PERCENTAGE CHANGE DEC. 6, 1941 TO JULY 9, AND JULY 16, 1943





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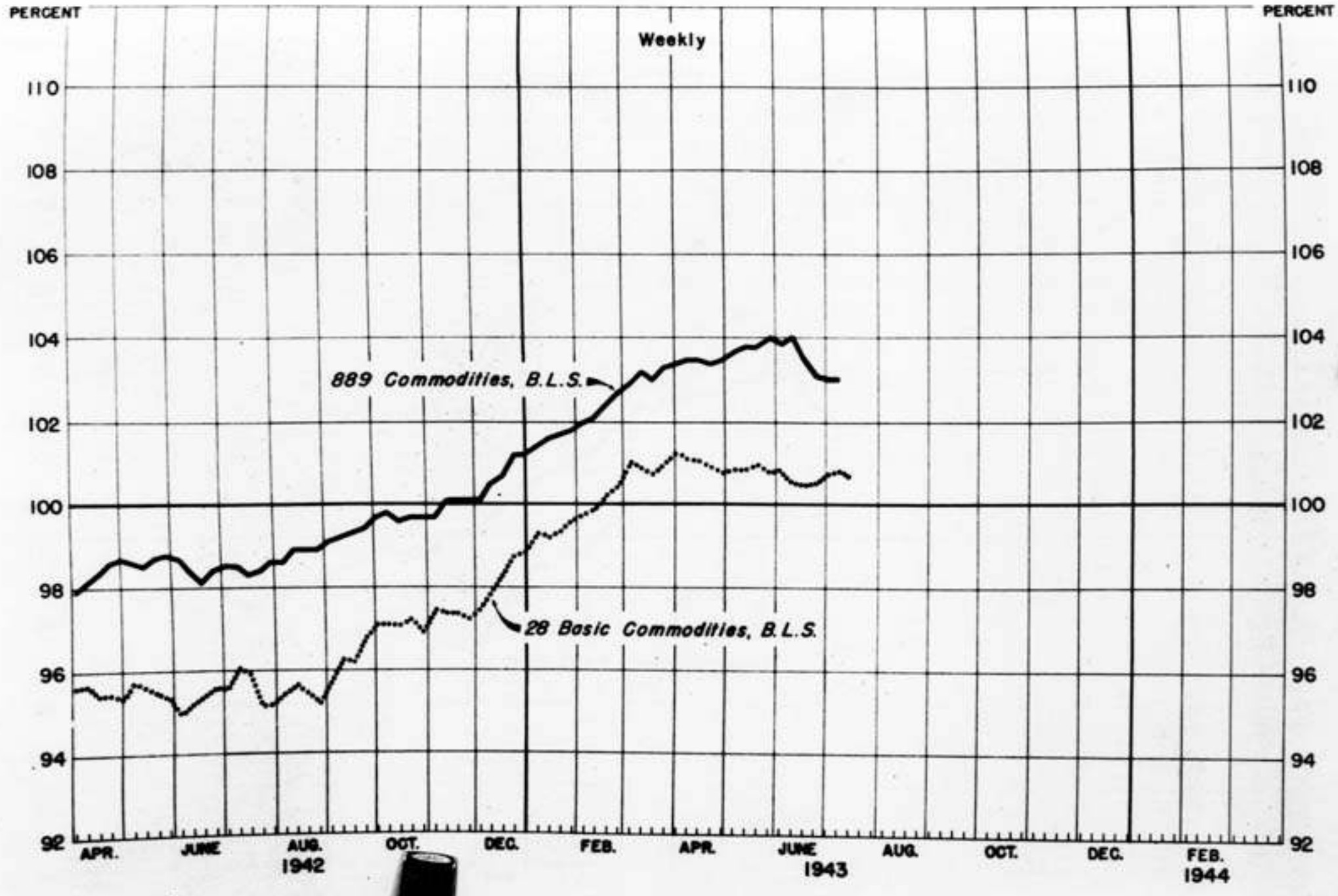
*20 Controlled 8 Uncontrolled previous to June 26, 1942

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

P-244-A
Chart 1

COMMODITY PRICES

1926 = 100



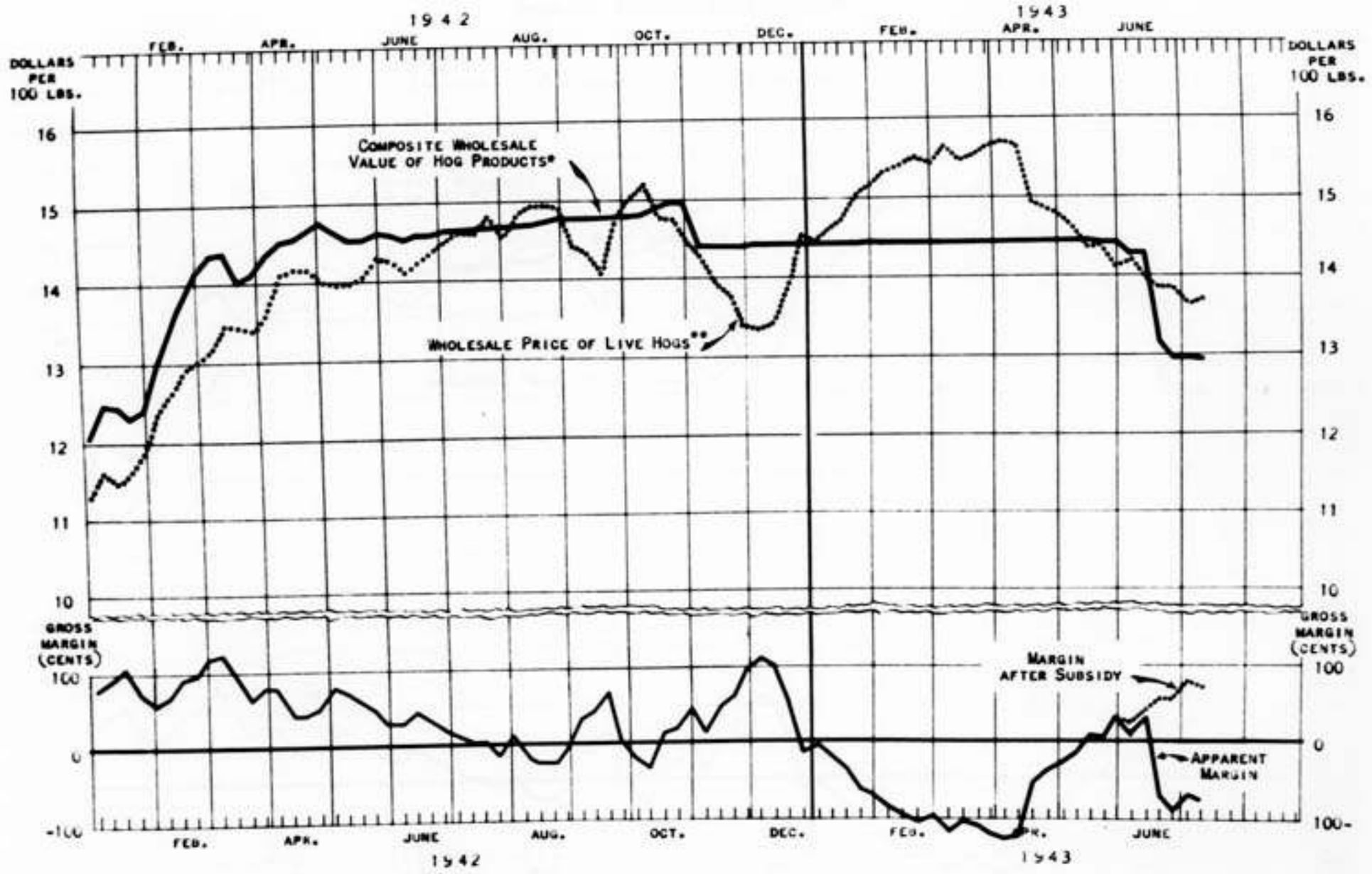
Office of the Secretary of the Treasury
Division of Research and Statistics

P-196-F

Chart 2

HOG PRICES, VALUE OF PORK PRODUCTS, AND GROSS MARGINS

Weekly, January 1942 to date



* WHOLESALE VALUE OF ALL EDIBLE PRODUCTS IN 100 LB. OF LIVE HOGS.
** GOOD CHOICE, 180-200 LBS.

SOURCE: U.S.D.A

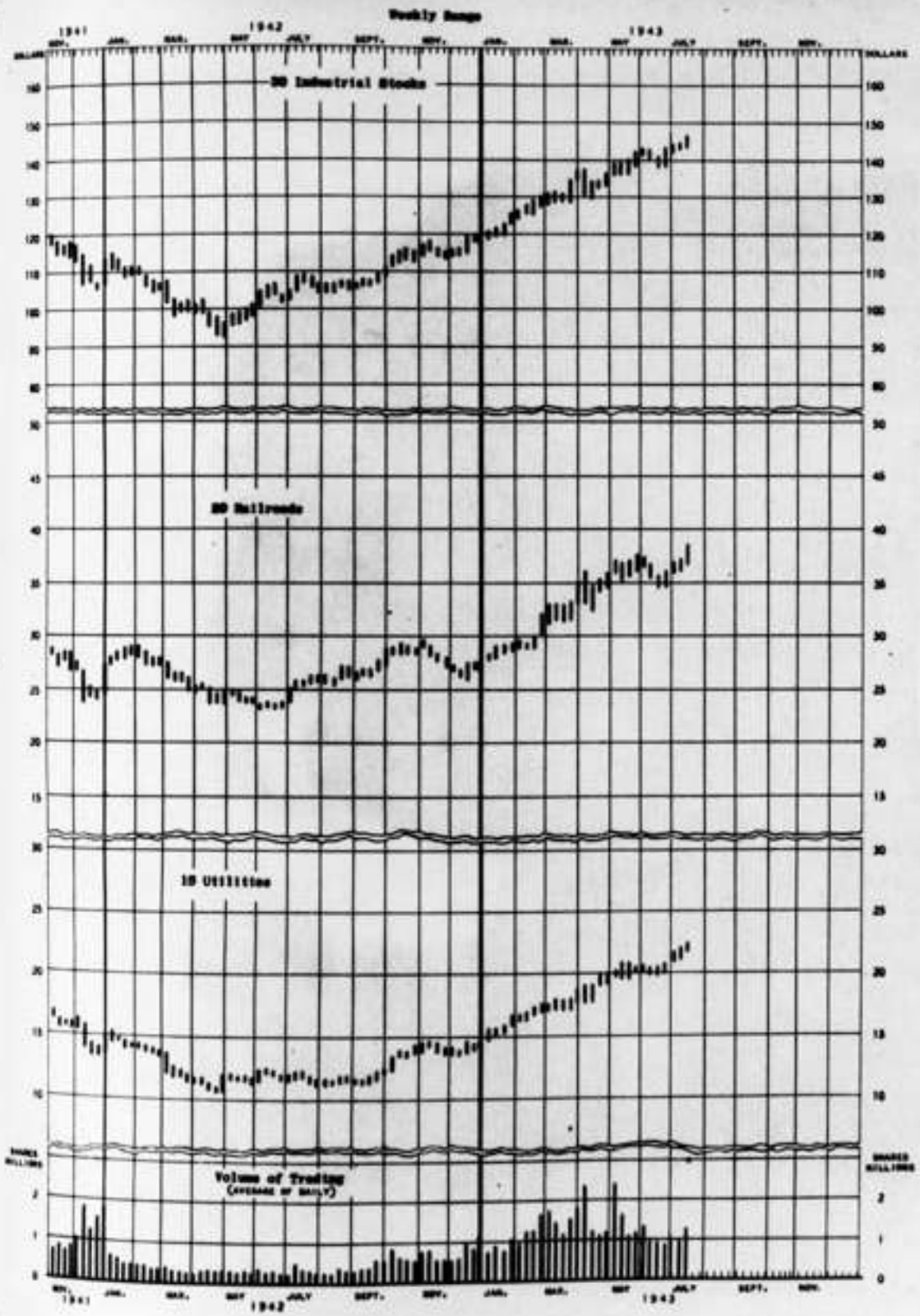
Office of the Secretary of the Treasury
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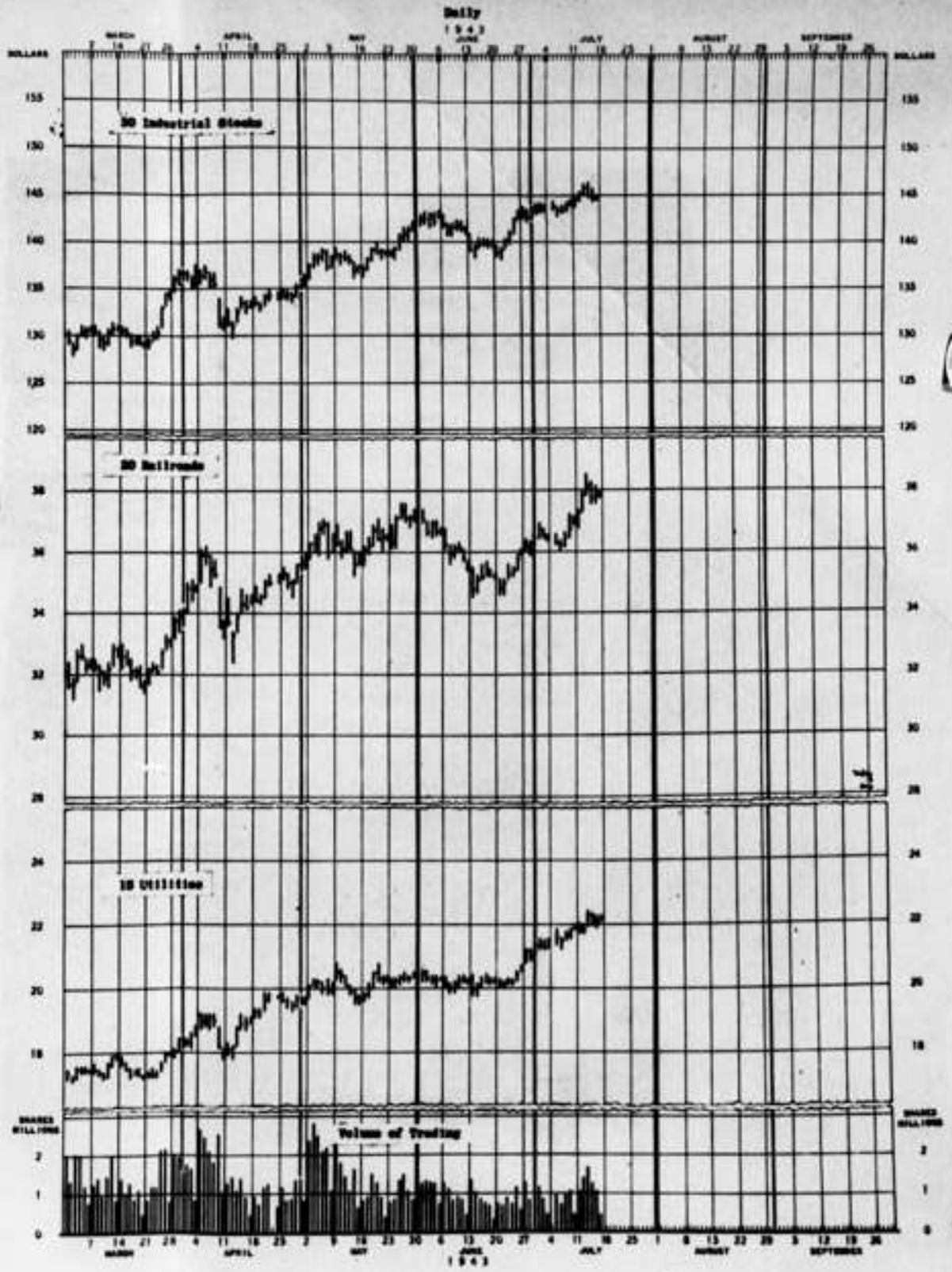
Chart 3

P - 246 - A

STOCK PRICES, DOW-JONES AVERAGES

Chart 4



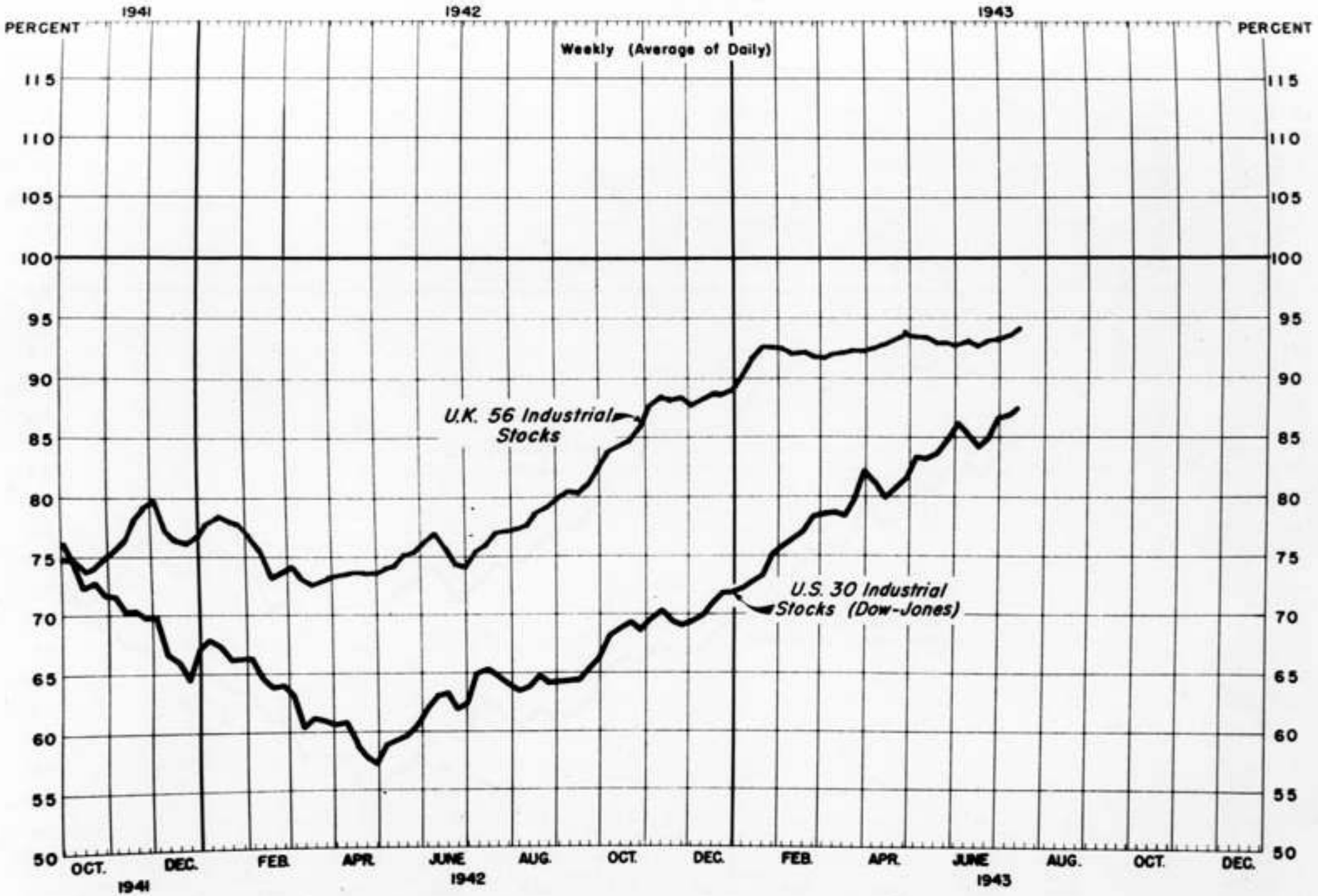


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P - 144 - J

INDUSTRIAL STOCK PRICES IN U.S. AND U.K.

AUGUST 1936 • 100



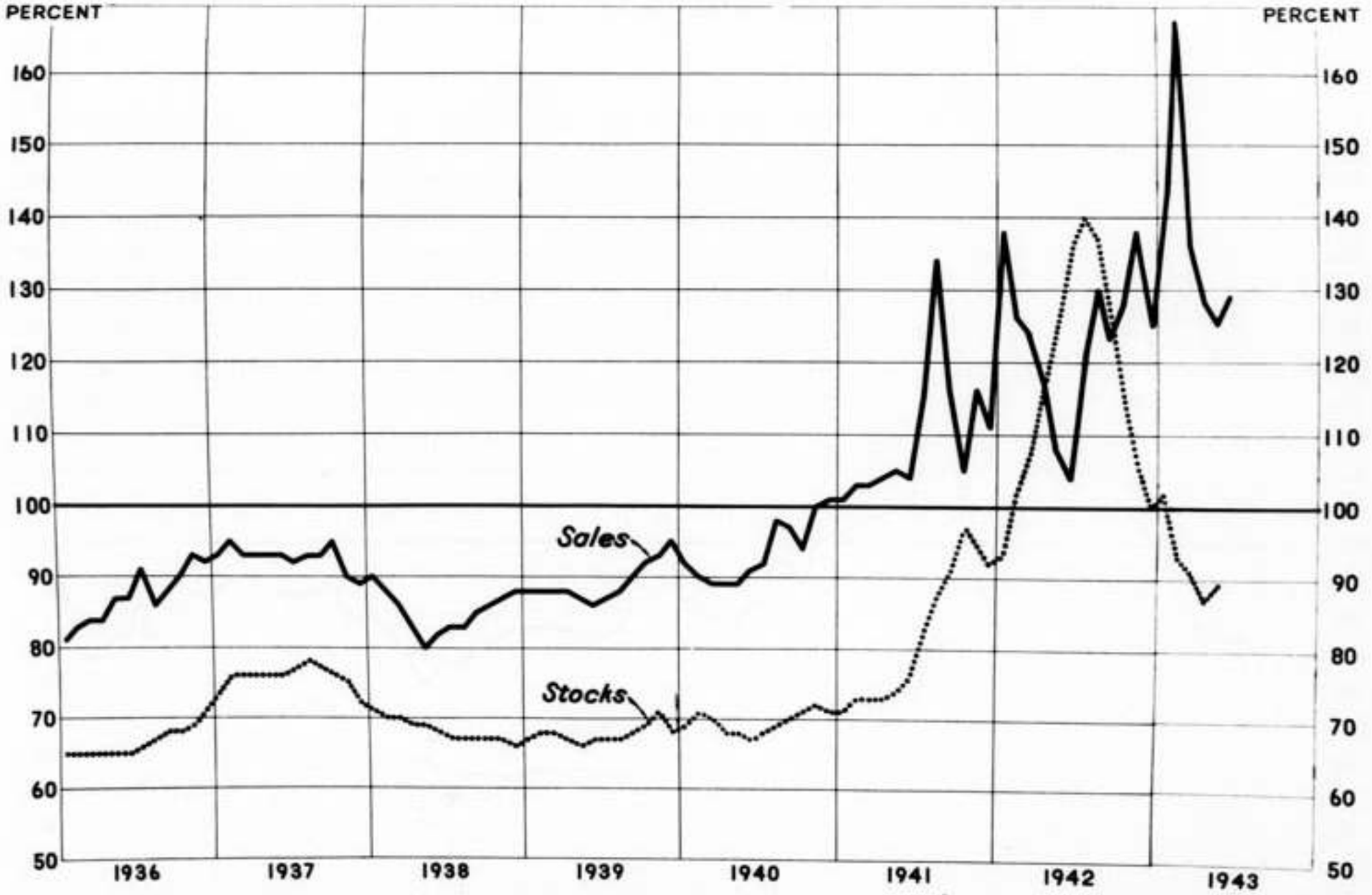
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Division of Research and Statistics

FO-156-8

Chart 5

DEPARTMENT STORE SALES AND STOCKS

Dollar Values, 1923-25 = 100, Adjusted



Source: Federal Reserve Board

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

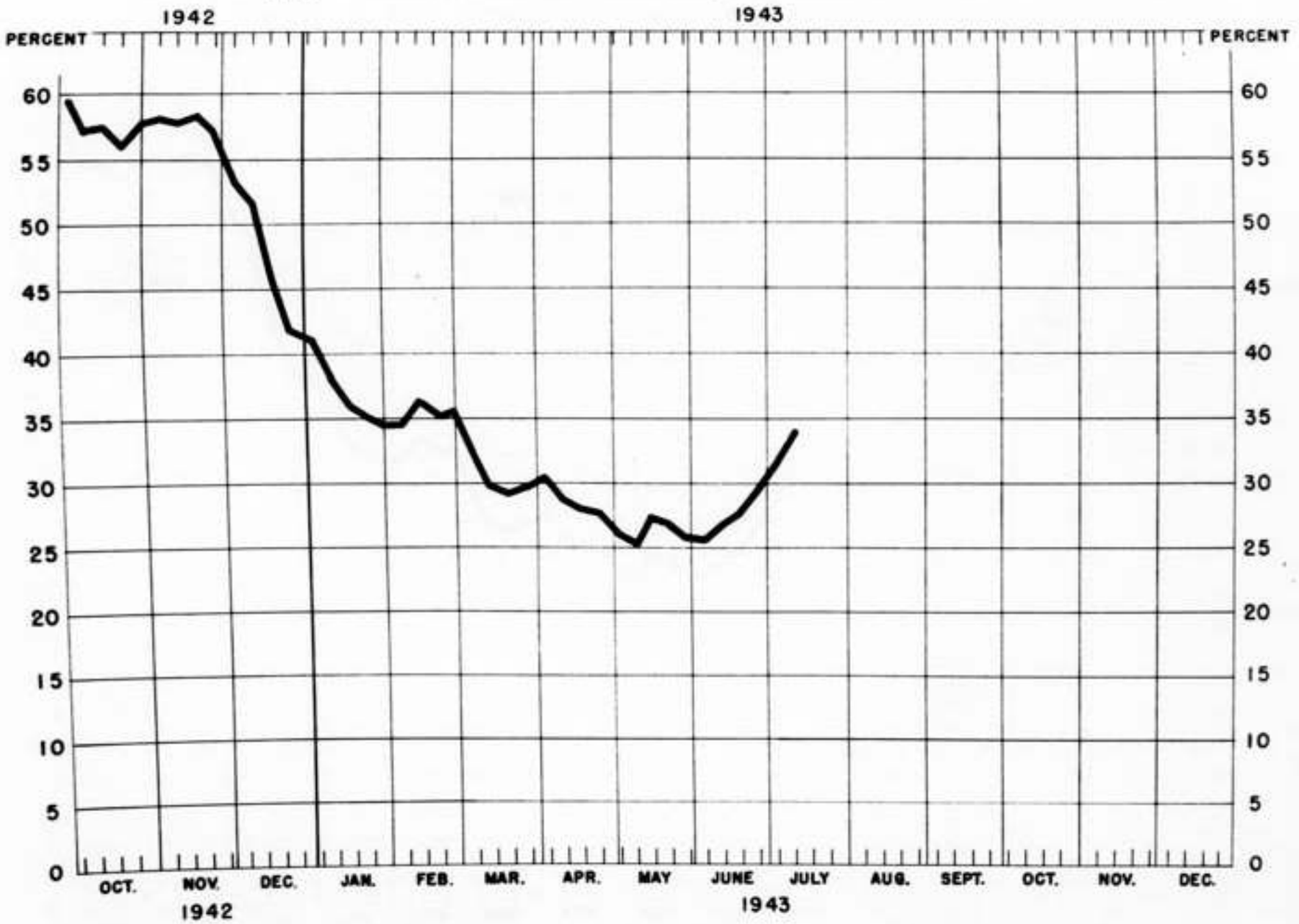
C-430

Chart 6

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PETROLEUM PRODUCTS SUPPLY

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



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

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

C-474-A

Chart 7

Farm

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE JUL 19 1943

TO Secretary Morgenthau

FROM Captain Kades

1. You have asked how much beef, pork, and lamb is eaten at hotels and restaurants. It has been roughly estimated at OPA that about 13% of the existing total civilian supply of meat is consumed at restaurants and by institutional and industrial users. In other words, about 171,000,000 pounds of meat (carcass basis) out of a total of 1,273,000,000 pounds (carcass basis), is eaten at meals served at hotels, restaurants, cafeterias, hospitals, and other institutions.

2. You have also asked about the possibilities of putting restaurants on a point ration system so far as beef, pork, and lamb are concerned. There seem to be four main reasons why this has not been done, as follows:

a. There is a definite recreational value inherent in eating out during wartime. If meat were rationed in restaurants, it would be less desirable to eat out and this form of recreation would be discouraged.

b. Many administrative difficulties are involved, such as weighing portions of meat served and requiring fractional points.

c. The meat situation is not sufficiently critical to warrant point rationing in restaurants.

d. Communal feeding, such as takes place in hotels, restaurants, and cafeterias, is the least wasteful method of utilizing food supplies because the waste per person served is less than at meals served at home.

3. OPA regulations restrict the amount of meat and other rationed foods which may be obtained by any

institutional user. A base has been established for each institutional user for rationed foods based upon the amount of such food used and the total number of persons served during December 1942.

In addition, no wholesaler, hotel supply house, or other similar selling institution is allowed to sell fabricated meat cuts exceeding in volume 70% of the total volume by weight of all kinds of meat sold from September 15, 1942 through December 15, 1942. Hotel supply houses which customarily select, age, bone, and fabricate primal cuts into roasts, steaks, and stews, may, however, charge 20% more than the zone price for these services.

In the case of lamb and mutton, fabricated cuts are not available to retailers.

4. Any solution of the problem of eliminating the discrimination between those who eat at hotels and those who eat at home tends to become very complicated as an administrative matter and might well encourage black market operations on the part of expensive hotels and restaurants which would seek to keep their well-to-do clientele satisfied.

It is difficult to suggest a substitute for OPA's policy of allowing restaurants to serve rationed food without requiring coupons. The principal objection to this policy is that it tends to favor higher income groups. This criticism would lose considerable force if industrial canteens and communal feeding centers were subsidized, as in England, because this would bring eating out within the means of practically every income group.

As a possible alternative, it is suggested that the amount of choice cuts of meat available in hotels and restaurants could be reduced by imposing price ceilings on the meals served. This would probably result in limiting the number of courses, the size of the portion, and the quality of the meat.

O.K.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 7/14/43

TO Captain Kades.

FROM The Secretary.

All of these people who live at hotels or eat at lunch rooms are getting away with murder and I don't see why they shouldn't have to give up points, more particularly for meat. I remember during World War I when I was in Paris if you wanted bread when you went to a restaurant or hotel you had to give up points before you could get bread and it would be interesting if you could find out from O.P.A. how much beef, pork and lamb is eaten, in other words are consumed at hotels and restaurants and the posibilities of putting those on points if it would help the shortage situation greatly. It seems to me that they have left a great big wide gap in the dam which ought to be stopped up. I'd appreciate it if you would look into this promptly and let me know.

you phoned Patterson

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUL 19 1943

TO Secretary Morgenthau

FROM Randolph Paul

The Attorney General has written the President criticizing the action taken by the Secretaries of War, Navy and Treasury and the Chairman of the Maritime Commission in defining the so-called "raw materials" provision in the renegotiation statute.

The President sent the Attorney General's letter and memorandum to Under Secretary of War Patterson with instructions to "clear" it with the other interested agencies. Judge Patterson is to talk with the President about the matter Wednesday morning.

Mr. Marbury, Chief Counsel of the Purchase Division of the War Department, and Mr. McIntosh, Counsel for the War Department Price Adjustment Board, were in to see me this afternoon about the matter and I told them I would try to have some word for them as to your position before Judge Patterson talks with the President.

It seems to me very important that the agencies responsible for the interpretation with which the Attorney General has taken issue present a united front in this matter. The interpretation in question was made last January, after several weeks of discussion, during which time the interpretation suggested by the Attorney General was given careful consideration and discarded.

Have I your permission to tell the Under Secretary of War that the Treasury Department is in its corner on this matter?

RPP

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SECRET

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

July 19, 1943

MEMORANDUM TO THE SECRETARY:

Supplementing report to you of July 12, 1943, the purchases against the African Program from July 12, 1943, to July 18, 1943, totaled $1,886,964.20 or a total of purchases for the program thus far of $43,850,007.94.

Please note the commodities on the attached report giving status of shipping against these purchases have been consolidated under certain headings, due to the diversified and numerous items now being reported.

Future reports will be submitted in this manner as the list of items will increase from week to week.

Clifton E. Mack
Director of Procurement

FOR VICTORY BUY UNITED STATES DEFENSE BONDS AND STAMPS

(37861)

SHIPPING REPORT AS OF JULY 17, 1943

SECRET

Commodity	Tonnage Shipped to Date From U. S. A.	Tonnage Under Load At Port	Tonnage On Hand at Port Waiting Vessels	Tonnage En Route To Port
Agricultural Machinery & Implements	1234		305.63	473.33
Automotive Equipment & Parts	558.74	45	155.92	93.51
Batteries	82.76		42.99	7
Bearings	1.5		1.57	1.28
Brass & Bronze	288.4		64.5	75.6
Brushes & Brooms			.75	
Building Hardware & Material	174.71	4.5	23.54	57.5
Chemicals	13,641.21	1668.72	2417.27	4797
Clothing, Notions & Textiles	14,831.19	223.62	1754.9	4282.45
Copper in Various Forms	208.04		106.6	56.07
Electrical Equipment & Supplies	48.82	7	15.2	16.8
Explosives	1.4			
Ferro-Alloys	44			
Food & Food Products	6032.25			
Furniture & Office Equipment		.5		
Glass	99.6	28	38	195.3
Graphite Products	18.41		10.78	5.5
Hand & Cutting Tools	586.32	18.5	421.7	564.8
Industrial Machinery	25.16	4.5	18.12	
Iron	65	490		121
Jute Bags	751.19	33.55	555	
Lead & Lead Alloys	53.85			
Medical Supplies	41.12		28	
Non-Ferrous Metals, Other	64	322	24	
Paper & Paper Products	2861	190.6	581.49	128.67
Rope & Twine	241.55	23.95	26	
Rubber	599.97	76.97	256.21	372.66
Shoes & Boots	229.75	24	173.18	105.5
Steel, Carbon	6144.24	211.5	3421.43	1256.79

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SECRET

Commodity	Tonnage Shipped to Date From U. S. A.	Tonnage Under Load At Port	Tonnage On Hand at Port Waiting Vessels	Tonnage En Route To Port
Steel, Pipe & Tubing	200	16	27.91	
Tin Plate	845			
Zinc				27.5
Totals	48,973.18	3,393.76	10,470.69	12,638.26

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BRITISH AIR COMMISSION

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

ASE QUOTE

ERENCE NO.....

With the compliments of British Air Commission

who enclose Statement No. 94 — Aircraft Despatched

— for week ended July 13, 1943.

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

July 19, 1943.

OST SECRET

STATEMENT NO.94

Aircraft Despatched from the United States

Week Ended July 13, 1943

TYPE	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT DELIVERED FOR USE IN CANADA
CONSOLIDATED					
Liberator GR V	U.K.	U.K.		1	
CURTISS					
Kittyhawk	Australia	Melbourne	30		
Kittyhawk	Australia	Sydney	8		
Kittyhawk	M.E.	Port Sudan	61		
DOUGLAS					
Dakota III	M.E.	M.E.		3	
FAIRCHILD					
Cornell PT 26	India	Bombay	1		
GRUMMAN					
Hellcat	U.K.	U.K.	2		
LOCKHEED					
Lodestar	New Zealand	Auckland	1		
GLENN MARTIN					
Baltimore V	M.E.	M.E.		3	
NORTH AMERICAN					
Mitchell II	U.K.	U.K.		1	
Hargard	M.E.	Port Sudan	6		
Harvard	U.K.	U.K.	4		
Mustang	U.K.	U.K.	1		
VEGA					
Ventura GR V	Canada	Canada			6
VULTEE					
Vengeance	India	Karachi	6		
		Total :	120	8	6

British Air Commission
Movements Division
July 17, 1943.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUL 19 1943

TO Secretary Morgenthau

FROM Randolph Paul

Reference is made to the previous memorandum sent to you on July 1, 1943, with respect to the proposal of the World Jewish Congress dealing with the evacuation of several thousand Jews from Rumania.

This matter has been thoroughly discussed here in the Treasury and we have advised State informally that Treasury is prepared to approve the necessary transactions on the basis of the facts now before us.

We shall keep you advised of developments.

COPY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, CHUNGKING
TO: SECRETARY OF STATE, WASHINGTON
DATED: JULY 19, 1943
NUMBER: 1199

CONFIDENTIAL

Given below is the summary by the Commercial Attache of the newly instituted monthly economic review for Free China.

Throughout Free China crop prospects were greatly improved by the widespread rains in June, thus relieving fears of a shortage of food and causing prices of rice and wheat to decline from the extreme peaks reached in early June. Although an increased production of cotton has been expected in 1943 as results of efforts by the Government, the prices of cloth continued to rise with an advance in the Chungking black market prices of 17% in June. Prices of food in Chungking were generally moderate and there was a 20% advance in coal prices. It was reported that price advances were greater in other centers notably Honan and Shensi where large numbers of troops were stationed. Although figures for June were lacking it is estimated that monthly (*) while increase continued around 10% in the general price index and 7 to 8% in note circulation.

On June 1 the Chinese Government offered a new victory bond issue of three billion Chinese dollars at 6% interest. It will probably remain largely in Government bank portfolies like previous issues and have no significant effect on inflation. A temporary suspension of restrictions against domestic trading in gold and organization by Central Trust of an investment trust were among other moves undertaken in June to stem inflation but neither of these is expected to be very effective. Currency inflation continued in the mean time to increase at a rate of over three billion Chinese dollars monthly.

New industrial enterprises started in June included a cigarette factory and a ten thousand spindle cotton mill, both at Yunnan. In Yunnan several small alcohol distilleries were closed and it was reported that the remaining distilleries in Yunnan were operating at a small fraction of capacity because of shortages of raw material. On June 3 a complete reorganization of Chinese industrial cooperatives was begun.

It was announced that on July 1, two leading government owned bus companies, Southwest Transport Company and China Transport Company, would merge in the interest of economy and efficiency. There has been a suspension of commercial air service to Kweilin. The 1943 export quota for tea was fixed to 200,000 chests but the quantity shipped will depend on shipping priority and markets. On June 1 chartered bank opened Chungking branch making the second British bank branch in Chungking.

From June 1 to June 9, the production conference which the Government called met at Chungking with a preponderance of the private industrial delegates to discuss means of increasing production. During the conference many resolutions were passed but it is doubtful if they will carry much weight with the Government. Preparatory to drawing up comprehensive post-war reconstruction plans for the northwest provinces, a commission of twenty experts in various fields was sent by the Central Planning Board to make a thorough study of those provinces.

ATCHESON

(*) Apparent ommission

JUL 19 1943

To: Mr. Livesey

From: Mr. White

Will you please send the following telegram to the American Embassy, Chungking, China:

SECRET

TO ADLER FROM THE SECRETARY OF THE TREASURY:

1. A number of reports have been received to the effect that Japanese have gone in for large scale counterfeiting of Chinese currency.

2. If the reports are true, have there been, as yet, any observable consequences and what measures have been taken by the Chinese Government to cope with the problem?

3. The Treasury would appreciate receiving any information and views you may have regarding this matter.

ISF/efs 7/17/43

OFFICE
SECRETARY OF TREASURY

1943 JUL 20 AM 11 37

NOT TO BE RE-TRANSMITTED

TREASURY DEPARTMENT

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 236.

Information received up to 7 a.m., 19th July, 1943.

1. NAVAL

Considerable damage and casualties were caused when a ship loading mines and other captured German war material blew up in ALGIERS Harbour on the 16th. Two Norwegian ships of 7,000 and 2,000 tons respectively became total losses as result of explosion.

2. AIR OPERATIONS.

WESTERN FRONT. 18th. Escorted Typhoons bombed ABBEVILLE Airfield and Railway Centre and escorted Beaufighters attacked a convoy off DEN HELDER, damaging 1 ship. Enemy casualties - 8, 0, 3. Ours - 9 missing.

18th/19th. Aircraft despatched: Sea-mining - 16, Intruders - 12. All returned safely.

SICILY AND SOUTHERN ITALY. On 16th/17th and 17th, a total of 693 tons were dropped on NAPLES. Night attack by Wellingtons. Day attack by Fortresses, Liberators and Medium Bombers with escort of 174 Lightnings. Hit registered on Railway Centre Royal Arsenal and Oil Storage Area.

16th/17th. Our fighters damaged 2 schooners in the GULF OF TARANTO and light and medium bombers dropped 55 tons on CAPODICHINO Airfield and 32 tons on CATANIA.

17th. Mitchells dropped 34 tons on PATERNO. During these operations enemy casualties - 39, 10, 13. Allied - 9 Bombers missing.

July 20, 1943
9:50 a.m.

HMJr: Hello.

James Byrnes: Henry?

HMJr: In person.

B: How are you?

HMJr: Fine.

B: Yesterday I had the representatives - the heads of these agencies buying stuff abroad - BEW and Rockefeller and Ed Stettinius here with State Department....

HMJr: Yeah.

B: ....and State Department had a suggestion as to the relations existing between those agencies and the State Department which when I considered them, I saw would also affect some of the departments like Army and Navy and Treasury....

HMJr: Right.

B: ....and I'm going to send - I asked them to put in writing....

HMJr: Yeah.

B: ....that ~~is~~ what they had in mind after the discussion yesterday. I'm going to send you a copy of it and then I thought next Monday when we meet, I would like to ask you, or if you don't want to come to send somebody to represent your views.

HMJr: Good.

B: In sending it I was going to ask though that you ask your fellows if they wouldn't send me in letter form, as promptly as they could, before the meeting because I want to get these fellows working and they'll probably get together on it among themselves this week....

HMJr: Good.

B: ....and I wanted the departments like Army, Navy and Treasury to see if they had any objections....

HMJr: When will I receive it, Jimmie?

B: They were to send it to me today and....

HMJr: Yeah.

B: ....I'll promptly send it over to you.

HMJr: Well, we'll give you twenty-four hour service.

B: All right. I telephoned you yesterday and they said you were out of town.

HMJr: Well, I've been - I'm up there with Mrs. Morgenthau....

B: Tell me, how is she?

HMJr: She's still at the hospital. I try to spend Mondays there.

B: Right you are.

HMJr: Well, we hope....

B: Is she improving?

HMJr: Yes, we hope she will go up home Saturday.

B: Good.

HMJr: And I'll most likely stay up there over Monday again with her.

B: Well, after a long stay....

HMJr: It's almost....

B: ....she'll be delighted to get back home.

HMJr: It's almost nine weeks now.

B: Good gracious.

HMJr: It's been terrible for her.

B: Yeah. I everybody has - it's been terrible on you and everybody else, too.

HMJr: Well, I - it's worse on her.

B: Oh, the person in the hospital has my sympathy always. Henry.

HMJr: Yes.

B: I sent you - I got Mr. Russell to take over to Fitz-Gerald....

HMJr: Yes.

B: ....that - those papers.

HMJr: Oh, yeah.

B: I determined that - after I had read them through - that....

HMJr: Yeah.

B: ....I'd better not do - better not talk to those fellows about it.

HMJr: I see.

B: It's one of those things you - you never know how they....

HMJr: Yeah.

B: ....they get mad about an appointment tomorrow....

HMJr: Yeah.

B: ....and with the Boss....

HMJr: Yeah.

B: ....and then they - you don't know how they act and you better not - I think we better let them alone.

HMJr: Did you get a - did you get a - I sent you a copy of what I sent to the President on this - uh - from the Labor Council.

B: I didn't get....

HMJr: Last week....

B: Well, I'll inquire.

HMJr: What's his name - the man who's counsel for the - oh, he comes from Wisconsin. He was the dean out there.

B: With who?

HMJr: The dean of Wisconsin Law School.

B: Oh, Lloyd Garrison?

HMJr: Yeah. I sent you a memorandum from him.

B: On this?

HMJr: Yep.

B: I didn't - I'll get my secretary here. It must be....

HMJr: Yeah. I sent copies to the President and then....

B: Fine.

HMJr: ....I wrote the President and I sent you copies of what I sent him and I marked it"Extra Confidential."

B: Fine.

HMJr: And....

B: I bet it's in my lock drawer.

HMJr: And there was a hypothetical question we put up to Lloyd Garrison and he answered....

B: Yes.

HMJr: ....and when you see what he said, I think you'll be interested.

B: I will. Thanks, Henry.

HMJr: Right.

B: I'll look for it. Good bye.

HMJr: Good bye.

July 20, 1943
10:20 a.m.

THIRD WAR LOAN DRIVE

Present: Mr. Bell
Mr. Gamble
Mr. Smith
Mr. Haas
Mr. Coyne
Mr. Burgess
Mr. Myers
Mr. Moore
Mr. Trounstine
Mr. Pulliam
Mr. Head
Mr. McClintic
Mr. Isbey
Mr. Roberts
Mr. Collins
Mr. James
Mr. Mayer
Mr. Ball
Mr. Corbin
Mr. Kelley
Mr. Potter

H.M.JR: We asked you gentlemen to come in today to really work with us. We are trying, between now and Friday, to fix what we call the basket and, after all, if we don't give you the right kind of merchandise, the best salesman in the world can't sell it. We wanted to be sure that it was right.

Now, we have two objectives here; one is to get the right kind of money from the right people. By that we mean the people who have incomes of five thousand dollars or less, and they will show you that that takes care of about seven-eighths of the people.

The other thing in getting this money, we want to get the money from the people who have gotten the greatest increase in salary since Pearl Harbor. In that way we can siphon it off into the Government and keep them from spending it and competing for the scarcity of goods.

So we have asked you - I am sure you will, anyway - please to keep that in mind. It was demonstrated that we can get all the money we wanted in the offering of two weeks ago when we asked for two and a half billion and got bids for nineteen and a half. So there is no trouble getting the money. But that isn't the kind of money we want.

Now, the other thing is, Mr. Haas and his group have set up a quota which I would like very much to get. In fact, I have made public statements to the effect that we would get eighteen billion dollars. I don't know whether we can get it or not, but we are going to put all the cards on the table and what I want you men to do when you get ready to leave town is to be in this frame of mind: "We can get that, and we will show him how much more we can get," rather than to give you something so that you leave town saying, "It is just impossible; they are asking too much." So we would like to feel that when you leave town you are saying, "Well, that at least is fair, and we will show him how much more" - when I say "him" I mean the country - it all gets down to what the people can do. I am not going to spoil Haas' and his crowd's story, but they will show it to you. I mean, I am saturated with it myself, but at the first blush, some of the figures will stagger you.

And I asked Myers to be here particularly because, after all - if he doesn't mind my saying so - we have been making the slowest progress in getting the farmers. I think that is true, isn't it?

MR. MYERS: Sure.

H.M.JR: And his advice I regard as the best of anybody in the country as to how to get it. I hope you will speak up the way he always does. But we have got to do something about the farmers. Whether it is letting them buy a five hundred dollar bondand give them three or four months to pay for it, if that is the way to do it - I don't know. We certainly don't want them to go into another orgy of buying land and then go through all those troubles. Those from Ohio, Illinois, and Iowa know what I am talking about. Bill Myers and I took the repercussion on the chin in Farm Credit on that one, and so did the insurance companies and all other savings institutions. So we have got that.

This is very serious business, but I feel with your help - and, after all, all we can do is lay down the facts - whether New York or Ohio, the way it is set up now - and we want to give you all the autonomy - all the responsibility you will take. That is why we have forty-eight State chairmen. That is why we set this thing up.

We are not going to sit here and say, "This is it and you have to do it." We want you to tell us and we are ready to listen.

We didn't ask you here to sweat in Washington; we can do that for you. (Laughter) So you tell us what you think you can do. I know you will be fair. We want at least the minimum that you can guarantee us.

I won't get mad if Frank Isbey goes out and gets a hundred thousand people and delivers them the bond and breaks all the Treasury regulations, as long as he comes through the way he did last time. I mean, more power to him.

As I say, don't hesitate - and I am sure you won't - if we don't get out the material to you in time, you tell us. That is our job. If you don't think we are printing enough bonds, or there are enough issuing agents, tell us.

This is your field day and we have asked you to come down. And Gamble is young and energetic, and he wants to be told. Isn't that right?

MR. GAMBLE: That is correct.

H.M.JR: So this is a partnership, and as the day goes on, if there is something that you want to ask me, particularly, it is just across the hall and I will be glad to step in there.

One thing, just before you get on to your work, and that is this; there seems to be a misunderstanding which we might just as well clean up in the beginning. I did it in New York but it came up again.

You men, and the men in the other States - and women - are going to be held responsible for the entire selling job this time. The Federal Reserve presidents and their organizations aren't going to sell anything in the Third War Loan. It is all you people. I mean, if there is something to sell the insurance companies, you are going to sell it.

I mean, the Federal Reserve in this Third War Loan, have no part in this drive other than to cooperate and give us all the assistance, all the mechanics, and all the facilities that they have, which they have promised, and I know they are going to live up to it. I am not worried a bit about the Federal Reserve, and whatever little arguments we have, I think they have forgotten. Certainly the Federal Reserve Board is acting fine.

Mr. Gamble and Mr. Gaston did most of the work. Wherever they went the bank presidents have been fine. So we can forget that and lean heavily on them. But the actual selling in this thing is entirely your job - not theirs, yours.

So, with those few remarks I think Mr. Bell will take over.

MR. BELL: Right.

H.M.JR: And if there is something - which I can't imagine - that you can't understand, you can call on me any time during the day and I will step across the hall.

MR. BELL: All right.

July 20, 1943.
10:38 a.m.

HMJr: Hello.

Operator: Here is Mr. Schenck.

HMJr: Hello. Hello.

Nick Schenck: Hello. Good morning, sir.

HMJr: How are you?

S: I'm fine, thank you, sir.

HMJr: Mr. Schenck.

S: Yeah.

HMJr: I'm calling up on behalf of your government....

S: Yep.

HMJr: ....in regard to Mr. Doob....

S: Yeah.

HMJr: ....who I like very much....

S: Yeah.

HMJr: ....and I like his frankness when he said to me that he thought he could do the Treasury a better job than anybody else in America.

S: Yeah.

HMJr: Now, we've got the biggest selling job here in the world.

S: That's right.

HMJr: And we've got to reach every man, woman and child....

S: Yeah.

HMJr: ....and I want you to lend this fellow to your government - to help us now.

S: For how long?

HMJr: Well, I'll tell you what we'll do. I'll "hundle" a little with you. How's that?

S: (Laughs) Yeah.

HMJr: You know what that is, don't you?

S: Yes, indeed.

HMJr: What?

S: Yes, indeed I do.

HMJr: Well, we'll start - say, we'll go through the Third War Loan and then we'll talk about it afterwards.

S: Uh huh. Well, let me think about that....

HMJr: No, it's just....

S: How fast must you have an answer?

HMJr: Excuse me.

S: How fast must you have an answer?

HMJr: Oh, you don't have to think it over very long.

S: Oh, yes I do. It's a question - I'll tell you - it's a very serious thing for us, too. He's a very valuable man.

HMJr: Yeah.

S: We have given up a lot of our people, you know.

HMJr: Surely.

S: A lot of our people....

HMJr: Well, you just....

S: I'd be glad to do it. Of course, I'm not....

HMJr: I know.

S: ....trying to use that as a - you're glad to do it when you can, but there comes a point where you - where you ought to stop. There are some very good men in other companies....

HMJr: Yeah.

S: ....and it seems that we are the ones that are continually giving up.

HMJr: Well, maybe that's because you make more money than any other company.

S: (Laughs) Anyway, you give me a couple of days....

HMJr: I want an answer tonight.

S: You want an answer tonight.

HMJr: Sure, yes.

S: That's awfully hard.

HMJr: Oh, sure.

S: Well, how does he himself - you realize that he hasn't got very much to live on, you know.

HMJr: Well, he can - if you are willing to give him a leave of absence....

S: Yeah.

HMJr: ....and - but - listen, we've got the enemy on the run and let's keep him that way.

S: Yes, there's no doubt about that.

HMJr: What?

S: And glad to do it....

HMJr: You and I have got lots to be thankful for.

S: Yeah.

HMJr: Now, this fellow's got a peculiar training....

S: Yeah.

HMJr: ....and from your business standpoint you don't have to advertise. You can't find a seat in your theatres anyway.

S: Yeah. Well, that isn't connected. There's a lot of fine work outside of advertising.

HMJr: I know. But this fellow, they tell me, is the best type in the profession and if you don't mind my saying so, I think I'm paying your company a compliment.

S: That's true, you are.

HMJr: And we've got to sell forty million people a $100 bond in September.

S: Yeah.

HMJr: Now, that's our job.

S: Yeah.

HMJr: And it almost sounds impossible but if everybody pitches in and helps the Government, we can do it.

S: Yeah. Well, I'll call you back.

HMJr: You do....

S: I'll call you back, sir.

HMJr: And make it "yes" now.

S: Well, I'm going to do the best I know how.

HMJr: Well....

S: I'm going to call a quick meeting about that....

HMJr: Yeah.

S: ....because he's under a contract and that means that I have to get my board to consent, you know.

HMJr: Well....

S: It is not just a one-man job.

HMJr: I know, but they - they'll listen to you.

S: I beg your pardon.

HMJr: They'll listen to you.

S: I hope so. I hope so. I'll - I'll - I'm going to call you back, sir.

HMJr: Do that.

S: Thank you, sir.

HMJr: Good bye.

S: Bye bye.

July 20, 1943
11:00 a.m.

GROUP

Present: Mr. Bell
Mr. Paul
Mr. Gaston
Mr. Gamble
Mr. Smith
Mr. White
Mr. Charles Bell
Mr. Haas
Captain Kades
Mrs. Klotz

H.M.JR: I said that I would do Gamble first so he can go back.

MR. GAMBLE: I don't have a great deal to report other than what I mentioned to you this morning.

I might say that we moved into the Washington Building. The quarters are very good.

H.M.JR: You have moved?

MR. GAMBLE: We have moved in. Several departments are completely moved in and are operating. We had two staff meetings yesterday of all the employees, including stenographers and clerks. I think we have our people pretty well stabilized.

H.M.JR: Wonderful.

MR. GAMBLE: I think Mr. Charles Bell is entitled to some credit for his good job of moving us in.

H.M.JR: If I say anything more nice to him I will spoil him. (Laughter) He said he was going to beat my request by two days. Are they all in now?

MR. CHARLES BELL: They are all in but one unit - the Women's Division upstairs.

H.M.JR: They are going?

MR. CHARLES BELL: Yes, they are going; we have the space for them.

MR. GAMBLE: We have some air-conditioned units for the women. We have all of our top people together.

H.M.JR: I am sure Mr. Paul is pleased. (Laughter)

MR. PAUL: I like to see you have good space, but I think there is a problem on Foreign Funds, and I was thinking of that - the possibility of grabbing away from Ickes that building on Fifteenth Street. The Bituminous Coal Division had that.

H.M.JR: They mentioned that to me.

MR. PAUL: Has Ickes got that?

MR. CHARLES BELL: We are afraid he is going to take down the coal sign and put up a petroleum sign. (Laughter)

MR. PAUL: I was wondering if we could beat him to it.

MR. CHARLES BELL: I am working on it with Bill Reynolds, and if there is a Chinaman's chance, we will get it.

H.M.JR: Here is a very interesting thing. It is for you, Ted. (The Sunday New Yorker, dated July 18, 1943, handed to Mr. Gamble.) This one plant in Poughkeepsie gets an E flag and every other advertiser in town advertises the fact that this one plant - those things just don't happen on their own.

MR. GAMBLE: That is very good.

H.M.JR: Somebody has done an awfully good selling job up there. I wondered who and how. Here this one plant gets an E and every merchant in town congratulates him.

MR. SMITH: They have special people who go out from the Army and Navy and work those things up.

H.M.JR: That is what I wondered.

MR. SMITH: They tell you how much you can spend on a celebration and everything.

H.M.JR: If they have that, I wonder if we couldn't get a free ride.

What else, Ted?

MR. GAMBLE: I don't want to change the subject, but did you see the eight New York newspapers yesterday?

H.M.JR: Yes.

MR. GAMBLE: Did you see the President's letter in all eight of them?

H.M.JR: Very nice.

What about Chicago - did it happen in Chicago?

MR. GAMBLE: Yes, but not as uniform. This new advertising program of ours is an outgrowth of Don Bridge's program. They now have lined up the New York newspapers so we will be able to use them from time to time for such special advertisements as we want to run.

H.M.JR: Will you want me this afternoon at any time?

MR. GAMBLE: I think not; I think tomorrow morning at eleven o'clock.

H.M.JR: You will let him (Smith) know about the show?

MR. GAMBLE: Yes, sir.

(Mr. Gamble left the conference.)

H.M.JR: I wanted to tell you people about this; this is the John L. Lewis thing. The President asked me to see the Attorney General.

MR. PAUL: I have another thing with the Attorney General.

H.M.JR: So he said would I please personally see the Attorney General. I immediately got in touch with his office, and they said they thought he would be out of town. I gave him practically all afternoon in which he could come over to see me. You heard Fitz - he said he was terribly busy.

MR. PAUL: I have another item that the Attorney General--

H.M.JR: Excuse me, do you think I should go any further? I sent the President this thing of Lloyd Garrison's - your hypothetical questions of Lloyd Garrison and the answers.

The President said, "I wish you would talk this over with Francis Biddle in person."

I gave him all afternoon to come over and see me. If he isn't going to come, I don't think I will do anything else unless you people advise me to do something else.

MR. PAUL: You have made your motion. I wouldn't advise you to - I wouldn't advise you to do anything. It is his move.

MR. GASTON: Did this statement that he is terribly busy apply to your effort to speak to him on the telephone?

H.M.JR: No. I gave him an hour and a half Saturday afternoon - whether he could come over at any time between three and four-thirty this afternoon. The answer was that he was most likely going to go out to Colorado and they wouldn't know.

So I told Fitz this morning to find out whether the Attorney General was in town and whether he was coming over. The answer is, they thought I was going to phone him or something.

MR. PAUL: I think it is his move.

MR. D.W.BELL: When is he going to Colorado, today?

H.M.JR: He didn't go. So that our record is clear, I am going to check with Miss Chauncey.

MR. PAUL: If you are going to see the Attorney General I want to catch up on this other thing.

H.M.JR: All right, let's catch up. That is the purpose of staff.

MR. PAUL: The Attorney General has written a memorandum to the President without consulting either the War Department or the Navy Department, or us.

H.M.JR: Talk a little louder.

MR. PAUL: The Attorney General wrote a memorandum to the President criticizing our interpretation of the renegotiation statute. Our interpretation, which was a joint interpretation, as the statute requires, by War, Navy, Maritime Commission and the Treasury, all being concerned - our interpretation was in connection with the aluminum industry, and it ruled out of renegotiations a part of the raw materials phase of the business. The War Department was very strong for that interpretation.

We were a little - at first we considered it rather arguable.

H.M.JR: May I interrupt you? I thought you said George Haas couldn't come to this meeting.

MR. D.W.BELL: He sneaked out. Lindow is going on.

H.M.JR: I think you had better go back, George. Lindow is in the middle of his stuff, isn't he?

MR. HAAS: Lindow or Murphy.

H.M.JR: You had better go back.

(Mr. Haas left the conference.)

MR. PAUL: This interpretation was made last January, I think, but anyway, quite a while ago. Thousands of these contracts have been renegotiated on that basis - all forty-two contracts that they renegotiated. I don't know how it happens, but the Attorney General communicates directly with the President criticizing this interpretation. He didn't consult us at all.

The President then got in touch with Patterson. He sent the Attorney General's letter and a memorandum to Patterson, saying that he would like to talk with him Wednesday morning - that is tomorrow morning - he would like to have Patterson talk with him.

H.M.JR: The President would?

MR. PAUL: Yes - talk with him tomorrow morning about this thing. Patterson sent Marbury, the Chief Counsel of the Purchasing Divison, and Mr. Mackintosh, Counsel for the War Price Adjustment Board, over to see us yesterday afternoon.

H.M.JR: To see you?

MR. PAUL: Yes. And Patterson wants to know if we are with him on that interpretation. He wants - the President said to clear it with you. That is, instructions in the memorandum to the Under Secretary are to clear it with the other interested agencies. He has cleared it with the Maritime Commission and Navy, and they are all in agreement.

He wants permission to say that you stand by this interpretation.

H.M.JR: How do you advise me?

MR. PAUL: I advise you to stand by it, I think, for this reason, that it is somewhat arguable; it was one of those things you couldn't be absolutely sure about. We

did the best we could to determine what was the intent of Congress, but now with thousands of contracts renegotiated on this basis--

H.M.JR: You mean they already have been?

MR. PAUL: Already have been, for months and months. You would upset all these renegotiations, and I think you would endanger the whole renegotiation statute if you stirred up that mess now, because you would provide exactly the kind of fuel these people want who want to eliminate that provision from the statute. They would run up to Congress in the fall.

H.M.JR: Now, would you mind, so it is clear in my mind - this is something that Sullivan has or has not had anything to do with?

MR. PAUL: I don't think Sullivan was in that meeting. Eddie Greenbaum was in it.

H.M.JR: That would be Army.

MR. PAUL: I think - as I recollect, we had a big conference, but Joe O'Connell and I were the ones who worked on it.

MR. D.W. BELL: I think Sullivan is just beginning to get in on the renegotiations.

MR. PAUL: He was on the other end of it.

MR. D.W.BELL: Since he has taken charge, I mean. But I don't know whether he was in on the original conference or not.

MR. PAUL: I remember the conference.

MR. GASTON: He had been in on some other renegotiations before he got in on the Procurement picture.

H.M.JR: What I was trying to get at - he hasn't committed us in any way?

MR. PAUL: No, I am sure not. As a result of this big meeting - we had a meeting attended by - there must have been twenty-five people there - all these agencies - as a result, we published and distributed thirty thousand sets of instructions to these boards on how to renegotiate. It was a joint enterprise of the four Departments.

We at first, in this particular issue, took the other point of view, and then we felt that it was so close and the War Department was so insistent and so much more interested than we were and they conceded to us on another more important issue.

MR. GASTON: You haven't talked to Biddle so he would know what you want to talk about?

H.M.JR: I would almost swear that I told Chauncey, who is on a holiday - that I told her to say what the President had said.

MR. GASTON: Would it be advisable to get Biddle on the phone?

H.M.JR: No, I am willing to gamble he knows what this is about. He doesn't want to come to my office. He is standing on his dignity.

MR. GASTON: Grant went over to talk to him - he had a story in the Post Dispatch. He said that Biddle was very, very much incensed at the Treasury.

H.M.JR: And in the meantime a letter went over to his office in which I said that there was no leak in the Treasury. He asked me - he said that he had investigated his place. He said that there was no leak there. I sent him a letter saying that I had investigated and there was no leak in the Treasury.

MR. GASTON: I am satisfied there.

H.M.JR: So all I want to be able to do is - I am willing to wait - I want to wait; and if Chauncey says

that she told him that, as far as I am concerned the next move is up to him. I have asked him to come over here. If he is too busy, I should worry. Let it ride. If the President ever says anything - well, I asked Biddle to come over and I never heard.

MR. D.W.BELL: You are carrying out his instructions; he said to get in touch with him.

H.M.JR: "I wish you would talk this over with Biddle in person." I can't do any more than ask him if he will come over to see me.

MR. GASTON: You would be doing one thing more if you got him on the phone and told him you would like him to come over and talk about it.

H.M.JR: I don't think it is necessary. He has told my office that he is too busy.

MR. D.W.BELL: I think I would wait. Is he going to be gone tomorrow? I think I would wait until tomorrow.

H.M.JR: What can you do? Supposing it was the other way around? Supposing Mr. Hull, who ranks me in Cabinet, says,"I have a letter from the President saying he would like us to get together. Could you come over any time next Tuesday?" Then I send word back that I am too busy.

MR. GASTON: Wouldn't you expect Hull to call you yourself and tell you that?

H.M.JR: Not if I am out of town.

MR. WHITE: Might it not be appropriate to give him a little leeway? You said next Tuesday. Maybe he is very busy Tuesday.

H.M.JR: But he didn't say - look, let's wait and find out what Chauncey says.

MRS. KLOTZ: It could be that he is busy.

H.M.JR: Well anyway, I will back you up. What I think you should tell Bob Patterson is this - I would be glad to call Bob - that I think it would have much more weight with the President if when he goes to see the President he has a document signed by War, Navy, and the Treasury. The President likes those kinds of things.

MR. PAUL: If you can get such a document.

H.M.JR: Let me call up Patterson. Do you mind?

MR. PAUL: No.

MR. GASTON: Would Biddle be able to show that the Aluminum Company of America is making extortionate profits by reason of this ruling?

MR. PAUL: Perhaps in the raw material end of the thing, but the War Department was unwilling to undertake all that, and I don't know - what they are interested in is this Canadian thing that appeared in the newspaper.

H.M.JR: Who is interested?

MR. PAUL: That is what the Attorney General and the President are really interested in, I think. They couldn't do anything about that anyway, because that was all a Canadian operation. So as soon as they find that out they will lose interest in this.

H.M.JR: Why is the President so interested in that if he is not interested in telling the Attorney General to do something about John L. Lewis? That doesn't make sense.

(The Secretary held a telephone conversation with Under Secretary of War Patterson.)

MR. PAUL: Mr. Marbury said yesterday that this whole deal was made very carefully - everything about it was Canadian - that you couldn't touch it with our statute. They were very careful to make the contract up there,

a Canadian company, completely beyond our jurisdiction.

H.M.JR: Well, you got your answer, didn't you?

MR. PAUL: Yes, I will go over that memorandum with Patterson.

H.M.JR: Mr. Gaston?

MR. GASTON: I haven't anything except two or three matters that you sent in to me to talk to you about.

You may have read a story in the papers about Customs holding up the import of thrashing crews from Canada.

H.M.JR: No, sir.

MR. GASTON: Well, it isn't worth bothering you about. Anyway, the Agriculture Department got all tangled up in their own coordination.

H.M.JR: Can I do this semi-publicly, or semi-privately - may I thank you publicly for having carried the ball on Chick Schwarz from Kuhn on, and is it agreeable to you if I now turn it over to him (Smith)?

MR. GASTON: I would be delighted. I think that is a much more logical setup.

H.M.JR: That is all right with you?

MR. GASTON: Yes, indeed.

H.M.JR: I held up a memorandum until I could talk to you. You carried that additional--

MR. GASTON: I didn't carry much, but--

H.M.JR: Have you seen the memo - I think you initialed it - giving Schwarz and Mager to this fellow (Smith)?

MR. GASTON: Yes. I think you might want to consider making it more general.

H.M.JR: We will see. But that is all right with you?

MR. GASTON: Yes.

H.M.JR: Fred?

MR. SMITH: The only thing I have here is that Mr. Houghteling is very anxious to have you address the National Negro Business League in August.

H.M.JR: In August?

MR. GASTON: In Baltimore.

MR. SMITH: It isn't far away. Mr. Gaston thinks maybe it would be - that there would be something to be gained here on Treasury morale.

H.M.JR: A Negro league in Baltimore in August?

MR. SMITH: It is the big Negro business league. It is the number one group.

MR. WHITE: I think you ought to make another speech something like the one you made a couple of years ago in a different field. I think that the President has been quiet on this Negro question when he shouldn't be quiet on it, and I think that somebody ought to speak up and I think you should begin.

Fred can write a whacking good speech on it, and it should have nothing to do with war bonds.

MR. SMITH: They bought fifteen million dollars' worth of bonds.

MR. WHITE: Well, that is all right. That is unimportant. The other is very important. (Laughter)

MR. SMITH: They claim they can have a thousand to two thousand people there.

MR. WHITE: They will buy bonds, anyway. They will buy more.

H.M.JR: You are sacrilegious when you say fifteen million dollars is nothing. (Laughter)

MR. WHITE: I thought he said fifteen million.

MR. SMITH: "Fifteen million dollars' worth of war bonds have been sold through its efforts and its influence."

MR. WHITE: I thought that was small compared with what you expected to sell. (Laughter)

Speaking for myself, I am serious. I think you ought to make a great speech. There is room for it there.

H.M.JR: Don't you think that we might have--

MR. WHITE: I don't know what is coming, but it is going to be good. (Laughter)

H.M.JR: I was going to say we might have a little trouble with our legislation next fall, with the southern Congressmen.

I tell you what let's do. You think I should do it?

MR. WHITE: It is an opportunity for a great speech, and I think you ought to do it; and it ought not to be on bonds except very indirectly, if at all. But I think the effect on bonds will be very excellent, though I again

repeat I think that is of minor consequence compared to the - nobody has spoken up, Mr. Secretary.

H.M.JR: How about Ickes? Hasn't Ickes talked?

MR. WHITE: If he has, it escaped my attention. I didn't see it. It may be.

MR. GASTON: It has to be handled carefully, but the appearance would count for a great deal.

H.M.JR: When is it in August?

MR. SMITH: They say the 26th, but that wasn't definite. That was just an indication.

H.M.JR: I tell you what I would like to do if I were going to do it. I would like Tydings to be on the platform with me. What do you think?

MR. GASTON: You could certainly get them to invite him.

MR. BELL: Radcliffe, too. He is the administration man.

MR. PAUL: Radcliffe is on the Finance Committee. I hope you won't slight him.

MR. GASTON: You might get one of the southerners to be on the platform with you - Walter George or somebody.

MR. PAUL: Did you read "Time" this week on Walter George?

H.M.JR: I didn't read it, no.

MR. PAUL: I seem to recall some sentence of his about Negroes. I would like to check it before I asked him to be on that platform.

MR. WHITE: It is a chore, Mr. Secretary, and I think it is a courageous act. Everybody has dodged it for that reason.

H.M.JR: Is that a national thing, or a State?

MR. SMITH: It is national.

MR. GASTON: The organization was formed by Booker T. Washington.

MR. SMITH: It is the best colored group there is.

MR. GASTON: It is the Negro Businessmen's League.

H.M.JR: I would kind of like to do it.

MR. GASTON: I kind of thought you would.

H.M.JR: Let's call it a deal. Would you fuss around with the two Senators or not?

MR. WHITE: I think it would be nice if you could get them on there. I don't know how they might feel about it. I don't know enough about the political situation there, but I think it would certainly add dignity to the occasion.

MR. PAUL: I wonder if Huntington Cairns would know about that.

MR. SMITH: It might be somebody good not representative of the Administration. The only fear I have is that if you make a speech to them, then it is the Administration inciting a riot again as far as the underground discussion is concerned.

H.M.JR: All right, let's ask Wendell Willkie to go on the platform. What do you think?

MR. SMITH: That would be good. It would take care of the only objection I have to it.

MR. GASTON: I think not. They will think that we have to have a bodyguard before we speak to the Negroes.

H.M.JR: Have to have what?

MR. GASTON: A bodyguard. We have to have somebody to take the curse off before we speak to them. I don't think that is good.

H.M.JR: I don't follow.

MR. GASTON: Taking Wendell Willkie would be obviously a device to divide the burden - the onus - the stigma of having spoken to a group of Negroes. I don't think you want that.

MR. PAUL: I agree with that, with Herb there. He says it is a device to divide the stigma, and we ought to do it ourselves. We ought to take the rap on it.

MR. SMITH: I don't agree. The reason I don't agree is because I know the minute that the Administration steps out again, then you have got thirty thousand people in the Republican party who are going to be handed something under the table to go out and spread. I don't think that that is a good thing.

MR. WHITE: Willkie wouldn't stop them, certainly.

MR. SMITH: Yes, he would.

MR. WHITE: I think there is something in your idea, but if you could pick on somebody besides Willkie - Willkie has so obviously taken a position of this kind coupled with his relationship to the Republican party that I think there might be a better choice - some other Republican, if you like - some other local Republican.

MR. BELL: How about Hoover?

H.M.JR: No, he knows the tricks of the trade, and I am going to take his advice (Smith's.)

MR. SMITH: I don't believe that you would get the criticism of the onus, as you say, half so much as you

would get awfully patted on the back for building up this meeting by bringing another good man to it. Why don't we really do a job on it?

You could approach it that way, through our crowd that has been working with them, and really do a good job for them.

MR. WHITE: Is it your idea that he would make a speech, too?

MR. SMITH: Whoever is there ought to make some kind of a speech, not just have him sit there.

H.M.JR: All right.

If you don't want - how about Senator Ball of Minnesota to talk about post-war?

MR. SMITH: He is a good Republican.

H.M.JR: Liberal.

MR. WHITE: How about smoking out Senator Vandenberg or Senator Taft?

MR. SMITH: If you smoke out Senator Taft you are doing pretty good.

H.M.JR: He (Smith) knows the tricks of the trade, because he has used them. I will leave it with you, Fred.

MR. PAUL: If you decide on Vandenberg, will you talk with me about it?

MR. GASTON: The invitation would come through by suggestion by our men to the leaders of this group, and of course they would invite him.

H.M.JR: I would much rather have somebody like Ball, who is a liberal, talk on post-war, and so forth.

MR. SMITH: Somebody who would have good reason to talk. I wouldn't hold out for Willkie.

H.M.JR: I would much rather have Ball than a professional like Vandenberg. You would have a reason, take a good stand on the post-war, and so forth, and so on. Vandenberg would think - well, he would laugh. He would say, "Well, Henry is just trying to duck this thing." Think about it; I will talk to you about it.

What else?

MR. SMITH: That is all.

CAPT. KADES: I don't have anything, Mr. Secretary.

MR. PAUL: I received a summons from Mr. Stam to produce all the revenue plans that we have in gestation here now. I took it up - I worked out an answer that wasn't completely evasive and put it up to Dan. I am about to send it off today. I didn't think it was propitious to start a constitutional fight with Stam at this time.

H.M.JR: Are you going to give it to him?

MR. PAUL: We are going to give him a lot of material, but we say that they are not plans, they have not - that they are being studied.

H.M.JR: He just wrote it, Stam?

MR. PAUL: It is really in the form of a summons.

MR. BELL: Approved by George, too.

MR. PAUL: It has to be approved by George or Doughton. He quotes this statute that they passed last year.

H.M.JR: How do you know it is approved by George?

MR. PAUL: It is signed by him.

MR. GASTON: Why would it not be well to have the Secretary sign that letter and say, "I have your request directed to Mr. Paul for this information and I am happy to supply it," and evade putting us in the position of complying with an unconstitutional statute.

H.M.JR: I think he is right.

MR. PAUL: There isn't an unconstitutional statute; that is the only difficulty. It is only unconstitutional if applied in certain ways, and it is only unconstitutional when it would be against public interest to give this information.

MR. GASTON: My opinion is that when the committee addresses an inferior officer of the Treasury - the law wouldn't permit them to go to any clerk or assistant commissioner and say, "You supply us this stuff as provided by this statute."

My opinion is that they are demanding something which they have not a right to demand, and that we should not comply with it in that form as a compliance with that demand by that man.

H.M.JR: What do you think, Chuck?

CAPT. KADES: I agree with Randolph, Mr. Secretary. I think that Herbert's suggestion might be a good suggestion, but I don't think it is unconstitutional to ask for the material.

H.M.JR: No, but I like Gaston's way of doing it and keeping it on that level so that they can't say, "Here is a precedent; you did it once, what are you kicking about now?"

This is the first time?

MR. PAUL: Yes, but my objection to the statute is not based on that point. It is based on the point that they shouldn't go down to the Bureau.

H.M.JR: But I am not--

MR. PAUL: So we can't coordinate our work.

H.M.JR: Purely aside from the legality, I don't want to establish the precedent.

MR. PAUL: I can simply write this letter from you. The thing is addressed to me.

H.M.JR: I would do it just the way - why don't you collaborate with Herbert?

MR. PAUL: I will send him the letter and he can write it.

H.M.JR: That is the advantage of these staff meetings.

O.K. Anything else?

MR. PAUL: That is the main thing.

H.M.JR: Harry?

MR. WHITE: I thought there never was any question about the propriety of any outside agency communicating on anything of any significance to anybody except the head of the Department.

H.M.JR: You had better read the statute. They have got a special statute.

MR. PAUL: The Chief Counsel of the Bureau mentioned in the statute - he is mentioned.

H.M.JR: There is a special statute.

MR. WHITE: The Dutch request for three hundred million dollars has been tentatively considered by the group here and I think that we are going to not be in favor of it. Would you like to receive a memorandum or suggestions in the form of a memorandum, or would you like to have a meeting and listen to the pros and cons?

H.M.JR: I haven't got time, Harry. I would rather take a memorandum, and if you bring it in I will read it with you present. If I don't understand it--

MR. WHITE: There will probably be a little bit of a fight on it later. That is why I thought you might want to get in on it, because they have got Jones' approval and they are pushing it.

H.M.JR: In the first instance, let's do it via memorandum.

MR. WHITE: All right.

We had a meeting with the head of the Middle East and several of the men in the State Department here on some problems with respect to the Middle East. One of them was with regard to Saudi Arabia.

H.M.JR: How do you spell "Saudi"?

MR. WHITE: I spell it S-a-u-d-i. Apparently the President and the State Department are both keenly interested in strengthening the ties between the two countries.

I suggested certain ways in which it might be done, and the State Department was terribly enthusiastic about us doing it. They say that the stakes are infinitely larger than any of the small financial risk that would be involved.

Saudi Arabia doesn't have any representative here at all. We were sending a man, Treasury man - one of my men - to Turkey. He was waiting for the boat on which he was to leave that next morning. The State Department asked us to pull him off, and they would send him by plane.

He is going to Saudi Arabia and make certain inquiries with regard to a lend-leasing of silver which they requested; but in the course of those inquiries

other things are going to develop. If that happens, we will hear more about it. But there is no decision being made yet.

He is also going to visit Iran, in which the President and the State Department are likewise interested in strengthening the ties, from a different point of view. We will hear more about it. I am letting you know so that in the event the subject comes up you will know we are in on the matter.

The British are interested in what we are going to do for Saudi Arabia and asking questions, and we are giving evasive answers in the meantime.

There are a couple of other things. We have the draft of the letter that we would like you to sign for the various Congressmen and Senators. This is just a draft. If you are satisfied with the draft, then we will prepare the letters. (Draft of letter regarding International Stabilization Fund handed to the Secretary.)

H.M.JR: It is all right with me, but do you mind letting Fred Smith take a look at it?

MR. WHITE: He has already. We will let him look over the final draft.

Do you know a Mr. Herman Wells? We are to vote on him, whether he is to be the area director for Italy. No one knows him here, so we are going to go along.

Mr. McCollester is going to be voted on for France, and we are going to support him.

MR. PAUL: I think you ought to know before this last decision is reached that this man was formerly a partner of mine. That is pretty bad. (Laughter)

MR. WHITE: But he was recommended by Randolph, and he came down here and several of us talked with him. Dean Acheson talked with him. We think he is all right, notwithstanding his background. (Laughter)

H.M.JR: Well, I appreciate Randolph's standard of ethics. If you fellows think he is all right, it is all right with me.

MR. WHITE: He is a very nice fellow, a very staunch liberal, and he has been in France a good deal. He knows the language and has had a good deal of experience running railways in France, and so on.

Mr. Royce, who is the man who was appointed, you remember, in charge of North Africa, has returned here to take up a large number of matters. In discussion before a large group he complimented the Treasury on the competence of the men, and he said that the Treasury was the only agency that was greatly understaffed.

H.M.JR: I got that the first time you told it to me last week. (Laughter)

MR. WHITE: I wasn't sure you read it.

The South African Minister of Finance is here. He came up special from South Africa to discuss these matters and some others. I think it would be a nice thing if you could see him for a few minutes.

H.M.JR: How about ten o'clock Friday?

MR. WHITE: You couldn't make it Thursday? It wouldn't take more than five minutes.

H.M.JR: Eleven-thirty, Thursday.

MR. WHITE: Fine.

We haven't heard from China on the revision of their stabilization arrangement.

We would like to send a cable to Adler asking him to resign from the board - stabilization board - which has no status now. Our keeping him on there is rather undignified on our part, I think. Is that all right?

H.M.JR: Yes.

MR. WHITE: Mr. Soong is leaving for England to reopen the question of the fifty-million-pound loan which was never effected, and he asked me to be sure and pay his respects to you. He inquired very closely about Mrs. Morgenthau.

H.M.JR: Does he want to come in?

MR. WHITE: He has gone - this morning.

MR. PAUL: Is Mrs. Morgenthau better?

H.M.JR: Mrs. Morgenthau is well enough, we hope, so that she will move to the country Saturday morning.

MR. WHITE: There is one bill here that you might want to know about, if you don't already. Senator McCarran submitted a resolution creating this committee. Nothing has been done about it.

That is all I have.

MR. BELL: Harry, do you want to tell the Secretary about that silver arrangement with WPB?

MR. WHITE: Yes, I think we might want to inform him about it.

MR. BELL: Go ahead.

MR. WHITE: We had a large meeting in Mr. Bell's office in which we discussed a request of the WPB Silver Committee that I think you would like to know about because it will be the first instance of the sale of silver by the Treasury and because it also represents a somewhat new departure.

They are going to sell silver - the seventy-one cent silver - under the Green bill, but there will not be enough of the forty-five cent silver to go around to all the important users. They want to give some of them the seventy-one cent silver.

There are a number of ways of working it out. Most of them are very troublesome. The simplest way is that they will pick out three concerns and give them the seventy-one cent silver. They in turn, producing for the Army and Navy, will add the additional cost onto the prices as a routine thing. It is nothing to do with this; they do that anyhow. That has nothing to do with the Treasury. But this has to do with the Treasury, and this is the new departure, that in order to prevent those particular concerns from kicking about discrimination against them, the Treasury has agreed to repurchase from them the silver in their inventory which they have left at the end of the war. There are a number of safeguards so that they can't buy more than the amount that they need to keep up their production.

H.M.JR: It sounds like a phoney to me. Has Paul reviewed this thing?

MR. WHITE: His man was in the meeting.

H.M.JR: Supposing you take a look at this from the standpoint of ethics and daylight.

MR. BELL: It is just a matter of protecting the contractors.

H.M.JR: Take a look at it personally, will you please?

MR. PAUL: Yes.

MR. BELL: It looked about the only way to do it to protect the contractors.

H.M.JR: I don't like it. Let Paul take a look at it. He may agree with you, I don't know.

MR. BELL: The lawyers said you had ample authority under the law to make such a contract providing, of course, the authority is there at the end of the contract. You would have to put something in the contract to that effect.

MR. WHITE: WPB has asked us to re-examine with the hope that we will change our mind about the thirty million ounces of silver. We will answer them in another letter for your signature - it is concerning thirty million ounces of silver to Mexico - turning them down.

MR. BELL: Mr. Young from Chicago and Paddock and Rouse of the Executive Committee are in town. You remember, you asked them to be here. They are waiting in the Board for further instructions.

H.M.JR: Well, not having heard from the Attorney General, I will be glad to see them at three o'clock.

MR. BELL: I don't know whether we could make a decision today or not on the August 1 refunding, but time is rather short. We ought to announce it Thursday morning. If we leave it open three days--

H.M.JR: Let's talk about that - I will do that this afternoon.

MR. BELL: If we could get the wires out tonight so they get it tomorrow, which has been the usual custom, I would like to do that.

H.M.JR: From three o'clock - the Attorney General won't come - I am confident he isn't coming.

MR. BELL: I have some letters here - the editor of "Field and Stream" has been putting on quite a campaign

to get donations to the Government, particularly to purchase Garand rifles. Here is a lady that sent in eighty-five dollars to purchase one. She wants a certificate. He would like a letter signed by you. He also would like you to say you would award similar citations to any citizen who donates money. I see no objections to stating it.

(Letter to Mr. David Newell signed by the Secretary.)

I am signing it as Ex-Conservation Commissioner of New York State.

MR. BELL: You know him?

H.M.JR: We used to have all kinds of troubles.

MR. BELL: This is a memorandum to the President sending him a draft of the letter which he should sign and return to you on the withholding tax. (Memorandum to the President dated July 20, 1943, signed by the Secretary.)

And this is a letter to Frank Walker on the Payroll Savings in the Post Office. (Letter to Mr. Frank Walker signed by the Secretary.)

H.M.JR: He is not very good, is he?

MR. BELL: No, we have written him several letters and had several conferences.

We want to announce changing the size of the Savings Bonds from the present size to about one-half. (Draft of press release handed to the Secretary.)

H.M.JR: Who didn't want that - Army and Navy, or somebody?

MR. BELL: Yes, but we are going to give them the old size until such time as they can rearrange their equipment.

H.M.JR: You are really going to do this?

MR. BELL: Yes, we will be ready by the end of August to start on production of the small size. We have the plates ready.

H.M.JR: We have to get in there something about saving money and the number of hours saved.

MR. BELL: Do you want to do all that?

H.M.JR: Sure.

MR. SMITH: Make the best of it.

H.M.JR: Make a nice build-up - "How to save money - good old conservative Morgenthau - the next thing he is going to do is cut the dollar in half" - if they haven't already done it for us. (Press release handed to Mr.Smith.) Is it below ninety cents?

MR. WHITE: Compared with the cost of living, I suppose it would be an appropriate comparison.

H.M.JR: This is just a matter of interest about people having their points when they go to hotels or restaurants.

We were in a restaurant yesterday and Henry said to them, "Do you still send food out to private homes?" They said, "Oh, yes, anything you want."

He said, "Would you have to have your points?"

"No, just tell us what you want, where you live, and we will send your meals to your home."

If a person has the money he can call the restaurant and order a couple of steaks and have them sent up to have at the house.

Have you had your answer on that?

CAPT. KADES: Yes,sir. It is not an answer, but the answer that is given.

There are four main reasons why they won't point ration in restaurants. One is the administrative difficulties, which I thought they would mention. For example, they say they would need fractional points and have to weigh the portions of meat in order to determine what points should be required.

Secondly, they want to encourage people eating out. They say it is good for morale purposes to have people eat away from home. It would discourage them eating out, otherwise.

MR. WHITE: Nothing breaks morale quicker than eating out these days. (Laughter)

CAPT. KADES: The reasons get worse. Thirdly, they say that the situation isn't critical.

H.M.JR: It is not critical? Have they said this in writing?

CAPT. KADES: No, sir. And fourth, they ration restaurants now on allocation basis, based upon the number of meals served and the number of persons served in December 1942, so there is a ceiling over which restaurants can't go.

H.M.JR: Well, I will read the memorandum and I am going to write a letter to Mr. Brown on the thing. But I am convinced of the fact that the people have got the money and they certainly - in New York they can eat anything and just as much as they want. And it certainly is discrimination in favor of the rich.

CAPT. KADES: Thirteen percent of the meat goes to restaurants and hotels and hospitals and institutional users. In England the only way that they tried to solve the problem was by having restaurants available to the lower income groups where they could eat off the ration; and the English use the same argument, that it is a good thing for people to eat out rather than at home during war time.

H.M.JR: We will talk about it some more. I am not satisfied.

MR. GASTON: That was Walter George's chief argument against the spendings tax. He didn't want to stop people from spending money in the good restaurants and night clubs in New York.

MR. PAUL: I wrote you a memorandum about this practice - about the business of controlling who are employed as Treasury attorneys. I have talked it over with Herbert.

H.M.JR: I approved that memorandum.

MR. PAUL: I didn't get it.

H.M.JR: Last week.

MR. PAUL: I didn't get it.

H.M.JR: I approved it, definitely. I approved your memorandum.

MRS. KLOTZ: Thursday.

MR. PAUL: I don't understand why it isn't back.

H.M.JR: Better look at your desk.

MR. PAUL: My desk is clean.

H.M.JR: Jimmy Byrnes called me up. I said, "Have you got my letter about the correspondence between Randolph Paul and Lloyd Garrison?" He said, "No, did you write me?" I said, "Yes, I sent it over by hand last week." He said, "I never got it."

I said, "It is on your desk somewhere," and he said, "Most likely."

MR. PAUL: You are not comparing me with Jimmy Byrnes, are you? (Laughter)

H.M.JR: Well, what he did - it seems that at this meeting yesterday, due to certain questions raised by the State Department, they suddenly discovered that the War, Navy, and Treasury have an interest in Europe. (Laughter) And he has asked the State Department to put it in writing and he will send it over to me - certain questions that were raised - and he would like to have an answer. I promised him it would be answered.

He wants somebody from the Treasury - he said, "I suppose you won't want to come to our meeting." I said that I would be out of town but that we would send somebody.

So when they come I will see what the questions are. But I am going to make a little prophesy: You (Paul) said that you wanted to take a personal interest in Foreign Funds. I will make you a little bet that there will be an Executive Order transferring Foreign Funds to Crowley.

MR. PAUL: I wrote you a memorandum to that effect.

H.M.JR: That it would come?

MR. PAUL: That it might come. It is on your desk.

MRS. KLOTZ: No.

MR. PAUL: You will find it. It is already written, anyway.

H.M.JR: You mean you dictated it. (Laughter)

MR. PAUL: No, I signed it and sent it out yesterday.

CAPT. KADES: Mr. Secretary, Randolph wants me to make a matter of record that I got a copy of the memorandum he signed. (Laughter)

July 20, 1943

HM Jr prophesied today that Crowley's next move will be to try to get an Executive Order to transfer Foreign Funds to the Office of Economic Warfare.

****

July 20, 1943.
11:23 a.m.

HMJr: Hello.

Operator: Mr. Patterson.

HMJr: Hello.

Robert Patterson: Hello, Henry.

HMJr: How are you, Bob?

P: I'm fine.

HMJr: Well, Randolph Paul has been telling me about this memorandum that the Attorney General has written on renegotiation of contracts.

P: Yep. We discussed it yesterday.

HMJr: Yeah. Now, I understand you're seeing the President tomorrow.

P: I think, Henry, that it is part of the meeting of the office of War Mobilization.

HMJr: Uh huh.

P: The Jimmy Byrnes outfit.

HMJr: Yeah.

P: I think that is the meeting that the President referred to in his little memorandum.

HMJr: I see. Well....

P: There is a meeting of that Board tomorrow, and....

HMJr: Well, now Paul....

P: ....on the assumption that it was that, I took the thing up with Jimmy Byrnes as well as the people he mentioned in this memorandum.

HMJr: Uh huh. Well, we're ready to back you up.

P: Thanks. That's good.

HMJr: Now....

P: It's unanimous.

HMJr: Well, what I was going to suggest to your consideration was that you present a written opinion and let us all sign it.

P: That's right. I think that's a good thing to do.

HMJr: I think that's better.

P: I do, too. I'll see that we get it up.

HMJr: Now, just one thing....

P: The whole thing, in my opinion, is this, the power to adopt that definition, no matter what the memorandum from Biddle says, is very plain and clear. Now, the wisdom of it is this, I've always viewed this contract renegotiation as a valuable thing if kept within proper bounds.

HMJr: Uh huh.

P: But if they want to dish on to us the job of pricing every single thing in the whole economic structure....

HMJr: Yeah.

P: ....why it's a flop - another flop - and my tendency has always been in everything having to do with any price adjustment work by the War Department to narrow the bounds of it and keep - confine ourselves as nearly as we can to immediate contracts we have and with the bigger concerns and let the small fry go. The job's too big.

HMJr: Now, that's....

P: And, along those lines, if we adopt definitions that chase everything back to the forest or the mine....

HMJr: Uh huh.

P: ....or the farm - well, we might as well throw up our hands and call it a day.

HMJr: Well, OPA tried to do it and couldn't get anywhere.

P: Don't you agree?

HMJr: Well, I don't know an awful lot about it. Paul's handling it and I'm perfectly willing to let him

HMJr: (Cont'd) handle it, you see?

P: Yeah.

HMJr: Now, I've just got - I want to arrange it - somebody in my office said that the President, they thought, was gunning out - after this aluminum company up in Canada.

P: Well, that may be.

HMJr: Well, can he do it through renegotiatiation?

P: No.

HMJr: He can not?

P: I don't think so.

HMJr: I see.

P: I don't know anything about the terms of that contract. It was made between Jesse Jones and....

HMJr: Yeah.

P: ....that company. Now....

HMJr: Well, could....

P: ....I'm satisfied of this, though - that if there's anything raw in the contract....

HMJr: Yeah.

P: ....I think that Jesse, as a voluntary matter, can get them to renegotiate.

HMJr: Well - I mean - couldn't Jesse do it anyway? I mean, if the President wants that, can't he simply tell Jones to renegotiate that?

P: Well, I don't - I don't know, Henry.

HMJr: Huh.

P: I don't know. The thing is bound up with Canadian interests and the Canadian Government to some degree and - uh - it was, as I understand it, kind of a payment he made down to promote aluminum production

P: (Cont'd) in Canada - uh - to spur it on....

HMJr: Well, he....

P: I don't know enough about it.

HMJr: Well, the easiest way - the Canadian minister here in Washington was a former General Counsel for the aluminum company, so you could take it up with him.

P: McCarthy?

HMJr: Sure.

P: All right.

HMJr: Sure.

P: Well, there's no doubt of the fact - we've had no trouble ourselves with the Canadians on any deals we have had with them. They came in and gave me a check that I sent over to you for fifty million dollars....

HMJr: Yeah.

P: ....the other day. They found that on some contracts we'd placed there on lend-lease account for production in munitions, they'd made too much money....

HMJr: Well,...

P: ....and they just voluntarily came in and....

HMJr: Yeah.

P: ....gave me the check.

HMJr: Well, I think if....

P: They don't need to - they don't need to go to law and all that kind of stuff about a thing like that.

HMJr: Well, from what Paul tells me, rather than to upset all these contracts which you have renegotiated, that they want to just aim at the Aluminum Company of Canada. I think there's a much easier way to do it.

P: I have no doubt at all that it can be handled amicably.

HMJr: Yeah.

P: ....without any disruption like this. The - the man who drew that memorandum for Biddle just didn't know anything of the practical situation.

HMJr: Yeah.

P: I think I will write a little memoranda.

HMJr: Okay.

P: Thank you, Henry.

HMJr: Good bye.

July 20, 1943

MEMORANDUM FOR THE PRESIDENT

Careful consideration has been given to the memoranda from the Attorney General relative to the exemption of aluminum ingots from contract renegotiation. The following comments are submitted for your information and consideration.

1. With respect to the authority of the Departments to make the exemptions, including the exemption of aluminum ingot, embodied in the Joint Statement by the War, Navy and Treasury Departments and the Maritime Commission, it is our considered judgment that these exemptions are clearly within the authority granted to these agencies under the Renegotiation Statute. In the case of aluminum the uses of bauxite and alumina referred to by the Attorney General were considered, but they were of such a minor and incidental character that they did not affect the primary conclusion that aluminum ingots represent in a broad sense the first stage at which the product is suitable for industrial use. At no time during the months that this matter was under active consideration was doubt expressed by any of those concerned with regard to the legal authority of the Secretaries to fix the exemptions

embodied in the Joint Statement, particularly in the light of the broad authority granted by Congress to the Secretaries to "define, interpret and apply" this particular provision of the Statute.

2. There were, in addition, strong practical reasons which supported the decision of the Secretaries to place the exemption stage where they did place it. In the first place, it appeared to be desirable and in accord with the intent of Congress to eliminate from renegotiation industries concerned primarily with the extraction and severance of raw materials and the early stages of refining or processing, thereby avoiding the necessity of grappling with the many problems connected with the determination of costs and profits on these basic processes. Furthermore, this interpretation eliminated the danger of conflict with OPA policies and price objectives with respect to such products.

3. As to a possible modification of the Joint Statement on aluminum ingots, there are further objections. In the first place, the exemption of aluminum ingots was made on the basis of a policy of interpretation which included the exemption of numerous other products. It would not be practicable to change the aluminum ingot exemption without changing the status of many other products.

The Joint Statement of March 31, 1943 was issued not only for the guidance of the Price Adjustment Boards but also for the use and information of war contractors generally. Over thirty thousand copies of the statement have been distributed, and these statements have been applied in a large number of renegotiations and are now being used and applied in substantially all pending renegotiations. It is believed that a change in the Joint Statement of the scope and character suggested would have the effect of irretrievably confusing thousands of pending cases. Such a change would not only impair the progress of renegotiation but would constitute a powerful argument for repeal of the act in the hands of those in industry who are trying to persuade Congress that the act is impossible of administrative accomplishment and therefore should be repealed.

For the reasons indicated, the undersigned respectfully submit that the suggested amendment to the Joint Statement is not required as a matter of law and is altogether undesirable as a matter of policy.

Respectfully,

/s/ ROBERT P. PATTERSON
Acting Secretary of War

Secretary of Navy

/s/ H. MORGENTHAU, JR.
Secretary of Treasury

Chairman of Maritime Commission

July 20, 1943
3:10 p.m.

FINANCING; THIRD WAR LOAN DRIVE

Present: Mr. Bell
Mr. Haas
Mr. Murphy
Mr. Viner
Mr. Eccles
Mr. Young
Mr. Evans
Mr. Paddock
Mr. Rouse
Mr. Piser
Mr. Ransom
Mr. Goldenweiser

H.M.JR: If we could settle this afternoon this August refunding, I think it would be very helpful to me.

Bell, do you want to state the problem?

MR. BELL: I think the first problem is what amount of certificates we are going to issue to refund - or pay off - the August maturity amounting to one billion six hundred nine million dollars. The question is whether it should be two and a half or three billion dollars.

Another question in connection with that is as to whether we should pay off the certificate in cash or allow exchange privileges to the holders of the maturing certificates.

Then there are other questions, once those are settled.

H.M.JR: You think this should be announced when?

MR. BELL: I would like to see it go out to the Federal Reserve Banks tonight in order to give them a day to have it printed and in the mail, and announce it Thursday morning.

MR. ECCLES: Since I talked to you, Dan, I agree with that, because--

MR. BELL: The mail is really terrible.

MR. ECCLES: That is right. The time element - if it goes out tomorrow night, Friday and Saturday just isn't enough. It would be better to let it run over to Monday. You would have to do it, I think - you would have to leave it open Friday and Saturday, and stragglers on Monday could get in because there will be some of it - most of it can get in on Friday and Saturday, but I think because of the mail you would find you couldn't close it until Monday.

MR. BELL: We can't do it Monday because that just gives us a week and then after you leave the books open two days, or three days, which even cramps us more because we couldn't make allotments before Thursday or Friday--

MR. ECCLES: If you closed it Monday you couldn't make allotments before when?

MR. BELL: You mean to open it Monday? I don't think it would give us time enough either.

H.M.JR: Is it your idea to announce it Thursday morning?

MR. BELL: Yes, and close it Saturday night.

H.M.JR: Would there be any harm of announcing it in the papers tomorrow morning for Thursday and in that way get an extra day?

MR. BELL: You mean announce it before the circulars are printed and mailed?

MR. ECCLES: I don't see any harm.

MR. YOUNG: It would be helpful.

H.M.JR: That just helps.

MR. BELL: That would be helpful.

MR. ECCLES: I don't think it needs any help.

MR. BELL: I wonder if you would confine the subscriptions to two days, Thursday and Friday, or would you want three days? I think twois enough on the certificate.

H.M.JR: I would have it in the papers tomorrow and then they would get their circulars Thursday, wouldn't they?

MR. BELL: Thursday morning.

MR. ECCLES: Those that didn't get them Thursday, they would get them Friday. Some won't get them before Friday - a lot of places. But that gives them a day.

MR. YOUNG: We will wire about a hundred banks, anyway.

MR. ECCLES: The worst is down in the South and the West Coast.

MR. BELL: We always send night letters to those banks that are beyond twelve hours.

H.M.JR: You wouldn't have to settle it tonight if you felt - if everything was all right you could close it Friday; if not, Saturday. You would like to close it Friday?

MR. BELL: It gives us a little more time and two days is enough, I think. Practically all of these certificates are held by the banks. Three hundred million, I think, are outside of the banks.

MR. ROUSE: You have the possibility of processing the mail subscriptions at the close of the books on Saturday and Sunday instead of having to do it on Monday and Tuesday. You get the benefit of Sunday, which will facilitate the reserve bank operation.

H.M.JR: As far as I am concerned, it is all right to have it in the papers tomorrow night, have it open Thursday and Friday, close it Friday midnight. Is that all right with you?

MR. PADDOCK: O.K.

H.M.JR: At least we got one idea here anyway. (Laughter)

Now, how much is it going to be?

MR. BELL: Two and a half or three. I had in my cash estimates two and a half billion dollars extra money, but there have been suggestions of adding another half a billion to that in order to help our balance a little going into the next drive. The bankers recommend a three billion dollar offering, and also it would help the market a little by giving a little larger amount.

H.M.JR: Let's start and go around the room.

Chairman Eccles?

MR. ECCLES: I would like to discuss this in connection with the basket because I think they are so closely related. In other words, if you are going to include a seven-eighths certificate in the basket, then I would have one recommendation; if you weren't going to include it, I would have another. I think that it makes a very important difference.

MR. BELL: I might say before Mr. Eccles starts that we sent out two hundred and twenty-five telegrams to corporations and others buying securities in the April drive;and we got a hundred and fifty replies up to date, and a hundred and twenty-five of them wanted certificates. Some wanted both certificates and notes; some wanted just notes. But a hundred and twenty-five definitely wanted certificates to put their funds into. Particularly they stressed the fact that these were short-term funds and they didn't want to tie them up for more than a year.

H.M.JR: These were people who had bought before?

MR. BELL: Yes, they were the people who bought in the April drive.

MR. ECCLES: My answer to that was this, that naturally they would prefer the certificate, but I think that they would take the Series C tax note because they have got short paper - either six months, nine months, a year, whatever they want it. If you took the thirty-day notice out of it after the year - and, of course, on that they can't speculate - they can't get a profit out of it except the actual interest that they are entitled to for the time they leave their money with the Government.

MR. BELL: I question whether we ought to force them into something they don't want to go to. Now, all of these people in here this morning--

MR. ECCLES: We forced the insurance companies into two and a half when they wanted three. (Laughter)

MR. BELL: It is not analogous. (Laughter)

MR. ECCLES: I agree that it makes a little easier selling job, but is it a sounder long-range program? I don't think we have ever made a real sale of the savings notes. I don't think we have ever done a lot to sell it. The last time we had the certificate in the basket. That is perfectly easy to sell because it immediately sells at a premium on the market whenever they buy it, so a corporation would be foolish to buy a C Note if they can get a year paper like the certificate.

I think that the great majority of them would prefer the certificate. On the other hand, I do think that a real selling job could be done on the Series C note and then you wouldn't have to sell every year. The thing would carry through for the life of the note as long as they had the money. You would only get it at such time as they needed the money, which is, of course, when you want them to have it.

I do think the thirty-day notice after six months - as it is now we provide they have to hold it six months which I think is proper. They shouldn't just buy it and then turn it in. But I don't think the six months is the deterrent. In fact, the fact they have to give a notice is somewhat of a deterrent. If they could turn it in--

MR. BELL: Some of the men said the deterrent is the fact they have to come to Washington any time they want their money.

MR. ECCLES: Just send it through the banks for collections if you didn't have the notice.

MR. BELL: That is what they do, send it through the banks, but the fact that it is recorded in Washington or recorded some place along the line is a deterrent to the sales.

H.M.JR: They don't like Washington?

MR. BELL: They don't like to come to Washington and let you know every time they want a few dollars to spend. They want a negotiable security, so the salesmen tell us.

MR. ECCLES: They prefer it, but they have bought quite a lot. There are seven or eight billion out without very much selling effort.

Well, I would say this, that if you are going to put the quota at sixteen billion on a non-bank thing--

H.M.JR: Well, that hasn't been fixed, Marriner.

MR. ECCLES: If you do, I would include the certificate. I think if you are going to try to raise sixteen billion that you possibly need the certificate in the basket. You would need the easiest way to get a lot of money.

But I would personally like to see the quota set at substantially less the first time so that the next time you have a drive - this is the first time when you have a non-bank drive. It is the time that you have got a new State organization. You would be thoroughly justified in putting it, say, to thirteen billion.

Now, thirteen billion was the quota last time including the banks. That is all you had including the banks, last time. And if you put your quota at, say, thirteen billion, and then maybe run over a little and leave the certificate out, then the next time you have a drive you could increase it to, say, fifteen billion if the situation warranted, instead of establishing it with a - if you establish it at sixteen with a certificate, it seems to me you have established a pattern for the future. Then the next drive that you have you can't well have it less than sixteen billion. You possibly would want to go to seventeen or eighteen billion and you would have to include a certificate again.

You are establishing a pattern now for the first time with a non-bank drive, and I would be conservative. I would put it down to the point where I could raise it next time, and I would get it on a basis of a sound program of really selling a security that doesn't come back at you in a year, and do a selling job - a real non-bank financing job.

Now, if you do that - if you follow that sort of a pattern and you don't put a certificate in, then you would - with the certificate, now, I would make it three billion, if it wasn't going to be in the basket, and I would offer it to everyone.

I don't think it makes much difference whether you give an exchange for the outstanding certificates or whether you pay them. I wouldn't care one way or the other. I would make it three billion dollars because your quota would be a little less for the basket and therefore, if the certificate isn't in it, I would make it three now.

That would be a billion and a half of new certificates on the market which I think would pretty largely meet your certificate situation. And I would allocate in full up to a hundred thousand, and I would make them pay in full with the subscriptions up to a hundred thousand so that there won't be any speculating in it.

If they are going to be allocated in full there is no reason they shouldn't pay for them. The subscriptions above a hundred thousand, I would require a payment of at least ten percent, so that the thing that happened when the last issue was made of one and a half percent notes couldn't happen here.

I think that had a very bad effect. When you get a huge over-subscription I think it has this psychology - I have heard it from quite a number of sources - it gives the impression to a lot of people that this huge over-subscription is a legitimate sale - that it is a natural demand on the part of the public for Government securities. They don't realize that it is a padding process and it really doesn't represent a legitimate sale or a legitimate demand.

A lot of the little people - the rank and file of the people say, "My gosh, if the Government can get all of this money that easy, then why all this appeal to us?" I think it has that effect.

So, in putting out the certificate now, three billion, I think I would hold it down - not only hold it down by requiring cash up to a hundred thousand, which would get rid of the speculator, but possibly provide a formula for banks so that the banks' subscriptions would be limited.

And subscribers outside of banks, we should undertake to limit those as well, and police them, and possibly leave the dealers out because they only buy to resell, and thus--

MR. BELL: In other words, you would go back to the old restriction.

MR. ECCLES: I think so. Go further than the restriction because you never did have a hundred thousand cash payment before and an allocation to the banks.

MR. BELL: Would you have exchanges?

MR. ECCLES: I don't care. I don't think it makes much difference.

MR. BELL: If it is going to be in the basket, what would you do, cut down the amount?

MR. ECCLES: No, if you were going to put it in the basket - yes, I think I would. If it is going to be in the basket I wouldn't put out more than two and a half. I wouldn't offer it to the public at all. I would give an exchange for the billion six hundred million that is out, and I would give to the banks only the other billion, because the public is going to come in and get it in the basket, and I think that if you are going to expect the banks to not try to indirectly buy the certificates out of the basket - they will do that anyway to a certain extent. But certainly if you are going to offer this to the public now, it will cut the banks' allotment down very greatly, and I think there would possibly be more reason for the banks indirectly buying certificates out of the basket.

MR. BELL: You would throw that three hundred million dollars already outside of the banks into the banking system?

MR. ECCLES: Well, two and a half billion, and keep them out of the basket. I mean, keep them from getting their directors to subscribe for them, their affiliated companies to subscribe for them, or brokers to subscribe for them. What I am afraid of is, if you put the certificate in the basket you will likely have a lot of certificates which were sold last time - you will have a lot of certificates sold last time - at least some of them - bought by corporations now sold to buy the new ones again.

H.M.JR: I gather you haven't had any preliminary talk on this?

MR. BELL: Yes, we had one the other day and discussed this whole thing. We had one over in the Board. I feel that the certificate should be in the basket, because I think there is some money there that we should go after in that form of investment.

I don't think that the salesmen ought to go around to a corporation and ask them to subscribe and let them say, "You haven't got the kind of paper that I want. We

don't want your tax notes; we have all those we need to pay our taxes. We want a negotiable security, and it shouldn't be over a year." I think you will find a lot of them that will say that.

H.M.JR: What is the hurry? You didn't tell me there was such a hurry about this refinancing.

MR. BELL: August 1 is coming along here.

H.M.JR: Yes, but I haven't had any warning on this thing.

MR. BELL: Yes, I warned you last week. I said that we had to do this this week - the middle of this week.

MR. ECCLES: You talked of the 19th as the date.

MR. BELL: We talked about it last week.

H.M.JR: It didn't register.

MR. BELL: I am sorry. I said we would have to make this decision this week.

H.M.JR: It is just coming to me out of a clear sky. You didn't talk to me about this, Haas, up on the farm Saturday.

MR. HAAS: No, that didn't come up.

MR. BELL: That is in his memorandum.

H.M.JR: I had the three men up there Saturday. They never mentioned it to me.

MR. BELL: It was mentioned at our conference last week that this was one thing we had to do the middle of this week.

H.M.JR: They never discussed it with me.

MR. HAAS: We discussed it here, but not up at the farm.

H.M.JR: I think it rushes me so. It is a lot of money. I don't want to make any mistakes. We have these other people in here and are waiting to get their advice. I don't know how they are going to advise me.

MR. BELL: That is on the basket.

H.M.JR: Yes, but Eccles says--

MR. ECCLES: I think it makes a real difference.

H.M.JR: He says how he advises us makes a difference on how we go on the basket. We haven't decided it.

MR. ECCLES: I think we all feel that way - the Fed, Hap, and all feel the same way, that if the certificate is to be in the basket it calls for a different program than if it is going to be left out of the basket.

MR. RANSOM: Mr. Secretary, I don't see how you can decide one without deciding the other.

H.M.JR: I can't decide the basket for another day or two.

MR. BELL: I don't see as they are tied in so closely.

H.M.JR: You have all of next week.

MR. BELL: Yes, but remember, if you are going to leave it open Monday and Tuesday and then you close the books, you don't make your allotment until all of your mail subscriptions are in, which is about Thursday. Then you mail that to your banks and they have to mail out their notices of allotment and you have to get your money back by the following Monday. There just isn't time enough.

H.M.JR: Where is Viner? Somebody said he was here.

MR. BELL: He is in the meeting across the hall.

H.M.JR: Eccles, do you mind if I ask some other people?

MR. ECCLES: Not at all. Maybe I have taken up too much time now.

H.M.JR: Frankly, I didn't know this was - as I say, I didn't know I had to decide this today. I don't see how we can decide it today.

Goldenweiser?

MR. GOLDENWEISER: I haven't given it a great deal of thought. I confess I don't think that the difference between the two and a half billions and the three billions to be offered now is as big a difference as that, and you could decide either way without making a mistake, regardless of what you decide for your basket.

I would be rather favorable to a larger subscription, make it three billions, and then because you have an awfully lot of money to get anyway, you might as well get it.

I would favor, of course, not including it in the basket; but if you are not prepared to make your decision, I would decide on three billions now, anyway.

MR. ECCLES: Would you offer it to the banks only?

MR. GOLDENWEISER: Yes.

H.M.JR: How about you?

MR. EVANS: We talked this over this morning, Mr. Secretary, and I agreed exactly with the Chairman's point of view on the whole thing.

H.M.JR: You have nothing else to offer?

MR. EVANS: Nothing else, no, sir.

H.M.JR: How about Boston?

MR. PADDOCK: As far as details are concerned, I agree with the Chairman. I think three billion dollars' worth of certificates if you put it out at this time - I think that is what the salesmen want. I would leave the certificate out of the drive, and I would have a smaller total in the drive. I think that is a pretty large amount to figure on getting without the banks.

H.M.JR: Would you open it to the public, or just confine it to the banks?

MR. PADDOCK: Banks.

MR. RANSOM: I have no different opinion than the views the Chairman has expressed. We have given a lot of thought to it, Mr. Secretary, and I feel that the certificate ought not to be in the basket. I think that that being the case you come out at the other conclusion that Mr. Goldenweiser says, you might as well offer the three billion now. Frankly, I think that will contribute to keeping it out of the basket.

H.M.JR: George, what do you people think?

MR. HAAS: I would go two and a half and then I would put rights on it - I would put some controls on it - a formula on it - and also full cash for the hundred thousand, and ten percent on the other outside the banks.

H.M.JR: You mean open it to the public?

MR. HAAS: Yes, not banks alone. And I would stay at two and a half, on the smaller side, because we are experimenting with the new controls and I would favor putting - another reason I would favor putting it in the basket - I do recall you did discuss this up there. You raised it up at the farm. What I outlined there is identical to the bankers' recommendation, except that they ask for three. Isn't that right, Dan?

MR. BELL: They ask for three, yes.

MR. HAAS: But the only difference in my recommendation was to drop the amount.

MR. PISER: I have nothing to add to what the Chairman said.

H.M.JR: Murphy?

MR. MURPHY: I would agree with what Mr. Haas said, except that I think I would lean toward the three. The consideration that would cause me to lean toward the three is that I would like to see somewhat more of a balance right at the beginning of the drive than we would have otherwise. That is, I wouldn't like to see us come right down and scrape bottom on our working balance.

I don't think, however, that there will be much market difference between two and a half and the three, and it may be that Mr. Haas' caution would be justified by the circumstances, although personally I would be quite confident of the three.

MR. YOUNG: I would rather see you put out three billion dollars and confine it solely to the banks with a formula of about seven percent of their net demand - net deposits, with the same restrictions that Chairman Eccles mentioned.

H.M.JR: Seven percent?

MR. YOUNG: Yes, as far as banks are concerned. Seven net on net demand deposits would be about seven percent - about eighty-five million - so that won't be too much out of line with three billion dollars. That would be fifteen percent, then allotment if they all came in and subscribed for what they were allowed to.

If you sell the three billion dollars then and reduced your estimated quota - your proposed quota - then I don't think it is necessary to have it in the drive. But it is

true that the corporations that we have talked to would rather have the seven-eighths - that is, for their current funds.

MR. ECCLES: Don't you think, Hap, that as to whether it is in the drive or not depends on what you are going to raise? I mean, that is the big factor.

(The Secretary left the conference temporarily.)

H.M.JR: Got it all settled?

MR. BELL: Do you want to ask Rouse?

MR. ROUSE: In view of the situation as it has prevailed here this afternoon, Mr. Secretary, it seems to me that a decision has to be made on this before you decide on your basket. In the light of that, either amount, two and a half or three billion, seems to me not material.

H.M.JR: I agree with you.

MR. ROUSE: You can easily go to the three and have the assurance that Mr. Murphy mentioned. In view of that and the other situation, I would be inclined to give rights on the - give an exchange against the billion six to any holder, whether it is a bank, a corporation, or an individual, as the case may be. I would offer the balance to the banks for subscription on a yardstick basis.

H.M.JR: May I interrupt you? How did we do the last one, give rights or pay it off?

MR. ROUSE: On the last one we gave rights.

MR. BELL: That was in the drive.

MR. ROUSE: During this subscription this week you would announce the terms of the basket so that others would know they were going to be taken care of and how. It seems to me you could make that decision tonight or the first thing in the morning.

H.M.JR: On what?

MR. ROUSE: On this offering, without having to decide the basket at the same time. You have to decide that in the next day or two. That is what I was referring to as circumstances.

If you do it on the basis I suggest I don't see as you are compromising anyway.

H.M.JR: You are suggesting that we give people the rights for the billion six?

MR. ROUSE: Yes, sir.

H.M.JR: And then offer the nine hundred or a billion?

MR. ROUSE: Yes, for cash subscriptions.

H.M.JR: What basis would you do it on?

MR. ROUSE: I would do that on the basis of only bank subscriptions.

MR. ECCLES: On the formula.

H.M.JR: What was the formula?

MR. ROUSE: I didn't suggest a formula. You have any number here. As long as there is one, it is all right with me. I would do it on the basis of a percentage of net deposits, and capital and surplus; whichever is greater would be the one I prefer, designed at the maximum to produce an allotment of forty to sixty percent in relation to the amount offered. If you choose the seven percent of assets, it is equally good with me.

H.M.JR: What about the old formula, fifty percent of capital and surplus?

MR. ROUSE: It doesn't meet the situation in the banks, the new big banks, the banks in the southwest,

on the Coast, and the south generally where the new deposits are going. It isn't a fair thing to those banks.

MR. ECCLES: They have had the big growth and not the money, so you have to base it on the deposits, I think.

MR. BELL: The bankers suggested a hundred percent of capital funds, or five percent of deposits, whichever is higher, for the formula.

MR. ECCLES: That would meet it. It is a little more complicated having two different formulas.

MR. BELL: It gives the high capital ratio banks a little--

MR. ROUSE: There is no problem about it, because I think generally speaking, bankers read and figure it-- (Laughter)

MR. ECCLES: Generally speaking - (Laughter) I agree with Bob. If you can't decide the basket, I think that is the other alternative.

H.M.JR: Well, how long will you be at your office this evening?

MR. ECCLES: Until seven.

H.M.JR: If I could - I am at a disadvantage - if I could go into a huddle with my own people, then either Bell or I call you a little later - I will try my best to settle this this afternoon.

MR. ECCLES: All right.

H.M.JR: Could you stay around in Bell's room and wait a little bit?

MR. ROUSE: I will be glad to.

cc-Mr. Gamble.

July 20, 1943.
3:46 p.m.

Operator: Go ahead.

HMJr: Hello.

Nick Schenck: Hello, Mr. Secretary.

HMJr: Yes, Mr. Schenck.

S: Of course, it's all right.

HMJr: Good.

S: When do you want him?

HMJr: Oh, I want him today but what's reasonable?

S: Well, I don't think that he can get there today but how about tomorrow?

HMJr: Tomorrow would be wonderful.

S: I beg your pardon?

HMJr: Tomorrow would be wonderful.

S: Well, I'll see to it that he closes his things up as fast as he can and gets there and reports to you....

HMJr: Is he coming to me tomorrow - can he get here tomorrow morning?

S: Well, I don't know if he can there, but I'll try it.

HMJr: If he needs any help on a seat on a plane, we'll get it for him.

S: Fine.

HMJr: Let him call up Gamble. He'll get him a seat on the plane.

S: All right. I'll do that.

HMJr: Well, I appreciate that very much.

S: Yes, Well, you know how I feel about the whole thing and especially since you called me for it....

HMJr: Well, I....

S: I appreciate a great deal what you did, you know.

HMJr: Well, it helps.

S: All right, sir. I'll get him over then and you give him a few minutes so he can talk to you.

HMJr: Tomorrow.

S: Yes.

HMJr: Oh, definitely.

S: All right, sir.

HMJr: Thank you.

S: Good bye.

HMJr: Good bye.

July 20, 1943
3:50 p.m.

FINANCING

Present: Mr. Bell
Mr. Haas
Mr. Gamble
Mr. Murphy
Mr. Lindow
Mr. Tickton
Mr. Rouse
Mrs. Klotz

MR. BELL: Can I read the bankers' recommendations on just the interim financing? (Copy of Memorandum of American Bankers Association attached.)

H.M.JR: I wish you would.

MR. BELL: This was the question, "Should a limitation on bank and other subscriptions be established on the August 1 issue; should subscriptions of $100,000 be allotted in full with 100 percent down payment required; should this offering be open only to banks?"

"We recommend that 3 billion of new 7/8% 1-year Certificates of Indebtedness be issued to take up the certificates maturing August 1, 1943 and to provide one and one-half billion new money. We suggest that holders of maturing certificates"--

H.M.JR: What did they say?

MR. BELL: Three billion dollars, which would be a billion and a half new money. "We suggest that holders of maturing certificates be permitted to exchange them for the new ones.

"Answering your question, we suggest that bank subscriptions be limited to 100% of capital funds or 5% of deposits, whichever is higher, as shown by the last published figures, except that bank subscriptions up to $100,000 be allotted in full. As to subscribers other than banks, we think subscriptions of $100,000 should be allotted in full and down payment of 100% be required and that above $100,000 10% be required. Subscriptions should not be limited to banks."

H.M.JR: Well, look, let's go along point by point. My own opinion is that it should be - when I say my own opinion - I think it should be limited to the banks.

MR. BELL: You think it should?

H.M.JR: I do.

MR. BELL: I don't have as much objection to it as I did. I was opposed to the other one, and I think that the fact that you are going to announce the basket about the same time or in a day or two takes that curse off of a banking issue only. I wouldn't feel badly if it went to banks only, although I was opposed to it strenuously before.

H.M.JR: Let's each one say what he thinks. Don't say, "I agree with Chairman Eccles." Either have a mind of your own, or you are of no use around here. (Laughter)

MR. LINDOW: I think it is better to let everybody come in. I think the public effect is better than to have an offering at this time solely confined to banks.

Now, after the drive I think it might be all right to have an offering confined to banks, that is, within two or three weeks; but I think it may be misinterpreted and that the Treasury may be criticized. I don't see any particular gain in trying it.

H.M.JR: All right, Henry?

MR. MURPHY: Is it permissible for me to agree with Lindow? He is different from Chairman Eccles. (Laughter) I go along with him. I think it might be unfortunately interpreted. I think the public is - after the emphasis we have had on trying to reduce bank subscriptions, I doubt if an offering solely to banks would be correctly interpreted. After the drive, yes, but I prefer it not now.

H.M.JR: Say it again.

MR. MURPHY: You will notice, Mr. Chairman, that the bankers themselves-- (Laughter)

H.M.JR: Pardon me - Mr. Chairman? (Laughter)

(Mrs. Klotz entered the conference.)

MR. MURPHY: You will notice the bankers themselves, who would be the principal beneficiaries in an offering directed solely to banks, are afraid of the psychological effect, and that their official committee has recommended to you that they should not be singled out. They feel that the psychological effect would be unfortunate. I am inclined to believe they are the best judges. There is nothing wrong with it mechancially or intrinsically; it is just that I don't think it would strike the public right.

MR. BELL: I think it would need explaining, too.

MR. HAAS: You would have to say that the banks are not going to be in the drive, and try to hook it up. It would bring up the question--

MR. MURPHY: An offering to the people of the United States does not have to be explained, but an offering just to the banks will. It seems to me that the thing that should be done would be the thing that requires - that doesn't have to be explained away, rather than the thing that has to be explained away.

H.M.JR: All right, Mr. Piser. (Laughter)

Now, Doctor Goldenweiser, what have you got to say? (Laughter)

MR. HAAS: I think that before you do a job solely for banks you must have first done a real job on individuals. Then I think it will go ahead all right. What I think is a perfectly safe thing to do is the thing I suggested, keep the two and a half and take the bankers' suggestion - the whole thing, except the three billion - cut it down. And I

think it leaves you open - you undoubtedly will put the seven-eighths in the basket.

H.M.JR: Yes.

MR. HAAS: Everybody is recommending that, except this - I mean - I won't mention it. (Laughter)

H.M.JR: I am just doing one thing at a time. It has been crowded here. So much for this for the minute.

MR. TICKTON: The only reason that you would have it for banks is the assumption that you are going to sell an important portion of this to non-banks and take it away from the drive. There is no evidence that a very important volume of these certificates gets sold to non-banks in a two-day offering.

Also, I gather from having listened to these salesmen for a little bit this afternoon, and after talking about quotas, that as soon as the idea gets around that there are going to be very large quotas in September, your corporations will want the publicity of coming in on the drive and will not show up for a seven-eighths-percent certificate the 1st of August. So the advantage that might otherwise seem a large one, really will be discounted by the activities of these salesmen who are amazed at the size of the quotas and are going to be telling everybody, "Boys, wait for September."

They discussed a few minutes ago how the pay-roll savings drive is getting in the way of September. They think that is bad. There shouldn't be anything to take off of September. I think they will get that around.

H.M.JR: Pay-roll savings is bad; I will agree with that.

MR. TICKTON: There was a union statement on Sunday. They said that that was going to get in the way of the drive. But they are so bowled over by the size of the figures that they will get the word around pretty soon, "Please save your subscriptions for the September drive." I think that will prevent, in some important cases, any subscription for certificates in August.

H.M.JR: Now wait a minute. The consensus here is - plus this report from the Bankers which I just got now - that we should have the billion six; it should be turned over.

MR. BELL: Exchanged.

H.M.JR: We agree on that?

MR. MURPHY: Check.

MR. HAAS: I do.

MR. LINDOW: Yes.

MR. TICKTON: That is all right.

H.M.JR: Then my own feeling is that we make it nine hundred million for cash. If we make it, how much would you have? Let's call it a billion. Why don't we call it a billion cash?

MR. BELL: It would be two billion six. That is what you would get out of it really.

H.M.JR: Say a billion cash; if you had that, how much would you have?

MR. BELL: We would go into September with a little over three billion dollars.

H.M.JR: Is that all right?

MR. BELL: Yes, that will last us. But in the next period - in the cash estimates there is an increase of five hundred million in the November certificate. I don't know whether we can increase the certificate of five hundred million any more the way they subscribe for it.

H.M.JR: Why not - let's say we will offer them the rights. That is simple, isn't it? They just exchange the billion six for--

MR. HAAS: That gives the banks a break, because most of them are now held by banks, and they just turn over.

H.M.JR: Then we are going to offer a billion dollars more for cash. Is that right?

MR. BELL: Yes.

H.M.JR: A billion dollars?

MR. BELL: That is all right.

H.M.JR: A billion dollars for cash, all right?

MR. BELL: Yes.

MR. MURPHY: Or a billion and a half, it doesn't matter.

H.M.JR: That extra half a billion dollars may look awfully good in September.

MR. MURPHY: Could I raise a question? Mr. Bell speaks of going into September with three billion. What I am thinking of is the working balance on the 15th. I have the theory - which may not be a good one - that even immediately upon the eve of the receipt of the large amount of money we ought to keep a more or less appreciable working balance.

H.M.JR: The drive opens on the 9th - don't we begin--

MR. BELL: We don't get any money until the 15th, but the three billion three will be ample to carry us through the 15th. I haven't figured just what it will be, but we ought to spend possibly two and a half billion up to that date, and we will begin to get taxes along about the 10th. Your taxes will come in heavy between the 10th and the 20th.

H.M.JR: Are you satisfied?

MR. BELL: Yes, I am satisfied. It wouldn't worry me any if we had to borrow a little at that point.

H.M.JR: I mean, half a billion dollars may not sound so important here; but if we are going to need it for the drive, I would rather--

MR. HAAS: You want this to go over with a bang preceding the drive.

H.M.JR: Let's keep it to a billion dollars, a billion dollars of certificates for cash, everybody can subscribe.

MR. BELL: Open to everybody?

H.M.JR: Open to everybody?

(Group indicated affirmatively.)

H.M.JR: Why give any preferred allotment?

MR. BELL: I would rather not make any preferred allotment - ten percent downpayment on all.

H.M.JR: I would make it--

MR. BELL: If you are going to give any preferred allotment, I would like to reduce the hundred thousand to fifty thousand, and I would like to use our old wording of "preferred allotment," rather than "allotment in full."

H.M.JR: No, I wouldn't give any preferred allotment.

MR. MURPHY: One difficulty with a billion is that the allotment for general allotment is liable to be zero; that is, preferred allotment may take up the whole billion. It will look kind of foolish.

H.M.JR: No preferred allotment?

MR. MURPHY: At a billion I think you are more or less forced to abandon it because there is an important document for it - you are squeezed out of it.

H.M.JR: You are taking care of the banks that have already subscribed. If the fellow wants to get something he can go out and buy a few rights, can't he?

MR. BELL: Yes.

H.M.JR: My inclination is for no preferred allotments and twenty-five percent down.

MR. BELL: Twenty-five? I had ten. Twenty-five percent on down payment?

H.M.JR: Yes, sir.

MR. BELL: The trouble with that is you have to refund a lot of money if the allotments are less than twenty-five percent.

MR. MURPHY: One purely psychological difficulty with it, it seems to me, is that the allotment - the down payment is so small this time; and to put it from way down here (indicating) to way up here (indicating) sort of looks as if you are--

H.M.JR: Ten percent - I will go along with ten percent. How are you going to let banks subscribe, use this formula of the bankers?

MR. BELL: The bankers suggest a hundred percent of capital funds or five percent of deposits, whichever is higher. I take it the Board liked that. That deposits means total deposits, I take it, including the war loan and including inter-bank.

MR. MURPHY: And capital funds includes undivided profits.

H.M.JR: How much would we get under that?

MR. BELL: A hundred percent would give you about eight billion.

MR. MURPHY: We figure the deposits were about a hundred million and the capital funds seven billion, about, so you get five billion on one basis and seven on the other. But each bank can elect to take the higher of the two bases, so your total permissible subscriptions would be seven and a half to eight billion with only a billion of new cash. That is a pretty loose-fitting garment.

MR. BELL: It would be somewhere between seven and five.

MR. MURPHY: They would have to be a bit higher than seven, because they have the choice of the two bases. In one it is seven because capital surplus and undivided profits will be about seven.

MR. BELL: This certainly would be ample for the amount of money.

MR. MURPHY: Of course, you won't get that many subscriptions; but if everybody subscribed their limit, you could get between seven and eight billions.

MR. HAAS: That is just for the banks alone, too.

MR. MURPHY: That is right, and only a billion to go for, so you are all right.

MR. BELL: If you are going to open it to the public, it wouldn't do any harm to take a billion and a half.

H.M.JR: A billion is plenty.

MR. BELL: From the standpoint of the cash I think it is. From the standpoint of allotting and subscribing--

H.M.JR: Well, it will be eleven hundred million.

I think what I am going to do so we don't get this thing - last time we let something get through our fingers. I am going to ask Mr. Bell and his staff to write this

thing up tonight. We will meet here again at nine o'clock tomorrow. Everybody sleep on it and get a chance - we will review the thing again at nine tomorrow. If it is all right, we can give it out by ten o'clock.

(Mr. Rouse entered the conference.)

H.M.JR: Do you think that is all right?

MR. BELL: Yes. I think it crowds us a little tomorrow.

H.M.JR: You mean you want to get it out tonight?

MR. BELL: I did.

H.M.JR: I won't stop you. I am all right if you fellows are all right.

If we got it to you by ten o'clock, could you print it and get it in the mail tomorrow afternoon?

MR. ROUSE: I believe so.

H.M.JR: You might send them the preliminaries tonight and get ready for final word by ten tomorrow morning.

MR. ROUSE: We could do that, Mr. Secretary. They could have it put in type for the form you sent up, which we received yesterday - which I recall the banks received - have that put in type, and any changes you have ready tonight, and then the final thing the first thing in the morning would be all right.

H.M.JR: As I say, it is nobody's fault but my own, but they rushed me a little bit. I want to get it in shape and then have a fresh look at it tomorrow morning. It is a lot of money. I would feel better about it.

MR. ROUSE: We can handle it.

H.M.JR: Give it for immediate release to the newspapers at ten o'clock.

MR. ROUSE: The thing will be very widely spread promptly over the telephone wires.

(Mr. Gamble entered the conference.)

H.M.JR: I want you to know about this. Rouse hasn't heard about it. What we think of doing is - a billion six hundred million dollars' worth of certificates come due on August 2. We are offering to present holders the right to subscribe to a new issue of the same amount. That is number one.

Then, number two, we are proposing to offer a billion dollars for cash of new certificates, one-year, seven-eighths, with no preferred allotment to anybody. Everybody has a right - open it to the public.

MR. BELL: Down payment--

H.M.JR: Down payment of ten percent. And then for the banks, five percent of their total deposits or their surplus deposits, either one, whichever is the higher. They can have their choice. They say this roughly makes available about eight billion dollars' worth of subscriptions.

MR. ROUSE: From a Reserve Bank standpoint, would you want us to place - have any ceilings on subscribers other than banks?

H.M.JR: I don't think I understand. You mean, do we expect you to do policing?

MR. ROUSE: Yes, to have restrictions on subscriptions from other than banks.

H.M.JR: Yes, you make your house rules.

MR. ROUSE: We had rules which Dan has there that you published about a year and a half ago before the advent of war financing.

H.M.JR: Look, if it is all right with you fellows, it is all right with me.

MR. BELL: I hate to go back to those restrictions.

MR. HAAS: Let's try the ten percent first.

MR. ROUSE: I am willing to try it and see if we have to do it.

H.M.JR: What I would do is this - are you satisfied so far?

MR. ROUSE: Yes, sir.

H.M.JR: Are you satisfied?

MR. GAMBLE: Yes, sir.

H.M.JR: They wanted three billion, but I want to keep it down to two billion six so we will have them with their tongues hanging out in September.

If you will adjourn this meeting to your (Bell's) room and get the thing all fixed up, Mrs. Klotz will put it down for nine o'clock tomorrow morning and we will have a fresh look at it.

MR. BELL: You want a formal release tomorrow by ten or just an informal one?

H.M.JR: You mean all?

MR. BELL: Yes.

H.M.JR: I think just the stuff for Schwarz to give.

MR. BELL: Then a formal release Thursday morning announcing it in the usual way, or would you rather have a complete release?

MR. ROUSE: I would put a little more in than usual, but you mean the substance of the terms tomorrow morning with all the additions Thursday morning - that is fine.

MR. BELL: It will probably get a little better play because your morning papers will carry it.

H.M.JR: Are you satisfied on this?

MR. ROUSE: Yes. It isn't exactly what I suggested.

7-20-.30

MEMORANDUM

For The

SECRETARY OF THE TREASURY

By The

SPECIAL COMMITTEE ON TREASURY WAR BORROWING

Of The

AMERICAN BANKERS ASSOCIATION

As requested by you we have reviewed the memorandum submitted by the Federal Reserve Board, and in this connection discussed the matter with Mr. Eccles and also with Mr. Bell, Mr. Haas and their associates in the Treasury Department. The Federal Reserve and the Treasury both agreed that the general present pattern of rates on government securities should be maintained within limits that, while permitting some market fluctuations, will not vary up or down to a degree that will shake the confidence of the public in the general stability of the rate structure. With this we fully agree.

Federal Reserve Memorandum

At the present time the supply of short-term Government securities running up to 10 years which are particularly suitable for bank investment is not, except in the case of 90-day bills, equal to the demand. The supply of 90-day bills at the present rate of 3/8 of 1%, even with the agreement of the Federal Reserve banks to purchase them at this rate, has reached the saturation point. At the present time it is obvious that any increase in the amount of bills outstanding will find their way into the Federal Reserve banks. This lack of short-term investments, other than 90-day bills, suitable for bank's investment, has caused many banks to buy long-term government

securities which were designed primarily for other investors and has put an undesirable pressure on the whole rate structure, tending to dislocate it and to lower the rate on long-term government securities to a point where investors other than banks will not buy them.

The Federal Reserve suggests that no more bills or year certificates be issued, but that instead 9 months bills or certificates, bearing 3/4% interest, be issued into which the present outstanding bills and 1-year certificates would be refunded as they mature and that the Federal Reserve banks would agree to purchase such 9-month bills or certificates at 3/4 of 1%.

While the proposal of the Federal Reserve System would tend to alleviate the present pressure for short-term securities available for bank investment, we believe that the same result might be obtained by not enlarging the amount of 90-day bills outstanding until the market has clearly demonstrated its ability to absorb them, and increasing the supply of 1-year 7/8 certificates, and supplying more 1 1/2% notes having a maturity of 5 years or less and of 2% bonds having a maturity of 10 years or less when the next offers designed primarily for banks are made by the Treasury. We believe it better to try this program to see if it would not remedy the situation rather than at this time adopt the Federal Reserve Board's suggestion.

If this does not remedy the situation, then some plan along the lines of the Federal Reserve should be given serious consideration. The objectives of the Federal Reserve and the Treasury are so nearly identical that close cooperation between the two in adopting a common objective and making effective a program should bring success.

In regard to the specific questions which are contained in the

memorandum submitted by the Under Secretary and on which we were requested to give our recommendations, they are made in the general light of the foregoing conclusion.

THIRD WAR LOAN

1. What securities should be in the basket for each class of investor?

We recommend for the basket the following:

7/8% 1 year Certificates of Indebtedness

2% Bond due 10 years callable 8 years

2 1/2% Bond due Dec. 15, 1969 callable Dec. 15, 1964

E, F, and G Savings Bonds

Present Series C Tax Savings Notes

We recommend the inclusion of 7/8 one year certificates because we believe that without them, it would be difficult and probably impossible to get corporate subscriptions to the amount estimated.

Simultaneously with the announcement of the basket we think that a statement should be made that the 7/8% Certificates of Indebtedness and the 2% Bonds will be offered to banks only not earlier than October 15 nor later than November 1 in a minimum amount of 2 1/2 billions, this amount to be increased as may be needed, of which a substantial amount will be of the 2% bonds. We believe such an announcement would tend to reduce the pressure from banks seeking to invest excess reserves during and immediately after the period of the drive.

2. Should the timing of the corporation part of the drive be separated from the individual part?

Answering question two we think that the corporation part of the drive should not be separate from the individual part.

3. Should banks be offered the marketable securities issued in the drive after the close of the drive?

The third question has been answered in connection with question one.

4. Should a partial payment system be established for the 2-1/2's; for large denomination E bonds?

Answering the fourth question there should be no partial payment plan for the 2 1/2's particularly if G's are offered and we see no practical way to provide for partial payment of E bonds on account of administrative expense, shortage of manpower and difficulty of policing.

5. Should the Treasury and the Federal Reserve publicly encourage the withdrawals of bank deposits for the purchase of war bonds during the drive?

Answering number five we recommend that that question be left to the State Chairmen and their committees acting in collaboration with the banks and because of the varied conditions that prevail throughout the country. This is particularly important in states where there are Mutual Savings Banks.

INTERIM FINANCING

Should a limitation on bank and other subscriptions be established on the August 1 issues; should subscriptions of $100,000 be allotted in full with 100 percent down payment required; should this offering be open only to banks?

We recommend that 3 billion of new 7/8% 1-year Certificates of Indebtedness be issued to take up the certificates maturing August 1, 1943 and to provide one and one-half billion new money. We suggest that holders of maturing certificates be permitted to exchange them for the new ones.

Answering your question, we suggest that bank subscriptions be limited to 100% of capital funds or 5% of deposits, whichever is higher, as shown by the last published figures, except that bank subscriptions up to $100,000 be alloted in full. As to subscribers other than banks, we think subscriptions of $100,000 should be allotted in full and down payment of 100% be required and that above $100,000 10% be required. Subscriptions should not be limited to banks.

QUOTAS

No. 1 - Over-all quotas.

There should be an overall quota. We haven't sufficient information to advise as to the amount, but it should not be set higher than you can reasonably expect to attain. It appears to us that the amount of 7 billions for individuals is too high.

No. 2 - Should over-all quota be broken down by States and other political sub-divisions?

We think state quotas should be fixed and that any further breakdown should be left to the State Chairmen and their committees.

No. 3 - Should any quota or quotas be broken down by types of securities?

No. We think impractical.

No. 4 - Should the total be broken down by classes of investors?

We think should be done for benefit of State Chairmen but not made public.

No. 5 - What quota or quotas should be made public?

Total quota should be announced and any other publicity on quotas should be left to the State Chairmen.

Filed 4:00 p.m. 7-16-43

July 20, 1943
4:15 p.m.

Re: Request of Senator Truman regarding location of War Finance headquarters.

Present: Mr. Gamble
Mrs. Klotz

H.M.JR: I got all excited. Senator Truman called me up - this is from the sublime to the ridiculous - and said he would consider it a great, great favor if I would not move the War Finance office from Jefferson City to St. Louis.

How important is it to you?

MR. GAMBLE: It is very important. We have already moved it, as a matter of fact.

H.M.JR: You already moved it?

MR. GAMBLE: But we can keep a district office - as a result of his interest we can keep an office in Jefferson City. We have already rented the space in St. Louis.

H.M.JR: Have you given up the other?

MR. GAMBLE: I don't know that we have given up the other space, but even if we have we can maintain a district office.

H.M.JR: I wouldn't do it if it is--

MR. GAMBLE: It is very impractical. I will tell you what happened. There was a little bit of a political

situation. Our man located this office in Jefferson City, with the story they didn't want to be in either Kansas City or St. Louis. It is ridiculous, with St. Louis one of the financial centers of the country, not having State headquarters there. But Mr. Head is chairman, and we moved the--

H.M.JR: I will send him a telegram. Say, "Have looked into the question that you telephoned me about and find that the decision had already been made to move the State headquarters of War Finance to St. Louis. I find that this is in the interest of efficiency and economy. Kindest regards."

EXPENSES OF LOANS

July 20, 1943

SENATOR HARRY S. TRUMAN
PRESIDENT HOTEL
KANSAS CITY, MISSOURI

AM SORRY I DID NOT HAVE YOUR VIEWS BEFORE TODAY CONCERNING LOCATION OF THE WAR FINANCE HEADQUARTERS. I FIND THAT CONSIDERATIONS OF ECONOMY AND EFFICIENCY HAD DICTATED THE MOVE TO ST.LOUIS WHICH IS NOW UNDERWAY AND WHICH COULD NOT BE RECONSIDERED WITHOUT SETBACK TO THE ORGANIZATION WHICH IS IN ADVANCED STATE OF FORMATION. KINDEST REGARDS

HENRY MORGENTHAU, JR.
SECRETARY OF THE TREASURY

Mrs. Four: Hello, Mr. Secretary.

HMJr: Tell Mr. Smith this, that he should get in touch with Mr. Bell when he gets in - we'll have a release on - financing which should be typed tonight - we're having a meeting at nine o'clock on it tomorrow morning but I want all the work done tonight.

F: Yes, sir.

HMJr: He should see Mr. Bell as soon as he comes over because I want the thing released before ten o'clock tomorrow.

F: All right, sir. I certainly will.

HMJr: Have you got that?

F: Yes, sir, I have.

HMJr: Thank you.

F: Thank you.

25

JUL 20 1943

Dear Frank:

The Third War Loan Drive, beginning September 9, 1943, will aim at raising the largest amount of money from individuals that any drive has raised in the history of the world.

Between July first and the end of the calendar year, we will spend about 35 billions of dollars more than we will take in. It is costing $240 millions a day to equip our armed forces and take care of other necessary war expenditures. This is nearly $100 million a day more than we were spending last year at this time.

In the September drive, we want to get from individuals a substantial part of the money necessary to carry on the war.

Selling the huge amount in bonds called for in our new program will require a more determined effort than we have ever exerted before. We will have to sell bonds to nearly every man, woman, and child in America.

We will have to promote the sale of bonds 24 hours a day and solicit - and follow up these solicitations - from house to house, from bench to bench in factories, and from desk to desk in offices. We need the cooperation of all the people everywhere, for to do the job ahead we must not only extend the pay-roll savings plan, but we must also sell more extra bonds every pay day to more people.

During the last six months of this calendar year, we must sell more than twice as much in bonds to individuals as we did in the first of the year. Asking for twice as much money from individuals may look as though we are setting an impossible task, but it is possible. The earnings of individuals during the last half of the year will be about $72 billions and the available savings from these earnings of individuals will be about $23 billions. We are going after the greater portion of these savings because it is necessary for us to get this money either through bonds or taxes, not only to finance the war, but also to protect ourselves against inflationary spending.

One of the main channels for selling bonds to salaried employees and wage earners is through the pay-roll savings system. At the present time, 27,000,000 employees in Government

Initialed copy to Thompson.
Copy of ltr and enclosure
in diary.

ment and industry are purchasing $420 millions of War Savings Bonds a month through the pay-roll savings plan. Our new objective is to increase this to $600 millions a month.

Civilian employees of the Federal Government are now investing approximately $35 millions a month through the pay-roll savings system. This does not include bond purchases by employees of the post offices throughout the country because they have not as yet installed the pay-roll allotment method. However, I am informed that you have approved the installation of the pay-roll savings plan in the post offices at Washington, D. C. and Baltimore with the understanding that if it proves successful in operation it will be extended to other post offices.

The purpose of this letter is to ask if you would be good enough to release a statement in the near future concerning the Washington, D. C. and Baltimore installations, and that you would consider extension of the plan to post offices in other cities as rapidly as possible. In this connection, I am enclosing for your convenient reference a copy of a letter recently addressed to me by the President saying that "the pay-roll savings plan is the greatest single factor we now have in protecting ourselves against inflationary spending." In an earlier letter, the President said that "The wholehearted support of the voluntary system of pay-roll savings by employees of the Federal Government will have a most stimulating effect on our soldiers, sailors, and marines, as well as the millions of war workers in private industry; while our indifference seriously affects the support of those who look to us for guidance." The President then added that "It would please me very much if the employees of the Federal Government should lead the way in the development of a systematic method of sustained savings through the pay-roll allotment plan."

In the absence of a general pay-roll savings plan in the post offices, I would appreciate it if you would designate someone to confer with Mr. E. F. Bartelt, Chairman of the Interdepartmental War Savings Bond Committee with a view to stimulating cash sales of War Bonds to Postal employees during the Third War Loan Drive.

I hope you will give this matter your personal consideration.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Frank C. Walker
Postmaster General of the U. S.
Washington, D. C.

artelt:JM
16/43

Enclosure

THE WHITE HOUSE
WASHINGTON

June 24, 1943.

My dear Mr. Secretary:

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

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

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

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

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

Sincerely yours,

Franklin D. Roosevelt

The Honorable,

The Secretary of the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

July 20, 1943

TO: The Secretary's Office

FROM: Mr. Delehanty

I am attaching a copy of the material included in the promotion built around the letters from the Chief Justice and the members of the Internal Revenue Taxation Committee.

1. The full-page newspaper ad together with the 1000 line, adaptation were sent to 3,000 newspapers, with a request to insert this advertisement at the very first possible moment.

2. 250,000 copies of the attached poster were mailed from Chicago to every plant on the Tickton list. Additional copies were sent to each State Administrator for a supplementary distribution in his State.

3. The three-column mat release of each letter was mailed to approximately 2500 company publications and 950 Labor Press papers.

4. Reproductions of each letter were sent to approximately 30,000 plants throughout the country using the Tickton list.

To Newspaper Advertising Managers

Here is an important message concerning the Payroll Savings Plan. It will obtain an unusually high readership because it will be of interest to every American. We suggest that you insert it in the earliest convenient issue as a replacement for another advertisement in your War Bond advertising schedule.

War Finance Division
U. S. Treasury Department

★ ★

TO THE AMERICAN PEOPLE

SUBJECT: *A RECOMMENDATION...*

FROM THE CHIEF JUSTICE OF THE U. S.

Supreme Court of the United States
Washington, D. C.

CHAMBERS OF
THE CHIEF JUSTICE
1426 TWENTY-FOURTH STREET N. W.

June 29, 1943

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

My dear Mr. Secretary:

Both you and the country are to be congratulated on the striking success of the voluntary Payroll Savings Plan. Through it twenty-seven million wage earners are regularly investing in Government bonds more than $420,000,000 a month to meet the cost of the war. This is of primary importance as an aid to winning the war and as a safeguard against inflation. But it is also important that so many of our fellow citizens are reviving the forgotten art of saving from earnings. One way of securing freedom from want in the future is by saving something from the plenty of today.

Yours sincerely,
Harlan F. Stone

FROM THE CONGRESS OF THE U. S.

Congress of the United States
Joint Committee on Internal Revenue Taxation
Washington

June 29, 1943

Dear Mr. Secretary:

Thank you for sending us the description of your expanded payroll savings drive based on the theme "Figure It Out Yourself".

The House Ways and Means Committee and the Senate Finance Committee are happy to support the present drive to increase the purchases of War Savings Bonds through the Payroll Savings Plan. This plan has already achieved a fine record. The fact that twenty-seven million American workingmen and women are setting aside almost ten percent of every pay envelope and salary check speaks for itself.

We agree with you, however, that public participation in the financing of this war should be and must be stepped up materially. Not only does the Treasury need added funds, but every dollar diverted from the purchasing stream into savings is a contribution to the fight against inflation. We wish you success in this campaign and we know that the American people will respond to this appeal as they have in the past.

Sincerely,

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



Senator Walter F. George (Ga.)
Chairman
Senate Finance Committee



Senator Arthur H. Vandenberg, Michigan
Minority Ranking Member



Hon. Robert L. Doughton (N. C.)
Chairman
House Ways and Means Committee



Hon. Harold Knutson (Minn.)
Member House Ways and Means Committee

Members of the Joint Committee on Internal Revenue Taxation whose signatures appear above are: Senator Walter F. George, Senator Arthur H. Vandenberg, Hon. Robert L. Doughton, and Hon. Harold Knutson.

FIGURE IT OUT *Yourself!*

BOOST YOUR BOND BUYING THROUGH THE PAYROLL SAVINGS PLAN

SPONSORS NAMES HERE

★ ★

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Supreme Court of the United States
Washington, D. C.

CHAMBERS OF
THE CHIEF JUSTICE
1824 TWENTY-FOURTH STREET, N. W.

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Washington, D. C.

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June 29, 1943

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We agree with you, however, that public participation in the financing of this war should be and must be stepped up materially. Not only does the Treasury need added funds, but every dollar diverted from the purchasing stream into savings is a contribution to the fight against inflation. We wish you success in this campaign and we know that the American people will respond to this appeal as they have in the past.

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Arthur H. Vandenberg
Robert L. Doughton
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Secretary of the Treasury
Washington, D. C.



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To Newspaper Advertising Managers:

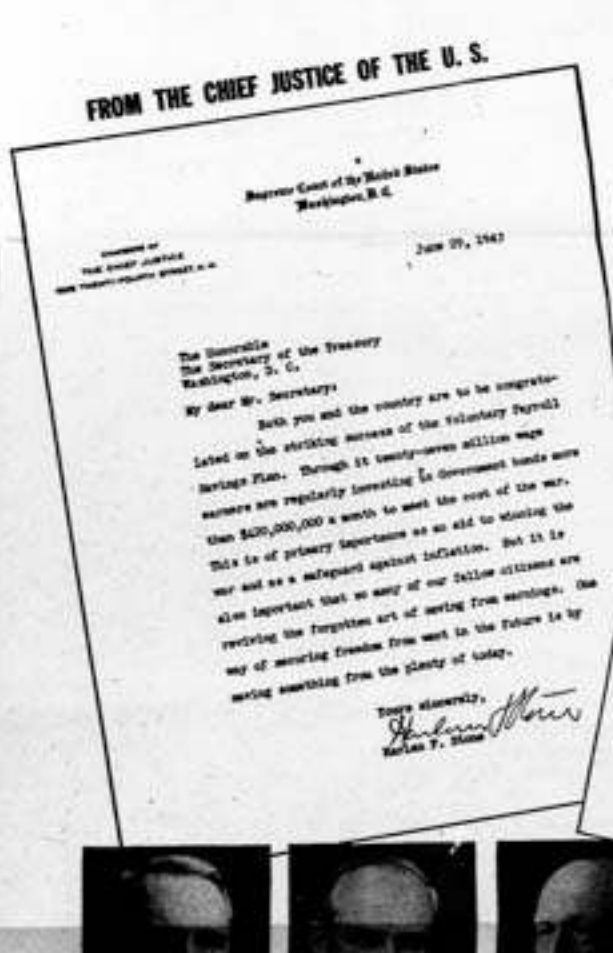
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War Finance Division
U. S. Treasury Department

★ ★

TO THE AMERICAN PEOPLE

SUBJECT: *A RECOMMENDATION...*


FROM THE CHIEF JUSTICE OF THE U. S.

Supreme Court of the United States
Washington, D. C.

June 19, 1943

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

My dear Mr. Secretary:

Both you and the country are to be congratulated on the striking success of the Voluntary Payroll Savings Plan. Through it twenty-seven million wage earners are regularly investing in Government bonds more than $20,000,000 a month to meet the cost of the war. This is of primary importance as an aid to winning the war and as a safeguard against inflation. But it is also important that so many of our fellow citizens are reviving the forgotten art of saving from earnings. One way of securing freedom from want in the future is by saving something from the plenty of today.

Yours sincerely,
Harlan F. Stone

FROM THE CONGRESS OF THE U. S.

Congress of the United States
Joint Committee on Internal Revenue Taxation
Washington
June 24, 1943

Dear Mr. Secretary:

Thank you for sending us the description of your expanded payroll savings drive based on the theme "Figure It Out Yourself".

The Senate Ways and Means Committee and the Senate Finance Committee are happy to support the present drive to increase the purchases of War Savings Bonds through the Payroll Savings Plan. This plan has already achieved a fine record. The fact that twenty-seven million American workingmen and women are setting aside almost ten percent of every pay envelope and salary check speaks for itself.

We agree with you, however, that public participation in the financing of this war should be and must be stepped up materially. Not only does the Treasury need added funds, but every dollar diverted from the purchasing stream into savings is a contribution to the fight against inflation. We wish you success in this campaign and we know that the American people will respond to this appeal as they have in the past.

Sincerely,
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Arthur H. Vandenberg
Robert L. Doughton
Harold Knutson

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


Senator Walter F. George, Georgia
Chairman, Senate Finance Committee


Senator Arthur H. Vandenberg, Michigan
Minority Ranking Member


Hon. Robert L. Doughton, North Carolina
Chairman, House Ways and Means Committee


Hon. Harold Knutson, Minnesota
Member House Ways and Means Committee

Members of the Joint Committee on Internal Revenue Taxation whose signatures appear above are: Senator Walter F. George, Senator Arthur H. Vandenberg, Hon. Robert L. Doughton, and Hon. Harold Knutson.

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TO THE AMERICAN PEOPLE

SUBJECT: *A RECOMMENDATION...*

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Supreme Court of the United States
Washington, D. C.

CHAMBERS OF
THE CHIEF JUSTICE
1839 TWENTY-FOURTH STREET N. W.

June 29, 1943

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The Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

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Yours sincerely,
Harlan F. Stone

FROM THE CONGRESS OF THE U. S.

COLLIN F. STAM
Chief of Staff
G. S. CHRISTIANSEN
Asst. Chief of Staff

Congress of the United States
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION
Washington

June 29, 1943

Dear Mr. Secretary:

Thank you for sending us the description of your expanded payroll savings drive based on the theme "Figure It Out Yourself".

The House Ways and Means Committee and the Senate Finance Committee are happy to support the present drive to increase the purchases of War Savings Bonds through the Payroll Savings Plan. This plan has already achieved a fine record. The fact that twenty-seven million American workingmen and women are setting aside almost ten percent of every pay envelope and salary check speaks for itself.

We agree with you, however, that public participation in the financing of this war should be and must be stepped up materially. Not only does the Treasury need added funds, but every dollar diverted from the purchasing stream into savings is a contribution to the fight against inflation. We wish you success in this campaign and we know that the American people will respond to this appeal as they have in the past.

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FIGURE IT OUT *Yourself!*

BOOST YOUR BOND BUYING THROUGH THE PAYROLL SAVINGS PLAN

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 20, 1943

TO Secretary Morgenthau

FROM Mr. Paul

For your information, on July 14, 1943, Mr. Colin Stam, Chief of Staff of the Joint Committee on Internal Revenue Taxation, submitted three formal requests to obtain data under the additional powers which were conferred upon him by the Revenue Act of 1942,(Section 5012 of the Internal Revenue Code.) The requests are as follows:

1. Within five days from July 14, 1943 furnish "Any suggested alternative plans already prepared by the Treasury Department in 1943 for raising additional revenue or combating inflation, together with accompanying schedules."

2. Within seven days from July 14, 1943 furnish for the calendar year 1943 a series of detailed estimates relating to the number of returns, income tax base, and tax yield of the individual income tax, corporation income tax, declared value excess profits tax, and the capital stock tax, distributed by income classes.

3. Within five days from July 14, 1943 furnish for the calendar years 1940, 1941 and 1942, a series of detailed data relating to the number of returns, tax base, and tax for the individual income tax, corporation income tax, declared value excess profits tax, the excess profits tax, and capital stock tax, distributed by income classes.

The attached copy of the letter to Mr. Stam was cleared with Under Secretary Bell and indicates the material which I am forwarding to him in compliance with his first request.

So far as practicable, the data for the two remaining requests are being prepared and will be submitted as soon as they are ready.

Attachment

327

JUL 20 1943

Dear Mr. Stam:

In accordance with your request of July 14, 1943, addressed to Mr. Paul, I am enclosing material that is being studied by the Treasury Department respecting possible alternative plans for raising additional revenue or combatting inflation.

This material consists of (1) two possible corporation surtax schedules; (2) four possible individual income tax schedules; (3) a series of possible excise tax changes and additions; (4) a possible schedule of rate increases and exemption decreases for the estate and gift tax; (5) memoranda and three tables covering various aspects of a Federal retail sales tax; and (6) three possible spendings tax schedules.

I trust that this material will be helpful for study purposes by your staff. In this Department the material is at the study and discussion stage, and does not represent a program officially sponsored by the Treasury Department. Rather it is a collection of some of the materials out of which a revenue program might ultimately be constructed. It does not cover all the materials that will be relevant since the Treasury is continuing its intensive research in this field. The material is, of course, confidential not only as to source but also as to contents.

I should be greatly obliged if you could, on your part, supply Mr. Paul with whatever estimates and memoranda you may have prepared on alternative plans for raising additional revenue. This reciprocal interchange of information would expedite the work on the forthcoming revenue act. As with the material that you have requested, these estimates and memoranda would

Sent by Messenger from Paul's office at 5:15 - File retained in Paul's Office - Copy of reply in Diary.

be used only for purposes of study by the research staff and would be kept confidential.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Colin F. Stam
Joint Committee on Internal Revenue Taxation
Room 1336, House Office Building
Washington, D.C.

Enclosures.

July 20, 1943

TO THE PRESIDENT:

There are attached hereto draft of a letter addressed to me and an employee's withholding exemption certificate, both for your signature and return, in order that we may take steps with respect to your salary to comply with the applicable provisions of the Current Tax Payment Act of 1943.

(Signed) H. Morgenthau, Jr.

DWB:NLE

File in Diary.

Deld. by S.S. Agt 7/21 at 10:33 a.m.

dewB

Sent by S.S. Agent 2 p.m. - no one there to receive it - returned to me 7/20

Dear Mr. Secretary:

In order to comply with applicable provisions of the Current Tax Payment Act of 1943 (Public Law 68-73th Congress), approved June 9, 1943, I am enclosing a duly executed Employee's Withholding Exemption Certificate for use in connection with deductions from my salary as President.

I would thank you to handle future payments of my salary so as to comply with the above-cited law.

Very truly yours,

Enclosure

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

LLCollie:JM
7/15/43

Dear Mr. Secretary:

In order to comply with applicable provisions of the Current Tax Payment Act of 1943 (Public Law 68-78th Congress), approved June 9, 1943, I am enclosing a duly executed Employee's Withholding Exemption Certificate for use in connection with deductions from my salary as President.

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

LLCollie:JM
7/15/43

FORM W-4
U. S. TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

EMPLOYEE'S WITHHOLDING EXEMPTION CERTIFICATE

(Collection of Income Tax at Source on Wages)

332

Name ..... (Print full name)

Address ..... (Print home address)

Social Security No. .....

I. Check the box in the line below which applies to *you* on the date this form is filled in:

Married person living with husband or wife but claiming **none** of the personal exemption..... (1) ☐

Married person living with husband or wife but claiming **half** of the personal exemption..... (2) ☐

Single person (not head of a family) or married person not living with husband or wife (not head of a family). (3) ☐

Married person living with husband or wife and claiming **all** of the personal exemption (spouse claiming none of the exemption)..... (4) ☐

Head of a family (a single person or married person not living with husband or wife who exercises family control and supports closely connected dependent relative(s) in one household)..... (5) ☐

II. Number of dependents **receiving chief support from you** who are either under 18 years of age or incapable of self support because mentally or physically defective..... .....

I declare that the entries made herein are a true and complete statement as of the date indicated, pursuant to the Internal Revenue Code and the regulations issued under authority thereof.

Date ....., 194.... 16—34596-1 (Signature) .....

The personal exemption for withholding is an amount of wages on which no tax is withheld. The exemption is larger for married persons living together and for heads of families than for single persons who are not heads of families or married persons not living together and not heads of families. If a husband and wife living together both receive wages, they may divide the exemption equally, or one may take all and the other none, as they agree. An additional exemption for certain dependents is allowable to the person furnishing the chief support of such dependents.

An Employee's Withholding Exemption Certificate shall be filled in by the employee and furnished immediately to each employer. In case of a change in marital or dependency status, a new exemption certificate shall be filled in and furnished to the employer not later than 10 days after such change occurs. Upon commencement or change of employment, an exemption certificate shall be furnished the new employer on or before the date of such employment.

If no exemption certificate is filed by the employee with the employer, no withholding exemption is allowable.

Severe penalties are imposed for willfully supplying false or fraudulent information or for willful failure to supply information which would reduce the withholding exemption.

☆ U. S. GOVERNMENT PRINTING OFFICE : 1943 16—34500-1

July 20, 1943.

Memorandum to The President:

This is in reference to your pencil memorandum about Lewis Penwell, Collector of Internal Revenue in Montana.

Penwell is not regarded as a first rank collector and we see no objection to his displacement. Senator Murray, in a letter to you dated December 30, 1942, suggested the appointment of Iver M. Brandjord of Ronan, Montana, to succeed Penwell. We were informed that the National Committee a few days later sent you a memorandum to the effect that they had no recommendation to make, that the matter was up to the Senators and that there would be no objection on the part of the Committee to any action taken. Subsequently, however, Frank Walker asked that the matter be held in suspense. We are now informed that Chairman Walker is on his way out to Montana, where he is to arrive tomorrow, Wednesday, July 21, and that his hope is that he may compose the differences between the Senators so that a number of appointments may be cleared. Ambrose O'Connell suggests that nothing be done until we have some word from Walker.

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

VSS.

Del by S/S Agent 10:33 7/21/43

Hiram Jr

Should L. Pennell be kept
as Dist Atty. Fill in Illustrator
He is real anxious & will change
Change if he is not worthy
Who has his job?

A. Lodge

7/20/43

Mr. Fred Smith.

The Secretary.

I'm writing this memo to you as though I had already put Chick Schwarz under you.

Over the week-end I read a little squib in the paper that somebody in the Treasury had announced that the goal for the third war loan drive is going to be sixteen billion dollars. I don't know where they got it but I do wish the people in the Treasury who don't know what they are talking about would keep quiet.

This morning on the financial page of the New York Tribune under "Wall Street Comments" there was a long squib saying the September Drive would be about sixteen billion dollars. I think this is most unfortunate and I wish you would trace down where the "Sixteen Billion Dollar" story comes from. The first time you see me this morning let me know.

I think that Schwarz ought to tell the boys that the amount for the September Drive has not yet been set and when it is I will give out a formal statement over my own name. Until that appears, anything that they hear is just pure unadulterated gossip.

This information came
From Wilcox of the
American Bankers Association

THE SECRETARY OF THE TREASURY
WASHINGTON

JUL 20 1943

ORDER

Effective this date, Mr. Charles S. Schwarz, Director of Public Relations, and Mr. Harold Mager, Consulting Expert, will perform their official duties under the general supervision of Mr. Fred Smith, Assistant to the Secretary, to whom they will report directly. Order of February 24, 1943, placing these assignments under the general supervision of Assistant Secretary Gaston is hereby rescinded.

Paragraph 2 of Order of April 1, 1943, on the subject of speeches or public addresses, provides that the text of a speech or public address for which clearance has been obtained for delivery shall be submitted before release to Assistant Secretary Gaston for approval. The text of any such speech or public address before it is submitted to Mr. Gaston for approval shall first be submitted to and cleared by Mr. Fred Smith, Assistant to the Secretary.

H. Morgenthau Jr.
Secretary of the Treasury.

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

336

THE SECRETARY OF THE TREASURY
WASHINGTON

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H. Morgenthau Jr.
Secretary of the Treasury.

FOR VICTORY BUY UNITED STATES WAR BONDS AND STAMPS

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 20, 1943

TO Secretary Morgenthau

FROM Fred Smith

One man who doesn't want to stay with the Bureau of Economic Warfare under the new set-up might be a good fellow for us, on a dollar a year basis, to take over the project of Socialized Medicine (which you mentioned to me once) or to help on the Business Group. He is John Wharton. He is a New York lawyer, about fifty, very liberal and very patriotic. He could probably bring together a good group of people to investigate any of our projects. He is Bob Sherwood's lawyer, if I recall correctly, so you could get a pretty honest line on him from Sherwood.

I saw him the other day, and he was bemoaning the fact that "the Treasury is about the only liberal and thoroughly honest agency or Government department that we have left."

He is no Communist, and in fact is apparently very wealthy. He raised most of the money to start PM because he felt it was a "needed" institution. He has since been very unhappy about PM because he feels it hasn't fulfilled its promise.

If you would like to take a look at him, I could get him around almost any time. He looks like a farmer.

Do you want to speak to Bob Sherwood

SECRET 338

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

July 20, 1943

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended July 17, 1943.

It is anticipated that there will be increased shipping facilities available in the near future, in which event materials now in store can be released to the extent space is provided.

Clarkson E. Mack
Director of Procurement



(37861)

SECRET

LEND-LEASE
TREASURY DEPARTMENT, PROCUREMENT DIVISION
STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
AS OF JULY 14, 1943
(In Millions of Dollars)

	Total	U. K.	Russia	China	Administrative Expenses	Miscellaneous & Undistributed
Allocations	$3958.5 (3958.5)	$1926.8 (1926.8)	$1557.0 (1557.0)	$103.4 (103.4)	$10.9 (10.2)	$360.4 (361.1)
Purchase Authorizations (Requisitions)	$2880.1 (2834.1)	$1545.7 (1543.1)	$1181.4 (1140.2)	$40.3 (40.5)	- -	$112.7 (110.3)
Requisitions Cleared for Purchase	$2761.9 (2750.2)	$1500.8 (1493.1)	$1116.2 (1112.5)	$40.2 (40.0)	- -	$104.7 (104.6)
Obligations (Purchases)	$2680.7 (2660.4)	$1471.3 (1461.0)	$1078.8 (1070.7)	$40.0 (40.0)	$6.6 (6.6)	$84.0 (82.1)
Deliveries to Foreign Governments at U. S. Ports*	$1169.0 (1160.3)	$817.0 (811.6)	$320.6 (317.3)	$18.6 (18.6)	- -	$12.8 (12.8)

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

Note: Figures in parentheses are those shown on report of July 7, 1943.

SECRET

EXPLANATION OF DIFFERENCE.

The decrease in China requisitions is a result of the cancellation of three requisitions.

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JUL 20 1943

My dear Mr. Secretary:

I am enclosing herewith copies of a letter, dated June 7, 1943, written by a Treasury Department representative in French North Africa. It is stated in this letter that shortly after the fall of France, on July 4, 1940, your Department cabled authorization to the Legation in Tangiers to act as intermediary for the cashing of U.S. Government checks on behalf of State Department personnel located in other areas in Africa. In usage this authorization has been extended to include Army-Navy personnel and locally-hired employees in French North Africa. U.S. Government checks have been sold at the black market rates in Tangiers and, on occasion, the checks have been officially routed to the Lisbon black markets because of the attractiveness of higher rates.

The facts as set forth in this letter have been verified through discussions with members of the U.S. Consulate General in Casablanca and Mr. Childs of the Tangiers Legation.

Since November 8, 1942, the French African franc-American dollar rate has been established under Presidential approval. This Department is working with the French African financial authorities to channelize transactions through approved banks at the official rates, and it is our view that no agency or officer of our Government should encourage transactions outside of the official rate.

It would be appreciated if you would keep me advised about any action that you may take concerning this matter.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable,

The Secretary of State.

By Messenger Bundy 5:15

FT:Drl-7/15/43 Enclosure.

File copies ret. to White.
Copy of ltr. and enclosure
in Diary.

HEADQUARTERS ATLANTIC BASE SECTION
OFFICE OF CIVIL AFFAIRS
A. P. O. 759

June 7, 1943.

Mr. Harold Glasser,
Finance and Control Division,
H.A.B.S., A.F.H.Q.,
A.P.O. 512.

Dear Harold,

There has come to my attention a situation in connection with Government checks and drafts that I think I should bring to your notice.

It appears that the American Legation in Tangier is cashing at the prevailing free market rate in Tangier United States Government checks and drafts sent to the Legation by State Department and other personnel connected with consulates throughout North and West Africa.

I have discussed this matter with Mr. Russell, the Consul General in Casablanca and with Mr. Brooks, also of the Consulate in Casablanca as well as with Mr. Childs, Charge d'Affaires at our Legation in Tangier. The situation as I understand it is th s:

On July 4, 1940, more than two years before the coming of the Allies into North Africa, the State Department, by a telegram, authorized the Legation in Tangier to act as an intermediary for the cashing of State Department drafts etc. on behalf of the State Department personnel in other areas in Africa. These instructions, which have never been rescinded, were issued when the rate on American checks was extremely favorable in Tangier and when the official rates prevailing in other areas bore little or no relationship to the true worth of the franc vis a vis the dollar.

Up until comparatively recently, checks and drafts were brought into Tangier from time to time by personnel of the State Department who, themselves, shopped around for the most favorable rate for their checks and who sold them personally to the highest bidder. This practice has now been discontinued. As a result of instructions issued by Mr. Childs, all checks now coming into Tangier for cashing are handled by a designated person in the Legation. Mr. Childs has also issued instructions which now prohibit Army and Navy personnel from sending drafts to Tangier for cashing by the Military and Naval Attaches. (A certain number of such checks had been finding their way to Tangier).

In discussing this matter with Mr. Childs, he told me that, at the present time, all checks and drafts are sold to either Moses Pariente, the Bank of British West Africa, David S. Bergal or Joseph Toledano (the last two being American proteges).

It appears that the vast bulk of the checks are sold to Moses Pariente. The rate of sale varies, but at the present time is somewhere around 86 francs to the dollar.

Mr. Childs told me that he was sure that the Treasury Department and the State Department were fully conversant with the situation. He said that it was his understanding that Moses Pariente had undertaken to purchase State Department drafts from the Legation in order to build up dollar balances to be used in the United States and that he had undertaken to send directly to the United States all drafts which he purchased and not to re-negociate them in Tangier or elsewhere.

At the present time, the consulates outside of Tangier meet a certain amount of their regular expenses from the proceeds of checks negociated in Tangier. It is also customary for the salaries of State Department employees (including locally hired help) to be paid in drafts which are then sent up to Tangier for sale. The result of this procedure is that the expenses of the consulates are, to a certain extent, lessened and the salaries of people working for them are somewhat enhanced. In point of fact, it seems probable that few of the State Department personnel receive their entire salaries in this manner. I understand that most of them have a certain proportion of their pay deposited for them in the United States and, therefore, any advantage in the rate of exchange obtained in Tangier is only applicable to a part of their salaries and expenses. Any change in the present set-up would probably be more important in its effects on locally hired personnel than on personnel coming from the States.

In this connection, one further thing should be added. From time to time, in the past, it has been possible to obtain the best exchange rate by sending the drafts from Tangier to Lisbon, selling them there for escudos, and then bringing the escudos to Tangier to be sold for francs. At the present time, however, this device is not profitable and it is not now being used by the Legation.

I told Mr. Childs that I would lay this matter before you for transmission to Washington so that the State Department and the Treasury might have the opportunity to consider jointly whether the presently outstanding State Department instructions should be revised.

Regards

signed ED

Edwin F. Heinz,
U. S. Treasury Representative,
Civil Affairs - A.M.G.

344

JUL 20 1943

Dear Mr. Crowley:

A recent airgram from the American Embassy at Mexico (A-1517, June 29) refers to an oral understanding between Mr. Bateman of the Board of Economic Warfare and the Bank of Mexico on the purchase of Mexican silver by the Bank for coinage purposes to meet Mexico's need for additional silver coins.

As we are informed, it was proposed by Mr. Bateman that the Bank of Mexico refrain from purchasing part of the output of silver in Mexico. Otherwise, the absorption of some 40 million ounces of silver for Mexican coinage would seriously reduce the supply of silver for industrial uses in the United States. To provide Mexico with the silver needed for coinage, it was proposed by Mr. Bateman that an equivalent amount of silver be lend-leased to Mexico for its coinage needs out of the Treasury's stock of free silver bullion in the General Fund, the silver to be returned to the Treasury after the war on an ounce-for-ounce basis.

The necessity of any such arrangement has definitely passed with the enactment of the law permitting the sale of Treasury silver by the Secretary of the Treasury for purposes approved by the War Production Board. If imports of Mexican silver fall off because of the acquisition of silver by the Bank of Mexico for coinage purposes, it will be possible for the Treasury to offset the deficiency in the supply of silver from abroad.

There is no sound reason for lend-leasing silver to Mexico now that the law permits the sale of Treasury silver for war purposes. The Treasury could not justify the lend-leasing of 40 million ounces of silver to Mexico to enable that country to sell a corresponding amount of silver in the United States when the law permits the Treasury to sell all the silver needed at 71.11 cents an ounce. The sale of the silver by the Treasury would bring some $28 million in funds that could be used to meet the wartime expenditures of the Government.

Copy of ltr. and copy of
Airgram from Am.Embassy,
Mexico City, in Diary.

File copies retd to White's office.

For these reasons I believe it is necessary not to encourage the Mexican Government to request Treasury silver under lend-lease arrangements.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Leo T. Crowley,
Director, Office of Economic
Warfare,
Washington, D. C.

HDW/jm
7/29/43

C
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AIRGRAM

346

From: American Embassy
Mexico City, Mexico
Dated: June 29, 1943.
Rec'd. July 1, 11 a.m.

CONFIDENTIAL

Secretary of State,
Washington, D.C.

A-1517, June 29, 11 a.m.

Reference Embassy's despatch No. 10,627 of June 23, 1943, concerning silver.

Bank of Mexico's confidential daily reports of silver coins held by central bank and branches showed total on June 26th of 1,230,000 pesos. Comparative totals during last year were: 52,800,000 pesos on January 3rd; 43,200,000 pesos on June 27th; 42,500,000 pesos on July 31st; and 19,200,000 pesos on December 30th.

The present shortage is particularly severe in 50-centavo and 20-centavo silver pieces, of which the Bank of Mexico had only 160 pesos' worth on June 26th. The public is necessarily being turned away in wholesale fashion.

The Mint has silver on hand with which to continue operations for approximately 20 days, after which it will be compelled to close for lack of silver deliveries from the mines. Bank of Mexico is refraining to buy silver for the present, in accordance with oral understanding with Dr. Bateman.

Please inform Dr. Bateman, Board of Economic Warfare, and caution that above information is not for publication.

MESSERSMITH

File 863.5

WFB:HK:EU
Copy:bj:7-6-43

N O T I C E

RBS:jm:90- R-4-2
Wright Field, Dayton, Ohio
Date 20 July 1943

TO: All Concerned.

SUBJECT: Correction of A. E.P.C.R., Combined Propeller Report, Book 103, data as of May 31, 1943.

1. The summary of 23E50 Propellers shown on page 42 of the subject report should be corrected to include "23EX Nash" requirements found on page 41.

a. Add total "Nash 23EX" monthly requirement (page 41) to total 23E50 Monthly Requirement (page 42).

b. Recompute total 23E50 cumulative requirements.

c. Subtract revised total cumulative requirements line from total cumulative capacity line to obtain revised cumulative surplus or deficit.

for E. W. RAWLINGS
Colonel, Air Corps
Chief, Resources
Control Section

C
O
P
Y

TELEGRAM SENT

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

July 20, 1943

1 p.m.

AMERICAN EMBASSY,

CHUNGKING.

925

FOR ADLER FROM THE SECRETARY OF THE TREASURY

Your cable of March 28, 1943, No. TF-103.

1. Treasury has received a number of applications to release U.S. dollar proceeds of U.S. dollar-backed savings certificates. Some of the applications would involve transfer of funds to London.

2. The Treasury would, therefore, appreciate receiving a definite reply to its cable of March 5, 1943, No. 300. Treasury is holding up these applications and no action has been taken with regard to them.

HULL
(FL)

FD:FL:JD FE EA

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 238

Information received up to 7 a.m., 20th July, 1943.

1. NAVAL

Discharge of ships at AUGUSTA has begun satisfactorily but at SYRACUSE a petrol fire delayed unloading. Discharge of vessels has been speeded up by the use of EMPEDOCLE and LICATA as well as GELA.

2. MILITARY

RUSSIA. The Russians have recaptured among many other localities MALOARKHANGELSK on the railway 40 miles South of OREL.

3. AIR OPERATIONS.

WESTERN FRONT. 19th. Fighters damaged two 1,000 ton ships off TEXEL.

ITALY. No details have yet been received regarding the bombing of 2 railway centres and the CLAMPIRO Airport at ROME.

SICILY AND SOUTHERN ITALY. 17th/18th. 57 Wellingtons bombed airfields near NAPLES. On the same night and next day a total of 203 Medium and light bombers attacked CATANIA and transport in SICILY. Lightnings escorting an Air-Sea rescue Sunderland intercepted and destroyed 14 JU 52's off Northern SICILY.

BURMA. 18th. Fighters damaged 64 trucks and 10 locomotives in the MANDALAY area and about 50 small river craft near AKYAB.

TREASURY DEPARTMENT