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June 3, 1942
9:35 a.m.

WAR BONDS

Present:
Mr. Bell
Mr. Buffington
Mr. Odegard
Mr. Gamble
Mr. Haas
Mr. Stewart
Mr. Graves

H.M.JR: This is the way I feel, that between now and Friday night we have got to get this F and G thing straightened out, and no fooling. Now, I have got to settle it.

As near as I can find out, the War Savings Staff hasn't got an F and G organization. Is that right or wrong?

MR. GAMBLE: That is correct, yes, sir.

H.M.JR: That is correct?

MR. GAMBLE: Yes, sir.

H.M.JR: We certainly don't have an F and G man here, as I told Harold yesterday.

MR. ODEGARD: That isn't altogether true, Mr. Secretary. We have F and G committees which are set up and are being set up.

MR. GAMBLE: Well, we have a number - I think the Secretary is familiar with that - of States that did have them, and we extended that, at your request, thirty days ago.

H.M.JR: And they didn't come through.

MR. GAMBLE: In what respect, Mr. Secretary?

H.M.JR: In production, sales. I mean, look at the figures.

MR. GAMBLE: I think in the last ten days of May--

H.M.JR: Well, the thing - I don't see where they did.

MR. ODEGARD: The figures that we look at are figures that are measured against the quotas that we set. It may not be a reflection on the promotion of F and G's; it may be a reflection on the quotas that we set.

H.M.JR: No. I have got two sets of figures. I have got a quota set, and I have got a set comparing May with April, and they just squeaked by and sold a few million dollars more of F and G's in May than they did in April.

Let me run through the thing - I mean, let's say everything that has happened up to date is out of the window. Let me run through the thing, say what is in my mind. I haven't talked to anybody. This is my own idea.

Here I am faced with a situation--

(Mr. Graves entered the conference.)

H.M.JR: We are talking about this F and G thing. I made a remark, and I am not asking at the moment for any comments - I am just giving you the benefit of what I thought about over night on F and G's. What I am talking is generalizations; in some places it may be a little bit too easy, some places too hard. But this is the way I feel.

I have got to sell eight hundred million dollars' worth of Bonds this month, no fooling. I have got to sell whatever the proportionate F and G's are. By and large, the War Bonds, I say, have no F and G selling organization. Some places they may have; some places they may not. We haven't pushed it, for various reasons. In the room here, one of the main reasons was that you (Graves) told me you didn't want to start it going too soon because you wanted to save the big push for May when we would need it - I mean for June.

MR. GRAVES: That is right; in fact, we gave our instructions that way.

H.M.JR: And I acquiesced. But now here we have got, and this again is another thing which really is more or less - well, Dan and I took a quick look at what we are going to do to raise the money necessary for June through regular channels. The chances are it is going to be a six-months' note, which gives this Victory Fund Committee nothing to do.

Now, it is like the example I gave of the International Harvester, in the old days, anyway. They always had two sales organizations and two show rooms in every city, every town, one a light line and one a heavy line.

The Victory Fund boys are pretty well organized. They want to do something. They have got nothing to sell. I don't want to do what Eccles suggested, split the quotas; I can't do that. But there ought to be a way out on it. The question of the human being is involved. Take New York where you would sell the most - what is the name of your man there?

MR. BUFFINGTON: Perry Hall.

H.M.JR: And I don't know who the F and G man is for Dick Patterson. Let's call him Dick Patterson. Dick Patterson and Perry Hall ought to be able to sit down and say, "Let's just try this thing out for the month of June. This is what is running through my mind: "I, Dick Patterson, will designate you, Perry Hall, in charge of my committee for F and G Bonds, and I am going to ask you, Perry Hall, to take this over and take it off my shoulders for me for the month of June. I have got more than I can attend to on the E Bonds. Now, will you come in, and we will put your name on a glass door here and we will give you a title; but you can do your work wherever you think it is necessary. For the month of June I am asking you to run this thing for me." This is Dick Patterson speaking. "Now, we will see how it goes; if it works out all right, O.K., and anything that I am doing or anybody I have got working on it, I am going to tell him he has got to talk to you, Perry Hall."

I mean - now it is a question of getting Dick Patterson down here tomorrow. Perry Hall is here today, and we will put these two fellows together. Now, if I were Dick Patterson I would grab it. I don't think we have got much to lose. We would have no publicity here. Let them straighten out their own publicity in New York in the New York newspapers.

MR. GRAVES: That is the precise arrangement which we had in mind.

H.M.JR: But had not accomplished.

MR. GRAVES: That is right. We had not accomplished it because the situation was obscure in the field. People were befuddled as to where their jurisdiction was, who had the responsibility for this thing; but that is exactly the plan.

H.M.JR: Pulling a Roosevelt? You dreamt it last night, too?

MR. ODEGARD: No, Mr. Secretary.

MR. GRAVES: That is in a memorandum.

MR. BUFFINGTON: I don't think it is.

H.M.JR: Listen, Harold says it is. Then I am just going to go along with Harold.

MR. GRAVES: I don't want to say it is the precise arrangement, but the arrangement that was contemplated by the instruction which we were on the point of sending out was that there would be this cooperation between the War Bond organization and the Victory Fund organization.

H.M.JR: But will the way I have outlined it leave you perfectly happy?

MR. GRAVES: Well, it has got to be subject to some variation. I don't know just what. I suppose it is the second Federal Reserve district.

H.M.JR: Well, I am thinking of just the State of New York.

MR. GRAVES: Well, that is the point, that this Victory Fund organization, as I understand it, goes according to the Federal Reserve districts, which don't always correspond to State lines, and that kind of thing. But those are variations that we can take care of.

H.M.JR: Harold, don't worry about State lines. I don't know - I don't care, but as far as I am concerned, in this example Perry Hall is just the State of New York. He may be in the State of New Jersey, too, I don't know; but let's just say, for example, that as far as I go he is the State of New York.

MR. GRAVES: There will be no trouble about it, in my opinion.

H.M.JR: Let me get the War Bond side. There will be no trouble?

MR. GRAVES: I don't think so.

H.M.JR: Gamble?

MR. GAMBLE: No, sir, I do not, if that is what is going to happen. I mean, if Mr. Perry Hall is going to be in charge of it and take over all our people, there will be no trouble; but if Mr. Hall and a committee of eight or nine people take over our people, there might be some trouble. In other words, I think that you ought to stop with some one man at the head of this joint committee. I don't think you want to superimpose a group of eight or nine stock exchange people or investment bankers or Federal Reserve people over our existing F and G committee.

H.M.JR: No, no.

MR. GAMBLE: The membership of their committees should be merged with the membership of our committees, with one man at the head.

MR. GRAVES: We can work it out.

H.M.JR: All these things get down to two things. I am thinking of getting Dick Patterson down here tomorrow morning, in this room, and Perry Hall, having Dick Patterson prepare - I will say, "Look, Dick, will you invite Perry Hall to take over F and G's for you under your wing" and if Perry Hall is smart I think he will say yes.

MR. BUFFINGTON: I think that will work very nicely. In other words, Dick Patterson will be using Perry Hall's facilities, and such other facilities as Dick Patterson can turn over to him, in the sale of F and G Bonds during the month of June.

H.M.JR: There will be one boss.

MR. BUFFINGTON: That is all we ever tried to get, one person with the responsibility.

H.M.JR: I mean, in New York State, if I want to know why F and G's aren't going well I will call up Dick Patterson and say, "Look, Dick, how is Perry Hall getting along?"

MR. GRAVES: There is this further thing that we have got to remember. Patterson has sixty or so county organizations in his State. I don't know the exact number, something like that, I think, and he is going to have F and G activity in every one of those counties. I doubt whether Mr. Hall's organization has gotten to the point where he is going to have any organization down in each one of Dick Patterson's counties.

H.M.JR: Let's say that you are right, then he would have Greater New York where he can go to town and where the money is, and then if these other people are organized in the sixty-odd counties of New York State, whatever it is, then let them go ahead that way.

(Mr. Haas entered the conference.)

MR. GRAVES: That is right, and using Hall's facilities wherever he has them.

H.M.JR: But it is a question of getting these two people together, two human beings, and saying - Hall says, "I have got a better organization in New York; you have got a better organization in Dutchess County so you can take it in Dutchess", and so forth and so on, "But Greater New York, leave that to me."

MR. GRAVES: I think we can work this out that way.

H.M.JR: Now, it won't make a very pretty chart; in fact, there shouldn't be any chart. It is just a matter of human relations. I can't explain it to the press and don't want to explain it to the press, but it gets down to - here is a fellow - do you know Perry Hall?

MR. STEWART: No.

H.M.JR: He is supposed to be a tip-top man, ready to go, anxious to go, and we have got nothing for him to do for this month. I want a lot of F and G's sold, and Patterson is swamped with his pledge campaign and everything else on his E Bonds, more than he can possibly do.

What do you think, Peter?

MR. ODEGARD: I have never had any doubt but what an arrangement of this kind would work, but I was impressed yesterday, in talking with a man named Stubbs in Mr. Buffington's office, with the idea that it is not going to be as simple as we may think here to work it out on that basis.

H.M.JR: The basis I am talking about?

MR. ODEGARD: I heard Mr. Stubbs say distinctly, not once but twice, that he didn't think it would work unless you had an F and G committee, a Victory Fund Committee that had nothing whatever to do with the War Savings Staff.

MR. BUFFINGTON: Well, that is the strictest interpretation. These fellows are human, just like the Secretary says, and I think an arrangement can be worked out.

I wish that you would give these boys, Perry Hall and Stubbs, five minutes because I haven't yet checked this idea with them.

H.M.JR: I will sometime during the day. I haven't talked to Bell yet. What do you think, Bell?

MR. BELL: Well, one, I think you ought to work through Allan Sproul instead of Perry Hall. That is still a matter of detail. Now, he is in charge of the committee, and I think that Dick Patterson and Allan Sproul ought to be working together, and of course Perry Hall as manager will be in.

I made this suggestion yesterday at our meeting, and I think something could be worked out along this line. Have George Buffington and one of Harold Graves' men go to New York and Philadelphia and spend three or four days in each place and work out this coordination between Dick Patterson and Allan Sproul in New York, and Williams and - who is the fellow in Philadelphia?

MR. BUFFINGTON: Bendere.

MR. BELL: Then use that as a model for the rest of the country.

H.M.JR: I can't wait.

MR. BELL: That can be done the rest of this week.

MR. BUFFINGTON: The way the Secretary has this thing set in his mind, I believe those two men - this is my opinion - will get together in five minutes on this thing, no need for people going around.

H.M.JR: If they are good men they can do it. Now, Sproul is here today, and Perry Hall. The only man that isn't here is Dick Patterson.

MR. GRAVES: We could have him here, if you wanted, this afternoon.

H.M.JR: And I think by talking to this group for five or ten minutes myself I could settle it right here.

MR. BUFFINGTON: Yesterday I had a call from Francis Patton, who is the executive manager in Chicago. He said, "If you will just draw this line as to how you want it done, we will have no difficulty working out an arrangement." Those men are experienced in doing that sort of thing. They have worked with groups and syndicates; they know how to do it. That is my opinion.

MR. BELL: Let's don't make another decision we will have to change next week; let's work it out on a practical basis.

H.M.JR: This wouldn't change it. It still would leave it nominally under War Bonds.

MR. GRAVES: More than nominally - fully under War Bonds.

MR. ODEGARD: Not only nominally.

MR. GRAVES: I don't think it would do to have an arrangement which would merely leave it nominally under War Bonds. These fellows are going to have a great deal of territory to cover which the Victory Fund Committees cannot cover, anyway.

H.M.JR: Well, Harold, look, let me talk to these people and talk the way I have to you. I don't want a chart; I don't want anything in writing. See? But this is a human question of Sproul and Patterson and Perry Hall sitting down together, the three of them, with a map of the State of New York before them, and saying, "Now I can do this, and this is why I can do this one." "I can do Buffalo, but I can't do Albany or Schenectady." "I can do New York; just give me Greater New York for June."

If I were this man Hall I would just say, "Give me Greater New York, particularly inasmuch as you have got your sales campaign going there." This committee just takes Greater New York; and Philadelphia, Greater Philadelphia; and Boston, just Greater Boston, and leave the outside parts.

MR. GRAVES: I don't think there will be any trouble.

H.M.JR: Then I tell you what you do. Don't rush off. You can go into Bell's room, if you need to - I don't see why you need to. I don't see why you can't now invite your State administrator for New York, for Pennsylvania, and Massachusetts - aren't those the three spots?

MR. BUFFINGTON: Yes.

H.M.JR: ... to come down here tomorrow, plus the heads of the Federal Reserves.

MR. BELL: Tomorrow is a bad day. Allan Sproul and Williams are in town, and tomorrow there is a directors' meeting.

H.M.JR: I can do it Friday morning. That will be my last chance.

MR. GRAVES: If you are going to do that, I would suggest we have, in addition to those, our man from New Jersey and our man from Ohio, and possibly from Chicago.

H.M.JR: For Friday morning.

MR. GRAVES: That will cover the high spots of our situation, and you can have the Fed people in from those places, in addition.

H.M.JR: What do you think?

MR. GAMBLE: It is all right.

H.M.JR: You see, Harold Graves and I are going away Friday night for a week. We are leaving it to you, Peter, and Kuhn, to run the show.

MR. GAMBLE: I think it just needs to be defined. I think we can lay out the work for these people. That is the important thing.

H.M.JR: You see, here I am - the setup is I am chairman of the Victory Fund Committee and of the War Savings Bonds, and they both - they are all working for me, and I ought to be able to say, "One place you do it one way", another place another, one kind of troops in one place, another kind in another. For the time being I will leave it the way the order says, that the State chairman of War Savings will be the man in the State.

What do you think, Walter?

MR. STEWART: It sounds good to me.

H.M.JR: Just a matter of human relations, what?

MR. STEWART: I suppose the Victory Fund Committee will have plenty to do later. This is just for June?

H.M.JR: Yes, they will have plenty later, but they have nothing to do in June. If it works all right, they will continue this way. They are crying for it; they are asking for it.

MR. BUFFINGTON: That is correct.

MR. STEWART: If they have more than they can do later in their own province, the question is whether you are building something they will have to take care of later.

H.M.JR: That was my original worry.

MR. GRAVES: I don't think you will, Walter, because if you set this thing up the way the Secretary is suggesting you have a structure there that you can man with other people later on, if people now in it have to pull out to do some other thing.

H.M.JR: For instance, again referring to this Canadian report, they have got all their salesmen - it has only worked partly well, but they will only use a salesman for two days from his regular work, and then send him back. I mean, they use him two days, then let him go back to his bread and butter, you see. I mean, there are all kinds of wrinkles, but--

MR. BELL: Do you want me to ask the presidents of the Federal Reserve Banks to be here Friday, these five?

H.M.JR: Yes.

MR. BELL: Sproul, Williams, Fleming, Young, and Paddock.

MR. BUFFINGTON: Do you want to talk with these men before deciding to talk to these people? If these boys like this idea, as I think they will, I think it can be done with the State administrators over the telephone.

H.M.JR: You mean you want me to talk to who?

MR. BUFFINGTON: Perry Hall and Stubbs.

H.M.JR: I will talk with them between now and lunch time, and let you know.

All right?

MR. GRAVES: Yes. There is just one thing further that I think this group should be told, something of the dimensions of this June sale that we expect to realize. We have two hundred and fifty of F and G Bonds in our June quota, and that is not enough if we are going to meet the June quota over-all.

MR. BUFFINGTON: What do you want in F and G's, Harold?

MR. GRAVES: Well, I would say that to be safe on our June quota we ought to have three hundred and fifty million dollars out of F and G.

H.M.JR: You mean you think you are going to run short a hundred million on the E's?

MR. BUFFINGTON: You told me never to express an opinion, so I won't do it.

H.M.JR: Go ahead.

MR. BUFFINGTON: I don't think there is any problem in selling three hundred and fifty million this month.

MR. GRAVES: It should be stated, in my opinion, just the same, what the dimensions of this job are.

H.M.JR: Out of eight hundred you have only got, F and G's, two hundred and fifty?

MR. GRAVES: That is the formula that we use, that is, five hundred and fifty of E and two hundred fifty of F and G.

MR. BELL: Didn't you leave F and G's on a straight level, two hundred and fifty straight through, so every month your E goes up and the F and G's remain steady?

MR. GRAVES: As I said yesterday, we are not taking that too seriously.

H.M.JR: How many E's sold in May?

MR. GRAVES: About four twenty - four twenty-four, I would say.

H.M.JR: You are giving these boys a very high hurdle.

MR. GRAVES: We are giving them the same hurdle that we had set for ourselves. We have always known that our hard month was June, harder than July, and long ago we anticipated this thing and told our people they were going to have to make a drive on F and G Bonds in June to make up for a deficiency in E Bond sales.

H.M.JR: Then there is all the more reason, Harold--

MR. GRAVES: That is right. All I am saying is I believe these fellows should be told what volume we have got to produce.

H.M.JR: Between now and twelve o'clock I will see these people.

MR. BELL: I don't see any use of me having a meeting this afternoon. I scheduled a meeting for three o'clock.

MR. BUFFINGTON: Can't we wait until after this meeting?

H.M.JR: Yes.

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H.M.JR: Yes.

June 3, 1942
10:38 a.m.

HMJr: Hello.

Operator: Mr. Nelson.

HMJr: Hello.

Donald Nelson: Good morning, sir.

HMJr: How are you?

N: Fine, thank you. When I had lunch with you the other day, I told you that I would like very much to have you go to Detroit with Captain Lyttleton and myself.

HMJr: That's right.

N: We're planning to go Saturday.

HMJr: Oh, oh. Saturday, I see. How long are you going to be out there.

N: Oh, just for the day. We'll come back that evening.

HMJr: Just for the day.

N: Just for the day.

HMJr: When are you leaving?

N: We'll leave early Saturday morning.

HMJr: I see.

N: It'll give you a good opportunity to have a good talk with Captain Lyttleton to see that, and we thought we'd fly out there and land at the Willow Run plant.....

HMJr: Yeah.

N: .....and go through that, and then go over to the Dearborn plant for lunch....

June 3, 1942
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Operator: Mr. Nelson.

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HMJr: That's right.

N: We're planning to go Saturday.

HMJr: Oh, oh. Saturday, I see. How long are you going to be out there.

N: Oh, just for the day. We'll come back that evening.

HMJr: Just for the day.

N: Just for the day.

HMJr: When are you leaving?

N: We'll leave early Saturday morning.

HMJr: I see.

N: It'll give you a good opportunity to have a good talk with Captain Lyttleton to see that, and we thought we'd fly out there and land at the Willow Run plant.....

HMJr: Yeah.

N: .....and go through that, and then go over to the Dearborn plant for lunch.....

HMJr: Yeah.

N: .....and then go through the tank arsenal in the afternoon.

HMJr: Well, first may I thank you for remembering me. That's the first thing.

N: Well, sir, you didn't think I'd forget that. That wasn't an idle invitation.

HMJr: And the second, let me just talk one minute. Have you got a minute?

N: Yes, certainly.

HMJr: Because I'm breathless. How would you go?

N: Well, we'd go by plane.

HMJr: Would you want to go in my plane or your plane?

N: Well, it doesn't make any difference. Whichever - ours isn't as comfortable for three, but it can carry three.

HMJr: Well, mine I can very comfortably carry one, two, three, four, five. I've got a Lockheed.

N: Which one, the.....

HMJr: The big one.

N: The big one. We have a little one.

HMJr: Well, I've got the big one. Would this - I wonder if this would be wasteful? You might think about it, and I'll be thinking about it. I just don't - and if we went - you see, I'd want to go back to the country, because I was starting a week's holiday Friday night.

N: Well, we could have our plane, you see, come to Detroit also. You can go right to the country, and we can come back here.

HMJr: Then we can go out in my plane, and I can go back to the country, and you could come back to Washington in yours?

N: That's right.

HMJr: Is that all right?

N: That's perfectly all right.

HMJr: Could I have twenty-four hours to think it over?

N: Certainly. You don't need to let us know, as a matter of fact, until Saturday. Just.....

HMJr: You'd leave very early Saturday morning.

N: We'd leave early Saturday morning.

HMJr: Well, it sounds thrilling, and I'd love to go.

N: Well, I think you'd have an awfully good time, and you'd see something that - well, you just must see, because it's just the greatest thing in America.

HMJr: Yes.

N: And you'd have an opportunity to get well acquainted with Captain Lyttleton and talk to him, and if you can do it, swell.

HMJr: Well, I'm certainly going to try to, because it's something I really would like to do; and I'll get in touch with you tomorrow.

N: All right, sir.

HMJr: Thank you so much.

N: Good-bye.

June 3, 1942
11:22 a.m.

HMJr: Hello.

Operator: Secretary Knox.

HMJr: Hello.

Operator: Go ahead.

HMJr: Frank.

Secretary Knox: Yes, Henry.

HMJr: How are you?

K: I'm fine.

HMJr: Did you see the statement that I made in regard to advertising?

K: No, when?

HMJr: Oh, didn't you see that that I explained what the definition, what they could and couldn't advertise?

K: No, I'd like to see it.

HMJr: Oh, for heaven's sake. It's words right out of your mouth.

K: (Laughs)

HMJr: I took your advice and protected myself.

K: I see. Well, that's good. I'm glad you did, Henry. It's a wise thing to do.

HMJr: Now, Frank, I want something that isn't going to cost the Navy one God damn cent, see.

K: Sounds bad.

HMJr: Well, it's not bad.

K: (Laughs)

HMJr: On, I think, the sixth or seventh of June, England, in their generosity, are sending us ten heroes that we're sending around the country to.....

K: Murals?

HMJr: Heroes.

K: Zeroes?

HMJr: No, heroes.

K: Heroes, oh, yes.

HMJr: Men who have been over Germany and successfully bombed Germany.

K: I see.

HMJr: Now, we want to send a couple of Army men, and Mr. Stimson, with his usual generosity, is providing the gasoline and feeding these fellows, and giving us two top men.

K: Yeah.

HMJr: The Navy is giving us zero.

K: (Laughs)

HMJr: Now, we want two good men from the Navy, because I don't want it all English.

K: What do you mean? Two men that have had overseas service?

HMJr: Who have done some outstanding thing and who have been decorated, and we haven't been able to get anywhere with your fellows, or otherwise I wouldn't bother you.

K: Uh huh.

HMJr: But I've got to see the top fellow.

K: I see.

HMJr: But I don't want it all English. The Navy - the Army is giving us a couple of fellows, and it isn't going to cost you a penny, so you can't give me that line.

K: Yeah. Yeah.

HMJr: Now, can't I.....

K: When do they start?

HMJr: They start Monday from New York.

K: Next Monday?

HMJr: Yes, sir. And they really - it won't do the - it won't hurt the Navy one bit, you know.

K: Yeah.

HMJr: It's going to be a good show, and they're going clear across the country, and we've got the arrangements in twenty cities.

K: Uh huh. All right. Well, I'll see what I can do.

HMJr: Well, now, how can I follow up on this so I.....

K: I'll call you back, Henry.

HMJr: Will you?

K: Yeah.

HMJr: Two top fellows.

K: Yeah.

HMJr: Are you going to have luncheon today?

K: Would Admiral Hart be all right?

HMJr: Admiral Hart?

K: Yeah. How high are the rank of these boys that are coming over?

HMJr: I think they're Squadron Leader.

K: No, they'll be lower rank, considerably.

HMJr: I think that's as high as they are.

K: Uh huh. What are the - who are the Army sending?

HMJr: Just a minute. Let me ask Kuhn.

(Aside to Mr. Kuhn) Who are the Army sending?

Captain Wheless, whom the President decorated, who was in the Philippines in charge of a bomber.

K: Oh, yes. Yeah.

HMJr: Captain Wheless - and who else? Some others, I don't know who, but they're giving us several.

K: I see. Well, all right.

HMJr: And it's that kind - I mean, the English are sending these fellows that went over that city, you know, at two hundred feet, and dropped those bombs on them.

K: Yeah.

HMJr: Augsburg.

K: Yeah.

HMJr: That's the kind of fellows they're sending.

K: Uh huh.

HMJr: And a couple of Commandos.

K: Uh huh.

HMJr: And - somebody that the Navy - you know - what we asked for was this Coast Guard Officer who took that submarine crew, but they don't seem to want to let us have him.

K: The Coast Guard Officer?

HMJr: Yeah, the Coast Guard Officer that captured a whole submarine crew.

K: Oh, yes, uh huh.

HMJr: That's the kind of fellow we'd like.

K: Uh huh.

HMJr: See?

K: Well, he's a Coast Guard fellow, eh?

HMJr: Well, he's under you.

K: Yeah.

HMJr: But he's in the Coast Guard.

K: Uh huh.

HMJr: But that's the kind of fellow we'd like.

K: Uh huh.

HMJr: Somebody that did something outstanding that you're proud of and the American people will be proud.

K: I see.

HMJr: See?

K: All right, Henry. I'll see what I can do. I'll call you back.

HMJr: Thank you.

K: All right.

June 3, 1942
12:05 p.m.

WAR BONDS

Present:
Mr. Graves
Mr. Buffington
Mr. Gamble
Mr. Bryce
Mr. Hall
Mr. Stubbs

H.M.JR: This isn't new because we talked about it this morning, but this is the way I would like to have it done, if possible.

I would like to have in here at ten o'clock Friday morning the State administrators of War Bonds of New York, Massachusetts, Pennsylvania, and Ohio. Want anybody else?

MR. GAMBLE: Illinois.

MR. GRAVES: And New Jersey.

MR. STUBBS: Could I have Connecticut? Massachusetts and Connecticut are my two best bets.

H.M.JR: Then what I would like you to do, Harold and Gamble, on your end, is explain to the State administrators before they come into this office that what I am suggesting to them to help them out, so that they can get for me the three hundred and fifty million dollars that I need for F and G's in June, is that they invite the presidents of the Federal Reserve districts in their various districts, plus the sales managers, or whatever your title is; have them sit down with them and go over locality by locality and decide in each locality who is the best man to sell F and G's in that locality. See?

They say to the president of the Federal Reserve, "Now look, on this thing I am looking to you to do this thing. If you have got some better men you do it; if we have some, we will do it. But it is up to you to sit down with our people, county by county, locality by locality. Will you take this thing off my hands, come in as my assistant on this thing, and help me put this thing over? I am all up to my neck."

MR. GRAVES: It is the presidents of the Federal Reserve banks our people will be talking to?

H.M.JR: Yes, that is what these gentlemen want - and say, "Will you come in as my assistant and help me put this thing across" - look to them on the F and G's.

MR. HALL: Look to them to direct sale of F and G.

MR. GRAVES: No, that is a different thing. That is something different.

MR. HALL: I don't mean it to be.

MR. GRAVES: You said we were to say to the president of the Fed that we were going to look to them to direct the sale of F and G, a very different thing from what the Secretary said.

MR. HALL: Of course I don't mean by that - look, Mr. Graves, could I paraphrase it once more? I hate to be repetitious. In New York Dick Patterson and Nevil Ford will go to the president of the Federal Reserve Bank, Sproul, and say, "We have got a big job to do here selling F and G Bonds in June. You have organized the Victory Fund Committees. It is headed up by you people. We need some help; we want you to help us during the month of June to sell those Bonds. I have got some place, maybe, a better organization than you have; somewhere maybe yours is better. I would like to feel I can call on your machinery, headed up by you people, to get all these banks, all these investment bankers to go to work in the month of June on the sale of F and G Bonds. Somebody has to direct it. I am asking you to do that to help us meet our quota. There maybe are some places where our present organization is better than yours; if so, we will agree on that. But you sit down and go over each community. We will divide our places up into districts; we will take each district and go over it."

I don't think you can get it done unless you have that machinery harnessed in that manner.

MR. STUBBS: I don't think so.

MR. HALL: We don't care how obscurely we work in this thing. I have been on this since January.

MR. GRAVES: What did you mean when you said our man should say to the president of the Federal Reserve bank, "We look to you to direct the sale of F and G"?

MR. HALL: Just as simple as this: Sproul will send a letter out appointing chairmen in each one of these districts, all divided. I won't go into that. "We have been asked by the State authorities, which is Patterson. Our job for the month of June is selling F and G Bonds. We want your help. We have been asked by the State Administrator to provide that help, and we are charged with the responsibility to assist them in selling those Bonds, but our primary function is the sale of F and G Bonds."

MR. GRAVES: That is all right, if that is what you mean, but when you said that Mr. Collins in Chicago would say to Mr. Young in Chicago, "We expect you to direct the sale of F and G Bonds," that is a very different thing.

MR. HALL: Who is going to direct it? We are quibbling, maybe, over words.

MR. BRYCE: Someone has to run the show for the best results.

MR. GAMBLE: I think it is all right as you have said it now, but the point Mr. Graves is raising is that we have an organization in New York charged with the responsibility of selling a lot of Bonds, as you (Hall) know.

MR. BRYCE: He is the head of that committee.

MR. GAMBLE: And there are a number of people who are not associated with investment bankers, not associated with the Federal Reserve, not associated with banks, and we don't want to hit them over the head.

MR. HALL: It would be foolish to do it.

MR. GAMBLE: We don't think it is necessary. We think that certainly our people are flexible enough, Mr. Secretary, that they can work, as you suggested this morning, with the president of the Federal Reserve or anyone else, so long as we understand--

H.M.JR: But look, Ted, let's get down to something. I have got to look to somebody who is going to put across this F and G in June. Now, here you have got a lot of people in some places, strong in some places, and they are saying that they are willing, not necessarily under the name of Victory Fund but under the wing of the State administrator of the War Savings Bonds, to come in and sit down. I wouldn't put anything in writing, and wherever they are strongest they will go where the fellow is; but you have got to have somebody who is sales manager.

MR. GRAVES: That is my point.

H.M.JR: You have got to have somebody who is director of sales for the State of New York. Now who is that going to be?

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MR. GRAVES: That is my point.

H.M.JR: You have got to have somebody who is director of sales for the State of New York. Now who is that going to be?

MR. GRAVES: It ought to be our organization who will direct the sales effort on F and G Bonds.

MR. STUBBS: I don't think that would work up in our neck of the woods.

MR. GRAVES: I am convinced of it.

H.M.JR: Well, I am not.

MR. STUBBS: May I just speak a second here. We have got an army organized in District Number One which has got the top personnel, and the Secretary's concept of this thing has just clicked and caught fire - they are keen to work. I would suggest that the general of the army, Paddock, who is president of that district, be asked to put his army to work on F and G Bonds, all the credit to go to the War Savings Staff but that he, Paddock, as an individual, be the man to whom the Secretary would look to see that it was done. He, Paddock, would direct the sales.

MR. GRAVES: For the whole of New York?

MR. STUBBS: District Number One. I am New England; I have got six States, you see.

H.M.JR: Could I just make this difference, and I hope that this is cleared up. I am not going to look to Paddock, head of the Federal Reserve.

MR. STUBBS: That is just a name, that is all.

H.M.JR: But our State chairman - what is his name?

MR. STUBBS: Doherty in Massachusetts.

H.M.JR: Doherty is the man. I would call up Doherty and say, "How are F and G's going," and Doherty is right up on them. F and G will be his organization.

MR. GRAVES: That is all right.

MR. GAMBLE: I am agreeable to that.

H.M.JR: What is the difference?

MR. HALL: I don't see any difference. That was my idea.

MR. STUBBS: I do, sir.

H.M.JR: I mean, I can call up Doherty; I can call up Patterson. I am not going to invite your fellows to come in. That is why I don't want to send this telegram which was drafted for me to sign. Mr. Patterson or Mr. Doherty will invite you to come in and meld these organizations, and the people that they are going to invite to come in is the president of the Federal Reserve Bank, who has a sales organization. Some places it is strong; some places it isn't; but they are going to sit down, county by county, and fix it up. But I still am going to hold Graves and each State chairman responsible. Where the hell are we apart?

MR. GRAVES: We are not apart on what you have said.

H.M.JR: Let me take one at a time. Mr. Hall, how about it?

MR. HALL: I don't think we are apart, if it is understood this way, Mr. Secretary, that Mr. Patterson or Mr. Ford, probably both, would come and speak to Mr. Sproul and Sproul would go and talk to Perry Hall about it, say, "Now look here, here is our message. We have got to sell F and G Bonds. What is the best way to do it?" "All right, here is my organization; it is at your disposal. Now, do you want me to set the dogs running, or don't you?"

I mean, I am willing to do it, but if they are going to say, "We will give the instruction to the heads of every bank that has got a letter from Sproul", it isn't going to work. We give the instructions which Patterson tells us to give. You see what I mean? He says, "I want you to handle this thing and sell Bonds. Use my men if you want to."

H.M.JR: But haven't you been doing this up to now for Patterson, so you have been on both sides?

MR. HALL: Yes, both sides. I have been on a committee since January, Mr. Secretary. I am familiar with all of the problems, I can tell you that. I have known Nevil all my life because he is in the bank. There is going to be no friction on our part at all.

H.M.JR: I could sit here all day long, and I couldn't write instructions which would go for New York, Boston, Philadelphia, Chicago, and Cleveland. It is just a question of human beings sitting down and working this thing together; and the point that Harold Graves wants to make, correctly, is that through him, through the State administrator, to the president of the Federal Reserve Bank - that is the way the authority will flow on this thing.

MR. HALL: Absolutely, and it is just as simple, I think, Mr. Graves, as when you said to me, "Your task now is to follow up on the telegrams." All right, we did it. "Follow up, if you will, and get all of New York going" - I was chairman of the State on these certificates of indebtedness, and we did that.

Now, Nevil Ford or you will say, "Your job for June is F and G, go to town on it", then we do it. But there wouldn't be any conflict about it.

H.M.JR: What is the matter with that?

MR. GRAVES: Nothing wrong about it.

H.M.JR: Mr. Hall?

MR. HALL: I am satisfied.

H.M.JR: Are you satisfied?

MR. GRAVES: Yes.

MR. GAMBLE: Yes.

H.M.JR: Now, what can I do to make you happy?

MR. STUBBS: I will tell you what I think we have just got to clear up between Mr. Graves and me. I think I see exactly what the trouble is, and I am sure he does. That is, I don't think the orders below the president of the Federal Reserve District to his army can be given by the State administrator. I think once the State administrator has asked the help of the president of the bank for that district, the president of the bank of that district must direct the Victory Fund Committees in their efforts and have a free hand absolutely.

MR. GRAVES: I agree with that. What I am thinking of--

H.M.JR: Is that all?

MR. STUBBS: This is dandy.

MR. GRAVES: We have a State which hasn't been mentioned, which I think we should bring in here. That is Indiana where they have had a strong F and G organization in the War Savings.

MR. BRYCE: Ed Wuensch, whom we all know. We got him in there, and he is good.

MR. GRAVES: I don't think anything should be done which will supersede that organization.

MR. BRYCE: We got him. He is marvelous.

MR. GRAVES: We should bring people in to augment and help that group.

H.M.JR: Harold, I am trying to say I don't think any two States are the same. I don't think any situation within the State is the same - Buffalo is one, New York is another. That is why I don't want to send any telegram. I don't want to send anything else.

MR. BRYCE: Chicago has already merged.

H.M.JR: If you fellows are satisfied on this, let's go along on that basis. I repeat myself, that I am saying to Graves, please get hold of your State administrators before Friday at ten o'clock and explain to them that I am suggesting to them, or requesting them, to please ask the presidents of the Federal Reserve Banks in each of their districts to coordinate the sales organizations on F and G, but that Mr. Patterson and our State administrators will still be responsible.

MR. GAMBLE: No information will go out to these people until it comes - only through the State administrators.

H.M.JR: I have got to go.

June 3, 1942
4:25 p.m.

WAR BONDS

Present: Mr. Graves
Mr. Buffington
Mr. Gamble
Mr. Odegard
Mr. Bell
Mr. Gaston
Mr. Kuhn
Mrs. Klotz

H.M.JR: I am going to do one of the things which I very seldom do. I am going to be boss, and I am not arguing. I am telling. Now, this is the way - where is Bell?

(Mr. Bell entered the conference.)

This is one of the few times that I am going to be boss. I am not arguing. I am telling.

MR. BELL: When haven't you been?

H.M.JR: At staff everybody has his chance to talk and I listen, I think, don't I?

MR. BELL: I agree up to a point.

H.M.JR: Now, what I want to do is, I want to sell eight hundred million dollars worth of bonds in June, and I want to strengthen the War Bond organization the way I built an organization for Governor Roosevelt in New York State.

When I went into action to get a farm leader, I wasn't interested in whether he was a member of the Grange, a member of the Dairymen's League, whether he was a Democrat or a Republican. I wanted the best man in each county to advise me on agricultural problems.

We got together a committee of twenty-one, of which eighteen were Republicans, but we had the very best man in each county.

Now, I want in each county in the United States, and each city, the very best securities salesman I can get. He may be a lawyer; he may have a lot of trust funds; or he may be a member of the New York Stock Exchange, or a member of an investment house. But whatever he is, I want him to help my State Chairman, and I want him to come there under the auspices of his State chairman.

Now, in order to get these people, and to corral them and use them - I am perfectly willing to use my fiscal agents in connection with the F and G Bonds as a central point to corral these people around, and my State chairman should ask the president of the Federal Reserve Bank in his district to help him get the best men in each county to act, to sell these F and G Bonds beginning with Monday.

Now, I have wasted entirely too much time sitting around here arguing and not selling, and if Mr. Eccles or Mr. Sproul don't like it they have just got to be told so as this is what I want. I started eight years ago and I had my knock-out, drag-out fight with the Federal Reserve of New York as to who was to be the boss, and as Mr. Roosevelt's representative it was decided that the Treasury should be the boss of the monetary matters. It has been that way now for eight years, and I am going to keep it that way. After having won this fight for eight years - I don't want to be demagogic or excitable - for the people, I am going to keep it just as long as I am here. And Mr. Eccles and Mr. Sproul and the rest of them will have to do as I want.

Now, any security salesman that Mr. Sproul or the directors invite to come in and help us, if he doesn't want to help us - we are asking him to contribute his time - this is God's own free country - I want to keep it that way. It is volunteer with a capital "V", and no salesmen - after all, if we go tap the man on the shoulder and say, "Will you please come in. We understand you are the best man in Rochester, New York, and we would like you to help," and if he doesn't want to do it, that is his business. See? I mean, nobody has to come in. After all, we are asking them to give their time, but I have taken a year and a half to build this organization independent of the Federal Reserve, and we have worked like hell now for almost a year and a half. There is no reason why I should give it up, and I am not going to.

Now, I am being a little extra tough this afternoon because I would much rather be a little tough with Mr. Eccles and Mr. Sproul, particularly, and then after they are in the fold be nicer to them than to be nice now and then get them in the fold and then have them say, "Well, Morgenthau, we didn't understand this, and you got us in under false representation." But if I make the conditions a little bit harder, tougher, under which I want them to come in, then after they are in I will be a little extra nice to them.

I think that is perfectly clear, isn't it?

MR. BELL: Do you contemplate getting these salesmen around the presidents of the Federal Reserve Banks as part of the Victory fund Committee or as individuals?

H.M.JR: I don't want any tags; I don't want any labels. I don't want them as a Democrat, a Republican, or a member of the Elks, or a Moose, or as a member of the New York Stock Exchange, or anything else.

MR. BELL: What I am trying to find out, are you giving them a new function? You have told them to organize these Victory Fund Committees. Now, is it going to take their committee members to do this job? Is this a new function they have got to do as fiscal agents?

H.M.JR: Let me go over this once more.

MR. BELL: I understand except that one point.

H.M.JR: No, I can't answer that; that is the whole point of this thing. I don't know my bankers. Mind you, I haven't gone to conventions; as you know, I purposely and carefully and studiously have not been on intimate terms with them. It is no accident that I am not on intimate terms with them.

(Lieutenant Stephens handed the Secretary a news release.)

Now, I have known this since twelve o'clock, and while I am sitting here the Japanese have been in the midst of a raid on Dutch Harbor, Alaska, and I have got to sit here and argue about this business while this thing is going on. I am sick over the fact that I didn't know it when I called up Frank Knox. But I have known this since lunch time. And then we sit here arguing about who is going to do this thing when this thing happens.

Let me explain why. The man from New York - what is his name?

MR. BUFFINGTON: Perry Hall.

H.M.JR: A member of J.P. Morgan. He understood perfectly what I wanted and was perfectly willing to go along with you.

MR. GAMBLE: That is correct.

MR. GRAVES: And Mr. Stubbs.

H.M.JR: Well, Stubbs was difficult, but Hall was perfectly willing. The man, Dan, that I want in Rochester or Utica or Albany or Buffalo may be a member of the Victory Fund Committee or he may not be a member, but the man that I want - and Perry Hall, quoting him, said to me, "Mr. Morgenthau, I understand perfectly what you want. I know your man in New York, but I have been chairman for F and G for Colonel Patterson since January," and he said, "In some places I may have the best man in my capacity as chairman of the F and G Committee for Patterson, and in another place in another capacity I may have the best man under the Victory Committee." But he said, "What I don't want" - and that is what I don't want - I don't want two men both going down the same side of the street and both soliciting the same person, both representing Henry Morgenthau, Jr. any more than what I found in New London, Connecticut. There were seventeen representatives of the Treasury in New London, Connecticut, when they arrested a man who happened to be both a narcotic man, a smuggler and a counterfeit man, and seventeen Treasury agents all in New London - or Bridgeport?

MR. GRAVES: Bridgeport.

H.M.JR: And as a result of that I made Harold Graves coordinator of Treasury police because I had seventeen men all there investigating the same man because he happened to have committed five crimes against the Treasury. And I don't want five salesmen representing five different organizations, but all representing me, soliciting the same fellow. Therefore, I can't answer your question. As the man, I want the best man, independent of who he belongs to.

MR. BELL: I think you have answered it. What you are after is individuals. I think you have answered my question.

H.M.JR: I want the best salesman.

MR. BELL: You want the best salesman regardless of the organization to which he belongs, and you don't want him as a Victory Fund Committee member, even though he happens to be one, or you don't want him a member of the other committee just because he happens to be on it. You want a setup for this purpose, and you want the best available.

H.M.JR: That is right.

MR. GRAVES: And you want that in every county in the country.

H.M.JR: Every county. What is the matter with that?

MR. BELL: And that is to be under the State administrator?

H.M.JR: The State administrator, but he using the president of the Federal Reserve Bank to corral these people for him.

Now, if I were State administrator this is what I would do in New York State. I would go to Allan Sproul and say, "Look, Allan, I am up to my neck trying to get my E Bond thing. I am worried," just the way he told me, "I don't know what is wrong. Will you help me out and take this thing off my hands, and corral these people wherever they are, and get me the best man. Now, if you do that you save my life. Will you do that for me?" That is what I would do if I were Dick Patterson, and that is what I want Harold Graves to tell Dick Patterson to do.

MR. GRAVES: Friday morning.

H.M.JR: See? To tell him so that he can concentrate on his pledge campaign and everything else, but to call a spade by a spade. I am not going to give up the control to the Federal Reserve.

MR. BELL: I know. I don't think you want to.

H.M.JR: I don't know, but I have strong suspicions to think that that is what they want, but as I say, make it tough. You might just as well tell Eccles right on the line and Sproul and then treat them like gentlemen afterwards.

MR. BELL: I think you will probably have less trouble in New York than any other because of the close friendship between the New York organization and Allan Sproul's organization, and the fact that Perry Hall is chairman of that committee. You are going to have less trouble there than any place else.

H.M.JR: What is wrong with what I am saying?

MR. BELL: I don't know that anything is wrong with it. I think what they are afraid of, what the Victory Fund Committee is afraid of - you have done a grand thing setting up this committee; you have gotten a lot of enthusiasm throughout the entire country. We announced in the press release that they were going to do F and G Savings Bonds. The New York Stock Exchange and the other organizations affiliated with it have sent out similar announcements. Allan Sproul made his announcement, all on the same basis. Now, you are dampening and killing that enthusiasm, and they are afraid they won't get it back.

H.M.JR: Well, that is their fault. They had no right to jump to that assumption.

MR. BELL: It was in the original press statement.

H.M.JR: That we were going to do--

MR. BELL: Am I right about that?

MR. BUFFINGTON: That they would really cover the between the New York organization and Allan Sproul's organization, and the fact that Perry Hall is chairman of that committee. You are going to have less trouble there than any place else.

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MR. BELL: It was in the original press statement.

H.M.JR: That we were going to do--

MR. BELL: Am I right about that?

MR. BUFFINGTON: That they would really cover the larger investors.

MR. GRAVES: The statement was not clear about F and G Bonds.

H.M.JR: We carefully weighed it.

MR. GRAVES: We substituted a reference to dealing with larger investors. Mr. Kuhn made those changes.

H.M.JR: What was the thing?

MR. KUHN: I don't remember exactly, but we emphasized other Government securities. Isn't that right, Harold?

MR. GRAVES: That is right.

H.M.JR: We weighed that very thing carefully.

MR. BELL: I wasn't here, but I thought I read in the papers it was in that.

H.M.JR: We weighed that very carefully. I think there was a little skulduggery, because it did get out that - but the thing was very, very carefully weighed, and it said that they would solicit the larger investors. Is that the way--

MR. KUHN: That is right.

MR. BUFFINGTON: If my recollection is correct, in the original memorandum of understanding there was a reference to the F and G Bonds, and it was from that memorandum which was sent to each Federal Reserve president that they picked up the notice about the F and G Bonds and included it in the memorandum which each president of the Federal Reserve Bank sent out to the banking institutions in his district.

H.M.JR: Well, Dan, and all of you, right or wrong, I am not, after eight years, going to give up my birthright, and that is what it looks to me as though they are asking me to do. I am not going to do it. On the other hand, I am going to ask, through the president of the Federal Reserve Bank - through my State administrator, to my president of the Federal Reserve Bank who is my man, my fiscal agent - God, you (Bell) of all people have fought and bled to keep those fellows as my fiscal agents as against working through the Board. I mean, nobody has fought harder than you to keep that.

MR. BELL: That is right, and I still fight.

H.M.JR: And you have got to watch it every single minute. You have watched it like a watchdog. As I say, I don't know whether you can do five States, but you can certainly do New York and set the example. But, Dan, now between the first and second conferences is there any doubt in your mind what I want?

MR. BELL: No, but there is a difference in what I thought this morning and I know now.

H.M.JR: That is why I asked for this meeting. Any doubt in your mind, Harold? God knows you ought to be satisfied.

MR. GRAVES: I am. Incidentally, we have invited ten administrators to come here Friday.

H.M.JR: You have got to prepare them beforehand.

MR. GRAVES: I asked them to be in my office at nine.

H.M.JR: Do a little better job than George did on his boys today.

MR. BELL: You are still going to have the conference Friday, and you want those presidents here? I haven't sent out word yet. I was waiting--

H.M.JR: I think you had better have it, because I think - George came back and said, "I am going to have trouble with Eccles."

MR. BUFFINGTON: I only said I had failed to sell Eccles on the program that we had outlined.

MR. BELL: As I left the conference, it was agreed that Allan Sproul and Al Williams would write a memorandum of what they thought ought to be done, but at the same time saying it was your decision, that on any decision you made you would get their full cooperation. They would feel that the way they had set out, it could be done best.

H.M.JR: You understand we are going to tell them now, when you get them in, after hitting them over the head, and it turns out that two-thirds of them are Victory Fund Committees, O.K.; but I don't want any labels, I don't want any tags. I want the best man, wherever he is, or best woman. Peter, O.K.?

MR. ODEGARD: I think that is swell.

H.M.JR: George, can you deliver?

MR. BUFFINGTON: To make it clear-cut, could we not say to these Victory Fund Committees, those members of the Committees now able to sell F and G Bonds report to the State administrators for direction on selling Bonds during the month of June? Then there is no question left.

H.M.JR: No, no, I want to keep the president of the Federal Reserve Bank in the picture. He is there, and I want to keep good faith with him. He is my fiscal agent.

MR. ODEGARD: He will serve as the man to recruit these people for the State chairman of the War Savings Committee.

H.M.JR: Yes, yes, sure.

MR. BUFFINGTON: Then as you get into this question those men may or may not work under the executive manager; they may work under the State administrator, whichever the State administrator wants.

H.M.JR: No, George, look, the way I would do it, if I were State administrator, so there would be no confusion, so you wouldn't have the same men or three men ringing the same doorbell, using the same name, I would say to Allan Sproul, "Look, Allan, I haven't got the time to do E Bonds. You have asked for it, you wanted to do it, so I want you to recruit all the salesmen that are going to sell F and G Bonds for me and see that there is no duplication. I am going to hold you responsible to see that we get the best salesmen in every country that you, Allan Sproul - it is up to you to see that all of these salesmen who have volunteered their time are organized and given certain blocks, certain territories to go out, and certain concerns. Now, what I have got is yours, and I hope what you have got is mine. But it is up to you to get these fellows so they are not falling all over each other. I" - God forbid - "Patterson, have got some people, some of them are yours, and you have got some of mine; so to keep from having these fellows crossing over you, Allan Sproul, you organize the F and G Bond salesmen for me."

MR. GRAVES: Well, that is certainly practical in a community like Greater New York. When it comes to your down-State counties in New York, whoever is recommended or suggested by Sproul, a lot of people will have to be fitted into our county committee, that is,you might need seven people.

H.M.JR: Look, each thing - I have laid down the principle. Now, take the principle and then make it work.

MR. GRAVES: We can make it work.

H.M.JR: While they are taking Dutch Harbor, don't let's sit around here and fiddle around while I have to raise this money - how you are going to raise it in each county.

Certainly the principle is clear, isn't it, Dan?

MR. BELL: Yes, I understand what you want.

H.M.JR: Do you understand?

MR. BUFFINGTON: Yes.

H.M.JR: Herbert, I wanted you just to have the background so you wouldn't be out of touch with us.

MR. GASTON: All right. I don't fully understand where this leaves the Victory Fund Committees, but I can find that out later.

H.M.JR: When they do.

MR. BELL: It leaves them out in the cold as such.

H.M.JR: Excuse me - no, wait a minute. When we have something for them to go at on the regular Treasury thing--

MR. BELL: I meant on F and G.

H.M.JR: Well, Dan, I have thought - this isn't something I have arrived at as snap judgment.

MR. BELL: I understand that.

H.M.JR: And I am just - no use going over and over it again. I mean, I am interested in the individuals. I am not interested in labels. That is what I want, and I don't want to, after starting in in January and February to build up an organization like we have got in War Bonds to throw them to the dogs for an organization that still has to make good.

I hope I wasn't too serious.

evening 6-2-42
ITb discussed 6/3
11a—

4th Draft

45

DRAFT OF SECRETARY MORGENTHAU'S BROADCAST, WEDNESDAY JUNE 3.
This is the first of a series of nationwide broadcasts by leaders of the Government to follow up the President's seven-point economic program of April 27th.

Five weeks have gone by since President Roosevelt outlined a national economic policy for fighting the war on the home front. He called for heavier taxation, for fixing prices and rents, for rationing scarce commodities, for stabilizing wages and farm prices, for checking instalment buying, and finally, for rigid self-denial and saving and the investment of billions more in War Bonds.

Those were America's marching orders from the Commander-In-Chief. They called for patriotic effort and real sacrifice to meet a crisis that is without precedent in our country's history. "We cannot fight this war," the President said, "we cannot exert our maximum effort on a spend-as-usual basis. All of us

-C

are used to spending money for things we want but which are not absolutely essential. We will all have to forego that spending. We cannot have all we want if our soldiers and sailors are to have all they need."

In the weeks since the President spoke, the American people have shown that they are ready to back up the men at the front by effort and sacrifice at home. It has been immensely encouraging to us in Washington to see the voluntary cooperation that has come from all parts of the country and from all sections of the people, especially in the fields of price fixing, rationing and saving. That voluntary cooperation will be more and more necessary in the months ahead. A great change in national economic habits cannot be accomplished merely by saying "pass a law" or "write

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an Executive Order". The President's program can be carried through to success only if there is active and constant cooperation from each and every one of us.

Essentially, the President's program is a call for self-restraint -- not just by a few of us, but by all of us; not just occasionally, but every day as long as the war may last. Our war industries need all the materials and all the labor they can get. Our fighting men and our allies in all parts of the world need those materials to win the war. If we spend our money extravagantly, carelessly, or even to satisfy what would have been our normal wants in normal times, we handicap our war production program. We take away from our fighting forces the supplies they need for victory. At the same time we create pressure on the prices which will be a menace both to our war effort and to our economic future.

The patriotic conscience of every American should extend into every American pocketbook. Every time you are about to spend your money, that conscience should ask you "Do you really need what you are going to buy? Can't you do without it? Why not wait until after the war? Why not build up a nest egg for your family in the future, and put your money at your country's service now?"

I am in dead earnest when I say that any man or woman who chooses this time to go on a buying spree is committing an act of sabotage against our war effort. The patriotic thing to do, and the intelligent thing as well, is to make old clothes last longer, to eat simpler meals, to patch up old household appliances instead of buying new ones, and to do everything else that is possible

-C

to cut down on personal spending. The critical point in the battle on the home front is not in Government offices nor in the halls of Congress, but right in your own pocketbook.

We at the Treasury have a rather special interest in the American pocketbook, as you all know. It is our job to finance this greatest and costliest of all wars, a war that is already costing 130 million dollars every day. It is also our job to finance the war in such a way that it will not bring uncontrolled pressure on prices and will not interfere with war production. To accomplish these purposes we at the Treasury have two chief instruments at our disposal: the first is taxation, and the second, which depends upon voluntary effort, is the sale of War Bonds and other Government securities.

Each of them is a vitally important part of the President's seven-point program.

The Administration has already recommended new taxes that should yield $8,700,000,000 of additional revenue. That is a colossal sum; yet war expenditures alone are many times that amount even now, and it seems to me the very least that we can afford to ask of the American people at this critical time.

In line with the basic principle of the ability to pay, we have proposed sharply increased taxes on corporations and higher individual incomes. In the same way, we have urged Congress to abolish a number of special privileges by which a comparatively few wealthy taxpayers have been able in past years to escape their fair share of the burden. We have also recommended the taxation of millions with small incomes who have never had to pay direct taxes before, but we recommended this upon the assumption that Congress would tax the higher incomes more heavily and at the same time close the loopholes in the law.

To be certain that we are taking the profit out of war, we have recommended a basic tax rate of 90 cents on every dollar of excess profit beyond a reasonable rate of return, and in a few cases where profits are exceptionally large we have recommended a tax of 100 cents on every dollar. I know that the American people are determined that no one shall be allowed to amass riches out of this war, and our tax program must do everything possible to prevent it.

I have been shocked, to put it mildly, at evidence that some companies profiting from war contracts are

D-C

distributing extravagant amounts in salaries, bonuses and other corporate expenses, so that they might escape paying full and fair taxes on profits to the Government. We are watching the tax returns of every company engaged in war production, not only to protect the interests of the Government but to protect the great majority of American corporations which are reporting their earnings fairly and honestly. We are in a position to expose and prevent any cheating on tax returns. We are determined to make the offending companies pay what they really owe.

The Ways and Means Committee is now hard at work writing a new tax bill. It is not for me to discuss the details of what they are about to recommend. I should like to make only this comment: I hope it cannot be said of the new tax bill that it was too little and too late.

D-C

The people of this country have shown in a thousand ways that they are not in a mood for half measures, either financial or military. They will be critical only if the burdens are unfairly distributed. They will be disappointed in their leaders only if those leaders fail to ask them for all-out effort.

The same willingness has been shown by millions of Americans in the past year, especially in the past few months, in the buying of War Bonds and Stamps. I am very happy that we went over our national quota for the month of May and that our total sales for the month reached $634,000,000. But we shall have to do much better in June and in the following months. The quota for June has been fixed at $800,000,000, and in July and every month thereafter we expect a billion dollars. If we are to reach those quotas and carry out a vital part of the President's program, all who get a regular income will have to cut down on personal spending and put an average of at least ten percent of current earnings into War Bonds.

The steady fulfilment of War Bond quotas, month by month, will be much more than a big step toward financing the war. It will mean that we are building the kind of future we want for ourselves and our children. A great deal has been said and written in recent weeks about the political and economic system we want after this terrible war is over. But it is perfectly plain that no Government or group of governments can decide the shape of the post-war world simply by writing a constitution or waving a magic wand.

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We can do a great deal to shape our future -- now. Our actions -- now -- will to some extent determine the kind of world we shall have after the war. Whatever success we achieve now by voluntary cooperation will help to set the pattern of the post-war world. Whatever we do now to assure economic stability in future years will be worth all the speeches, all the resolutions, all the ambitious paper plans in which the post-war world is being outlined for us.

I feel strongly that every War Bond bought today is a brick in the foundation of the free and democratic world order that we are fighting to achieve. Millions in this country today are quietly establishing a reserve of spending power for themselves in the years after the war, and in that way they are guarding against the terrors of unemployment and want and fear.

D-C

There is nothing dramatic in saving your money, bit by bit, to buy War Bonds; there is nothing dramatic, for that matter, in any of the President's seven-point program. There are no medals in this war for self-denial, no matter how much courage or sacrifice it may involve. Yet it will be a tremendously dramatic thing if the patriotic effort of the people themselves can finance the people's victory. We have a great opportunity, right now. We are going to rise to that opportunity. In the President's words, "We can, we will, we must."

D-C

READING COPY OF SECY'S RADIO TALK

JUNE 3, 1942

FOLLOWING UP PRESIDENT'S SEVEN POINT

PROGRAM

Five weeks have gone by since President Roosevelt outlined a national economic policy for fighting the war on the home front. He called for heavier taxation, for fixing prices and rents, for rationing scarce commodities, for stabilizing wages and farm prices, for checking instalment buying, and finally, for rigid self-denial and saving and the investment of billions more in War Bonds.

Those were America's marching orders from the Commander-In-Chief. They called for patriotic effort and real sacrifice to meet a crisis that is without precedent in our country's history.

92
1424

"We cannot fight this war," the President said, "we cannot exert our maximum effort on a spend-as-usual basis. All of us are used to spending money for things we want but which are not absolutely essential. We will all have to forego that spending. We cannot have all we want if our soldiers and sailors are to have all they need."

Pause In the weeks since the President spoke, the American people have shown that they are ready to back up the men at the front by effort and sacrifice at home. It has been immensely encouraging to us in Washington to see the voluntary cooperation that has come from all parts of the country and from all sections of the people, especially in the fields of price fixing, rationing and saving.

225/1291

voluntary cooperation will be more and more necessary in the months ahead. A great change in national economic habits cannot be accomplished merely by saying "pass a law" or "write an Executive Order". The President's program can be carried through to success only if there is active and constant cooperation from each and every one of us.

Essentially, the President's program is a call for self-restraint -- not just by a few of us, but by all of us; not just occasionally, but every day as long as the war may last. Our war industries need all the materials and all the labor they can get.

332/1184

Our fighting men and our allies in all parts of the world need those materials to win the war. If we spend our money extravagantly, carelessly, or even to satisfy what would have been our normal wants in normal times, we handicap our war production program. We take away from our fighting forces the supplies they need for victory. At the same time we create pressure on the prices which will be a menace both to our war effort and to our economic future.

The patriotic conscience of every American should extend to every American pocketbook. Every time you are about to spend your money, that conscience should ask you "Do you really need what you are going to buy?

452/1064

Can't you do without it? Why not wait until after the war? Why not build up a nest egg for your family in the future, and put your money at your country's service now?"

Pause I am in dead earnest when I say that any man or woman who chooses this time to go on a buying spree is committing an act of sabotage against our war effort. The patriotic thing to do, and the intelligent thing as well, is to make old clothes last longer, to eat simpler meals, to patch up old household appliances instead of buying new ones, and to do everything else that is possible to cut down on personal spending. In this battle on the home front the wage-earners and consumers of America hold the key positions.

584/932

Pause It is our job at the Treasury to finance this greatest and costliest of all wars, a war that is already costing one hundred and thirty million dollars every day -- a dollar a day for every man, woman and child in the country. It is also our job to finance the war so as to avoid, as far as possible, upward pressure on prices and interference with war production. To accomplish these purposes we at the Treasury have two chief instruments at our disposal: the first is taxation, and the second, which depends upon voluntary effort, is the sale of War Bonds and other Government securities. Each of them is a vitally important part of the President's seven-point program.

704/812

The Administration has already recommended new taxes that should yield eight billion, seven hundred million dollars of additional revenue. That is a colossal sum; yet war expenditures alone are many times that amount even now, and it seems to me that eight billion seven hundred million dollars is the very least that we can afford to ask of the American people at this critical time.

In line with the basic principle of the ability to pay, we have proposed sharply increased taxes on corporations and on higher individual incomes. In the same way, we have urged Congress to abolish a number of special privileges by which a comparatively few wealthy taxpayers have been able in past years to escape their fair share of the burden.

829/687

We have also recommended the taxation of millions of people with small incomes who have never had to pay direct taxes before, but we recommended this only as part of a program which would include taxing the higher incomes more heavily and at the same time closing the loopholes.

I know that the American people are determined that no one shall be allowed to amass riches out of this war, and we have recommended a tax program to give effect to the people's determination. We have, for example, recommended a basic tax rate of ninety cents on every dollar of excess profit beyond a reasonable rate of return.

937/579

I have been shocked at evidence that some companies profiting from war contracts are distributing extravagant amounts in salaries, bonuses and other corporate expenses, so that they might escape paying full and fair taxes on their profits. We have made it our first concern to examine promptly the tax returns of every company engaged in war production, not only to protect the interests of the Government but to do justice to the great majority of American corporations which are reporting their earnings fairly and honestly. We are determined to make the offending companies pay.

1031
485

Pause

The Ways and Means Committee is now hard at work writing a new tax bill. It is not for me to discuss the details of what they are about to recommend. I should like to make only this comment: I hope it cannot be said of the new tax bill that it was too little and too late. The people of this country have shown in a thousand ways that they are not in a mood for half measures, either financial or military. They will be critical only if the burdens are unfairly distributed. They will be disappointed in their leaders only if those leaders fail to ask them for all-out effort.

The same willingness has been shown by millions of Americans in the past year, especially in the past few months, in the buying of War Bonds and Stamps. I am very happy that we went over our national quota for the month of May and that our total sales for that month reached six hundred and thirty-four million dollars. But we shall have to do much better in June and in the following months. The quota for June has been fixed at eight hundred million dollars, and in July and every month thereafter we expect a billion dollars. If we are to reach those quotas and carry out a vital part of the President's program, all who get a regular income will have to cut down on personal spending and put an average of at least ten percent of current earnings into War Bonds.

1289/227

The steady fulfillment of War Bond quotas, month after month, is an indispensable part of the financing of the war. But it means even more than that. It means that we are building the kind of future we want for ourselves and our children.

We can do a great deal to shape our future -- now. Our actions -- now -- will determine the kind of world we shall have after the war. Whatever success we achieve by voluntary cooperation will help to set the pattern of the post-war world.

I feel strongly that every War Bond bought today will play an essential part in the building of a free and democratic world.

1400/116

Millions in this country today are quietly establishing a reserve of spending power for themselves in the years after the war, and in that way they are fortifying themselves against the terrors of unemployment and want.

There is nothing dramatic in saving your money, bit by bit, to buy War Bonds. There are no medals for self-denial in this war, no matter how much courage or sacrifice it may involve. Yet the combined effort of one hundred and thirty million people can achieve the great drama of the people's victory. We have a great opportunity, right now. We are going to rise to that opportunity. In the President's words, "We can, we will, we must."

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Treasury Department
Division of Monetary Research

Date 6/5/42 19

To: Miss Chauncey

From: H. D. White

I think the Secretary may be interested in reading the report of this conference.

Conference in Mr. White's Office
June 3, 1942
2:45 P.M.

Present: Mr. White
Mr. Will Hays

Mr. Will Hays called at his own request on June 4. He began hesitatingly to explain that apparently there was some misunderstanding with respect to whose responsibility it was — the State Department or the Treasury — to undertake the negotiations with the British Treasury for release of the moving picture industry's blocked funds. He said that the State Department had given him to understand that Secretary Morgenthau complained of the State Department's taking the initiative in the earlier negotiations without consulting the Treasury and the State Department is now reluctant to do anything about it and feel that the Treasury here may feel that it should do it.

Mr. White replied that he couldn't see how that misunderstanding had developed in view of the fact that the Secretary had made it quite clear to Mr. Long, when he had called on the Secretary to discuss the matter, that Secretary Morgenthau felt that the negotiations were the responsibility of the State Department. The Secretary had made it quite clear that if the State Department was convinced the moving picture industry constituted a case deserving of special treatment, it was still up to the State Department to take it up. Mr. White went on to explain again the ground covered in an earlier interview as to why the Treasury was not the appropriate agency to raise a question of that character at this stage of the negotiations, though the British Treasury itself might later raise the question with the U. S. Treasury if it wished to do so. Mr. White repeated the Treasury was eager to help in any way it could but didn't feel that this was a matter that lay within the purview of the Treasury at this stage of the negotiations. Mr. Hays apparently was disappointed that we would not go forward with it and Mr. White deduced from Mr. Hays' general remarks that he had not had much success in getting the State Department to initiate negotiations and that the State Department had been urging him to get the Treasury to do so.

When Mr. Hays saw that he was not having much success in getting Mr. White to agree that the Treasury Department should take up the matter with the British, he altered his tone and said he could see Secretary Morgenthau was not interested in the moving picture industry; that he was interested only when he wanted things out of them. Mr. White replied that he was certain Mr. Hays to do was to ask for an interview with Mr. Phillips and that it would be granted. Hays then said he thought maybe he would get Halifax to introduce him since he knew Halifax. Mr. White said Hays would be the best judge of that. Hays then said he would try to get in touch directly with Phillips.

Mr. Hays again telephoned Mr. White on Thursday morning and seemed to be very contrite and apologetic. He said that Phillips had already left and that he didn't want the Secretary or Mr. White to feel in the slightest bit that he wasn't 100 per cent cooperative and fully appreciated the Treasury's position and he didn't want Mr. White to exert the slightest pressure to make an appointment with the Secretary. He realized the Secretary was going away and he said in the meantime he might prepare a memorandum setting forth their position and give the Secretary a chance to look it over upon his return. He appreciated the Secretary's attitude and efforts and he didn't want, in any way, to suggest anything which would bother the Treasury.

THE SECRETARY OF THE TREASURY
WASHINGTON

June 3, 1942

Financing During May

The following is a statement showing for the month of May (1) financing operations which produced cash, and (2) financing operations which involved only refunding:

1. Cash Financing (Market Issues)

Sold a 2-1/2% registered non-banking bond of 1962-67	$882M	
Sold regular 2% 1949-51 Treasury bonds	1,292	
Additional Treasury Bills	303	
Treasury Tax Notes (net)	355	
U. S. Savings Bonds (net)	618	
Total cash		$3,450M

2. Refundings (Market Issues)

2-1/4% HOLC bonds ($875M outstanding)	$ 847M	
1% RFC note ($276M outstanding)	272	
Refunded into a 1-1/2% 4-1/2-year Treasury note (December 15, 1946)		1,119

(Note: While this financial operation was carried out in May the new securities are dated June 5)

Total financial operations in May $4,569M

June 3, 1942

Dear Mr. Taber:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Hon. John Taber,

House of Representatives.

By Messenger Shey 4:30

June 3, 1942

Dear Mr. Cannon:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Clarence Cannon,

House of Representatives.

By Messenger Shey 4:20

June 3, 1942

Dear Senator Nye:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Gerald P. Nye,

United States Senate.

By Messenger Sley 4:30

June 8, 1942

Dear Senator Glass:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Carter Glass,

United States Senate.

By Messenger Shey 4:30

June 3, 1942

Dear Charley:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry

Hon. Charles L. McNary,

United States Senate.

By Messenger Shey 4:30

June 3, 1942

Dear Walter:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry

Hon. Walter F. George,

United States Senate.

By Messenger Shey 4:20

June 3, 1942

Dear Sam:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry

Hon. Sam Rayburn,

Speaker of the House of Representatives.

By Messenger Shey 4:30

June 3, 1942

Dear Col. Halsey:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Col. Edwin A. Halsey,

Secretary of the Senate.

By Messenger Shey 4:20

June 3, 1942

Dear Bob:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry

Hon. Robert L. Doughton,

House of Representatives.

By Messenger Sley 4:20

June 3, 1942

Dear Alben:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry

Hon. Alben W. Barkley,

United States Senate.

By Messenger Sley 4:30

June 3, 1942

Dear Joe:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry

Hon. Joseph W. Martin, Jr.,

House of Representatives.

By Messenger Sley 4:20

June 3, 1942

Dear John:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry

Hon. John W. McCormack,

House of Representatives.

By Messenger Shey 4:30

June 3, 1942

Dear Frances:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry

Hon. Frances Perkins,

Secretary of Labor.

By Messenger Sturgis 4:20

June 3, 1942

Dear Jesse:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry

Hon. Jesse H. Jones,

Secretary of Commerce.

By Messenger Sturgis 4:20

June 3, 1942

Dear Claude:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry

Hon. Claude R. Wickard,

Secretary of Agriculture.

By Messenger Scargio 4:20

June 3, 1942

Dear Harold:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry

Hon. Harold L. Ickes,

Secretary of the Interior.

By Messenger Sturgis 4:20

June 3, 1942

Dear Frank:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry

Hon. Frank Knox,

Secretary of the Navy.

By Messenger Sturgis 4:21 pm

June 3, 1942

Dear Francis:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry

Hon. Francis Biddle,

The Attorney General.

By Messenger Scaggs 4:30 pm

June 3, 1942

Dear Henry:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry

Hon. Henry L. Stimson,

Secretary of War.

By Messenger Sturgis 4:21 pm

June 3, 1942

Dear Cordell:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry

Honorable Cordell Hull,

Secretary of State.

By Messenger Sturgis 4:20 pm.

June 3, 1942

Dear Henry:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry

Hon. Henry A. Wallace,

The Vice President.

By Messenger Shey 4:30 p.m.

June 3, 1942

Dear Steve:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry

Hon. Stephen Early,

Secretary to The President.

S. S. Agent 4:45

June 3, 1942

My dear Mr. President:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry Morgenthau, Jr.

The President,

The White House.

S. S. Agent 4:46 p.m.

June 3, 1942

My dear Mr. President:

I am sending you herewith, for your information, a summary of the Treasury financing for the month of May.

Yours sincerely,

(Signed) Henry Morgenthau, Jr.

The President,

The White House.

THE SECRETARY OF THE TREASURY
WASHINGTON

June 3, 1942

Financing During May

The following is a statement showing for the month of May (1) financing operations which produced cash, and (2) financing operations which involved only refunding:

1. Cash Financing (Market Issues)

Sold a 2-1/2% registered non-banking bond of 1962-67	$882M	
Sold regular 2% 1949-51 Treasury bonds	1,292	
Additional Treasury Bills	303	
Treasury Tax Notes (net)	355	
U. S. Savings Bonds (net)	618	
Total cash		$3,450M

2. Refundings (Market Issues)

2-1/4% HOLC bonds ($875M outstanding)	$ 847M	
1% RFC note ($276M outstanding)	272	
Refunded into a 1-1/2% 4-1/2-year Treasury note (December 15, 1946)		1,119

(Note: While this financial operation was carried out in May the new securities are dated June 5)

Total financial operations in May	$4,569M

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

June 3, 1942

MEMORANDUM FOR THE SECRETARY:

Summary of Financial Operations as of the Month of May

Public Debt

Total gross public debt at the end of May amounted to $68,571,000,000 and the guaranteed debt outstanding amounted to $5,687,000,000, or a total gross public and guaranteed debt of $74,258,000,000.

The gross public debt increased during the month of May by $3,609,000,000. This was made up by an increase in outstanding marketable obligations of $1,292,000,000 2% 1949-51 Treasury bonds, $882,000,000 of registered non-banking 2-1/2% 1962-67 Treasury bonds, $303,000,000 of additional Treasury bills, $355,000,000 (net) of tax notes ($399,000,000 sold, $44,000,000 redeemed), and $618,000,000 (net) of War Savings Bonds ($640,000,000 receipts, including monthly interest increment, $22,000,000 redeemed); an increase of special issues of $160,000,000, most of which is in the Unemployment Trust.

Receipts and Expenditures

The total receipts for the eleven months, exclusive of social security, amounted to $10,307,000,000, of which $563,000,000 was received in the month of May.

The total expenditures amounted to $27,867,000,000, of which $22,131,000,000 represented war expenditures and $5,736,000,000 represented other budgetary expenditures. For the month of May we spent a total of $3,953,000,000, of which $3,553,000,000 represented war expenditures.

The total budgetary deficit for the eleven months amounted to $17,560,000,000, of which $3,391,000,000 was for the month of May. Our budgetary deficits are now running at the rate of about $3,500,000,000.

a month, exclusive of tax-paying months. These will gradually increase and will be slightly in excess of $5,000,000,000 in the month of October.

Corporations and credit agencies

In addition to the above budgetary items, Governmental corporations and credit agencies spent approximately $430,000,000 during the month of May; $253,000,000 was spent by the Commodity Credit Corporation and $221,000,000 by the Reconstruction Finance Corporation. There were credit items in the transactions of the other agencies which brought the aggregate of these two items down to the net figure.

DWB

THE SECRETARY OF STATE
WASHINGTON

June 3, 1942

Dear Henry:

Thank you very much for your note of June second enclosing a report of the sale of war bonds during the month of May.

With best wishes,

Sincerely yours,

Cordell Hull

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

The Speaker's Rooms
House of Representatives U.S.
Washington, D.C.

June 3, 1942

The Secretary of the Treasury,

Washington, D. C.

Dear Henry:

Thank you for the note of the 2nd concerning the sale of War Bonds.

I have noted with a great deal of pleasure the fine increase in sales of "E" Bonds.

With every good wish, I am

Sincerely yours,

Sam

THE SECRETARY OF THE NAVY
WASHINGTON

June 3, 1942

My dear Henry:

Thank you for your note of June 2 giving me a report of the sales of war bonds during the month of May.

I congratulate you on the magnificent showing you have made.

Yours sincerely,

Frank

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

June 3, 1942

Dear Henry:

Thank you for your note of June 2. I was greatly impressed with the progress made in the sale of "E" Bonds in May.

Sincerely,

Claude

Hon. Henry Morgenthau, Jr.
Secretary of the Treasury

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

M. S. SZYMCZAK
MEMBER OF THE BOARD

June 3, 1942.

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

My dear Mr. Secretary:

It was thoughtful of you to send me a copy of "THE MINUTE MAN", with reference to the highlights of the Treasury Department's Quota Campaign to raise at least a billion dollars a month through the sale of War Savings Bonds.

You have my thanks and sincere personal regards.

Sincerely yours,

M. S. Szymczak

M. S. Szymczak.

MSS ams

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 3, 1942

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Preliminary Results of the Poll Concerning War Savings Stamps and Their Redeemability

Mr. Wilson of the Office of Facts and Figures called us from New York this morning to give us the preliminary results of the poll which they have just conducted at your request concerning War savings stamps and the possibility of making them nonredeemable for cash until after the war. The questionnaire was considerably revised from the form in which we cleared it last week.

There were 480 persons interviewed. The questions used and the answers given are summarized below:

(1) Have you or your husband, or wife, bought any Government war bonds?

Yes	47%	
No	51	
Don't know	2	
Total		100%

(2) Have you or your husband, or wife, bought any Government war stamps?

Yes	55%	
No	44	
Don't know	1	
Total		100%

(3) If you bought war bonds, did you buy the bonds outright or did you buy war stamps first and turn them in on the bonds?

Bought outright	27%	
Bought stamps first	10%	
Both	10%	
Total who bought war bonds		47%

Secretary Morgenthau - 2

(4) If you bought war stamps, have you turned in any war stamps for cash?

Yes	1%	
No	53	
Don't know	1	
Total who bought war stamps		55%

(5) As you know, you can cash in war savings stamps any time you want to now and get your money back. Would you be in favor of changing this so war stamps could not be cashed until after the war, provided you could still buy bonds with the stamps and cash in the bonds just as you can now?

Yes	63%	
No	24	
Don't know	13	
Total		100%

Mr. Wilson informed us that they are going ahead with the analysis of the replies in order to determine what conclusions may be reached on the basis of the factual information which was also obtained. He said we would probably have the complete analysis by about Friday of this week.

6-3-42

Sales of Series E Savings Bonds by the Bank of America

The Bank of America is offering Series E Savings Bonds for sale in more than 300 cities and towns in the State of California. For the first 4 months of this calendar year the aggregate sales of the Bank in its various offices and branches amounted to 30 percent of the total sales of Series E Savings Bonds in the State of California. Monthly sales of other issuing agents in the State of California appear in the table below. Sales by the bank in the various cities and towns in the State of California appear in the worksheets attached.

Sales of Series E Savings Bonds in California
(In millions of dollars)

Month	Bank of America	Other Issuing Agents 1/	Total	Percent Sold by Bank of America
Jan.	15.6	35.8	51.4	30
Feb.	9.5	22.1	31.6	30
Mar.	7.5	16.8	24.3	31
Apr.	6.2	14.9	21.1	29
Total	38.8	89.6	128.4	30

1/ Including postoffices.

Treasury Department
Division of Monetary Research 112

Date June 4 1942

To: Miss Chauncey

Owing to the publicity being given the S.E.C. release, the Secretary would be interested in reading the first paragraph of the appended memorandum.

MR. WHITE
Branch 2058 - Room 214½

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 3, 1942

TO Mr. White

FROM Mr. Gass

Subject: Individual Saving in the First Quarter of 1942

1. The Securities and Exchange Commission has published figures on individual savings in the first quarter of 1942 which have been widely interpreted in the press to suggest that there has been a decline in voluntary individual savings during the first quarter of 1942. This interpretation is mistaken. Rightly understood, the Securities and Exchange Commission's figures show that individual savings, defined as we have defined them in the past (to include the purchase of residential housing), are now running at an annual rate of slightly over $20 billion — about 50 percent higher than the average for 1941.1/ While this does not give us the volume of voluntary individual savings which we will need in fiscal 1943 — about $35 billion —, there has been no regression.

2. The S.E.C. figures show, for the first quarter of 1942, about $3.7 billion of liquid individual saving and $.5 billion of expenditures on residential housing. This total of $4.2 billion compares with only $2.3 billion for the corresponding quarter of 1941. The total for the last quarter of 1941 was $4.7 billion, but direct comparison between the last and first quarters of the year is misleading because of the seasonal pattern of income and tax payments. While individual incomes (not seasonally corrected) were $.9 billion lower in the first quarter of 1942 than in the last quarter of 1941, individual income tax payments (Federal only) were $1.1 billion higher. This seasonal factor -- and not any decline in the pattern of saving -- explains the drop from $4.7 billion to $4.2 billion. Savings of $4.2 billion in the first quarter mean a level of over $20 billion for the year.

3. In our memorandum of April 30, 1942, we estimated that individual saving during the first quarter of 1942 was running at an annual rate of about $20 billion. We have estimated further (memos. of April 6 and May 18) that, on various price and income assumptions, even after the new tax and Social Security programs, individuals would be prepared to save $17 or $18 billion. There is as yet no reason to revise these estimates. They are in themselves sufficiently pessimistic about the adequacy of voluntary saving to meet the inflation problem. There is no valid reason for drawing even more pessimistic conclusions from the S.E.C. reports.

1/ I have checked this conclusion with Mr. R. B. Bangs, the Dept. of Commerce expert on saving, and he is in complete agreement with this position.

For Release in MORNING Newspapers of Friday, May 29, 1942 **114**

SECURITIES AND EXCHANGE COMMISSION
Philadelphia

STATISTICAL SERIES
Release No. 709

The Securities and Exchange Commission today made public an analysis of the volume and composition of saving by individuals in the United States during the first quarter of 1942, continuing a series of quarterly figures recently inaugurated.

The more important results of the analysis may be summarized as follows:

come was 6.0 billion 5.1 billion

1. Individuals saved somewhat less in the first quarter of 1942 than they did in the last quarter of the preceding year. Seasonal

2. Individuals' purchases of Government bonds increased to some extent, but apparently at the expense of other forms of saving, particularly cash and deposits.

3. Individuals failed to add to their cash holdings and deposits notwithstanding the high level of income. This is in marked contrast to the large increase in cash and deposits in the preceding quarter and in prior quarters of 1940 and 1941.

4. Individuals' debts were reduced substantially in the quarter. This appears to have resulted chiefly from the inability to purchase automobiles and certain other durable consumers' goods. There is no indication that the decrease in debt reflects voluntary debt reduction.

Individuals' gross saving in the first quarter of 1942 amounted to 6.0 billions. Their liquid saving, i.e. saving exclusive of expenditures on durable goods, amounted to 3.7 billions. Both of these figures represent a drop in saving from the high point reached in the fourth quarter of 1941. The large decrease in gross saving appears to be attributable primarily to the reduction in expenditures on automobiles and other durable consumers' goods as a result of scarcities. The decrease in liquid saving probably reflects the lower level of income in the hands of individuals after payment of taxes. The volume of liquid saving is higher than might be expected on the basis of the past relationships between such saving and income alone. This seems to be explainable largely in terms of the restrictions placed on the purchases of automobiles and other durable consumers' goods and on the extension of credit for such purchases, resulting not only in an enforced decrease in expenditures on these goods but also in an automatic decrease in outstanding debt. However, there is little evidence in this period of any unusual voluntary diversion from consumption into liquid saving.

Federal government securities accounted for 2.2 billions in the first quarter of 1942 compared with 1.9 billions in the preceding quarter. This type of saving constituted 60 percent of individuals' liquid saving in the first quarter of 1942, compared with 46 percent in the last quarter of 1941, 17 percent in the first quarter of 1941, and 8 percent in 1940. As noted above, the analysis indicates that a considerable part of saving in Federal government securities was financed by the curtailment of current saving in other forms rather than by curtailment of consumption. In reflection of this tendency, individuals' cash holdings and deposits actually showed a small decline in the first quarter of 1942. This dis-saving was in sharp contrast to the substantial saving in this form in 1940 and 1941, which had amounted on the average to 1.2 billions quarterly. The decrease in cash and deposits is the more striking in view of the fact that disposable income in the hands of individuals in the first quarter of 1942 was higher than in any preceding quarter with the exception of the last two quarters of 1941.

The figures for the first quarter of 1942 also show that individuals' total expenditure on automobiles and other durable consumers' goods was 1.7 billions, a marked decline from the expenditure of 2.6 billions in the last quarter of 1941, 2.5 billions in the first quarter of 1941, and even higher levels in the other two quarters of 1941. A substantial reduction of 0.8 billions in individuals' debt which had been incurred in the purchase of automobiles and other durable consumers' goods was recorded, due principally to the sharp decline in expenditures on such goods and, to a lesser extent, to the restrictions on the granting of credit. Individuals were compelled to pay off installment debt previously incurred, at the same time ~~occurring~~ less new debt than usual. The resulting reduction in debt was the highest for any quarter on record.

Of the remaining components of individuals' saving in the first quarter, expenditure on homes amounted to 0.5 billions, somewhat less than the amount in the last quarter of 1941, but almost identical with the figure for the first quarter of that year. As in the past, there was a sizable growth in individuals' equity in insurance and pension reserves, amounting to 0.6 billions in private insurance and 0.4 billions in Government insurance. This increase was in line with the level of income. Finally, there was not much change in individuals' net absorption of corporate securities.

The above discussion is based on data presented in the following table and the appended charts.

GROSS SAVING OF INDIVIDUALS IN THE UNITED STATES 1/
1940-1942
(Billions of dollars)

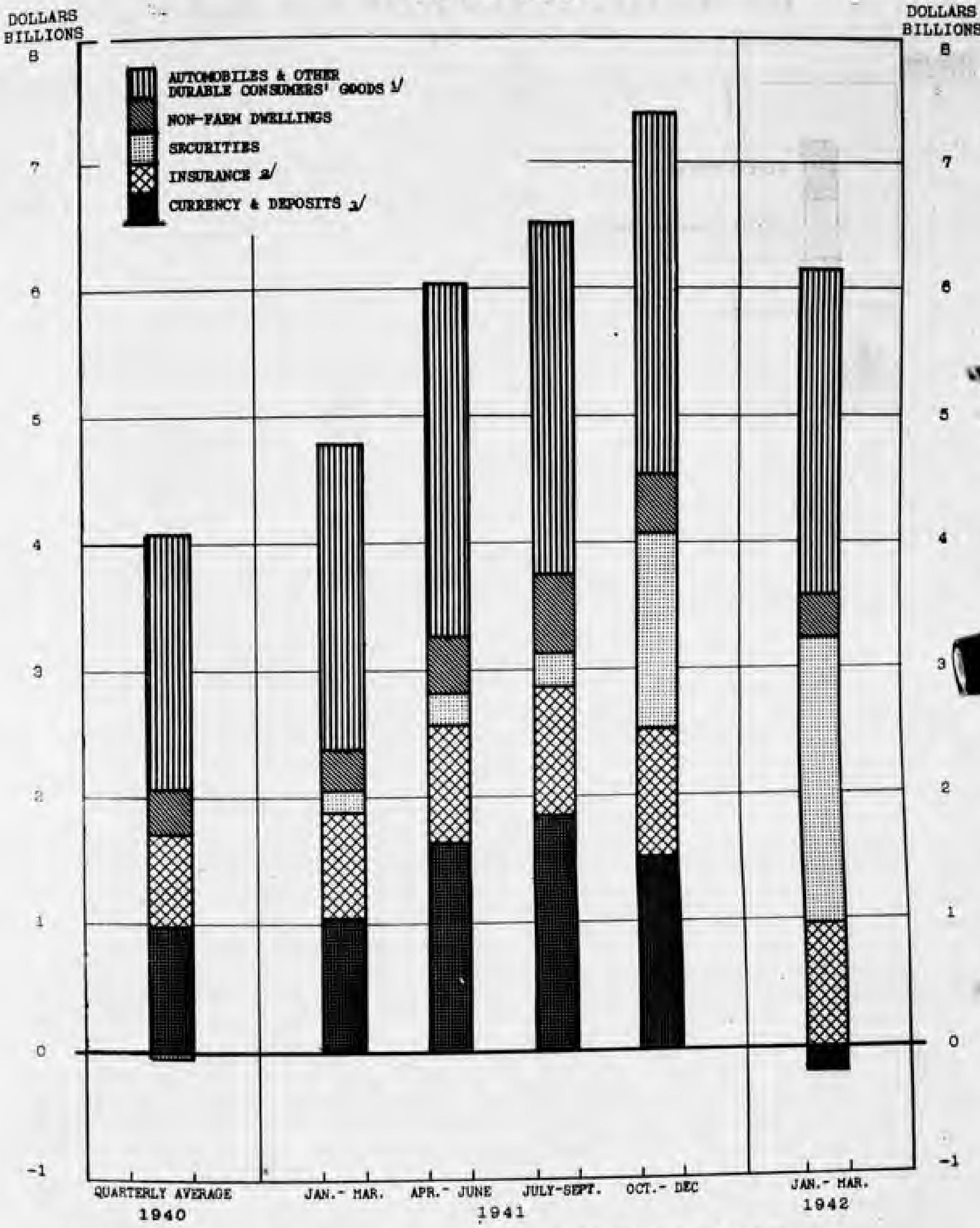
	1940	1941	1941 Jan.-Mar.	1941 Apr.-June	1941 July-Sept.	1941 Oct.-Dec.	1942 Jan.-Mar.
Gross Saving	16.23	24.73	4.78	6.04	6.52	7.38	5.96
Liquid Saving 2/	4.87	10.42	1.75	1.83	2.81	4.04	3.69
Gross Saving by Type							
1. Currency and bank deposits	+3.70	+5.60	+1.00	+1.50	+1.70	+1.40	- .20
2. Savings and loan associations	+ .25	+ .45	+ .05	+ .15	+ .15	+ .10	0
3. Insurance and pension reserves							
a. Private insurance	+1.70	+2.04	+ .53	+ .46	+ .49	+ .57	+ .57
b. Government insurance	+1.24	+1.76	+ .31	+ .46	+ .53	+ .46	+ .41
c. Total	+2.94	+3.80	+ .83	+ .92	+1.02	+1.03	+ .98
4. Securities							
a. Federal	+ .38	+3.11	+ .30	+ .51	+ .45	+1.86	+2.21
b. Municipal	- .19	- .22	- .06	- .06	- .05	- .05	- .05
c. Corporate and other	- .35	- .65	- .06	- .20	- .13	- .25	+ .10
d. Total	- .16	+2.25	+ .18	+ .25	+ .27	+1.55	+2.26
5. Nonfarm dwellings 3/							
a. Expenditures 4/	+2.31	+2.87	+ .53	+ .75	+ .88	+ .72	+ .52
b. Change in debt	+ .90	+1.01	+ .21	+ .29	+ .27	+ .25	+ .18
c. Saving (a minus b)	+1.41	+1.86	+ .32	+ .45	+ .62	+ .47	+ .34
6. Automobiles and other durable consumers' goods 5/	+9.06	+11.44	+2.51	+3.47	+2.84	+2.63	+1.75
7. Liquidation of debt, not elsewhere classified 6/	- .97	- .67	- .11	- .71	- .06	+ .21	+ .83

1/ Does not include business or government saving.
2/ Gross saving excluding expenditures on homes as well as on automobiles and other durable consumers' goods.
3/ One- to four-family nonfarm homes.
4/ All new construction less net acquisition of properties by non-individuals.
5/ Expenditures. Based on a new, more inclusive, series published by the Department of Commerce. The figures shown above include all passenger cars sold in the United States. No adjustment has been made for dealers' over-allowances on trade-ins.
6/ Largely attributable to expenditures on automobiles and other durable consumers' goods, although including some debt arising from purchases of consumption goods. The other segments of individuals' debt have been allocated to the assets to which they pertain, viz., saving in savings and loan associations, insurance, securities and homes.

Note: Figures are rounded and will not necessarily add to totals.

The foregoing data have been compiled by the Commission from many different sources. Because of the nature of the figures, current data are necessarily estimates and, therefore, are subject to revision.

COMPONENTS OF INDIVIDUALS' SAVING 1940 - 1942



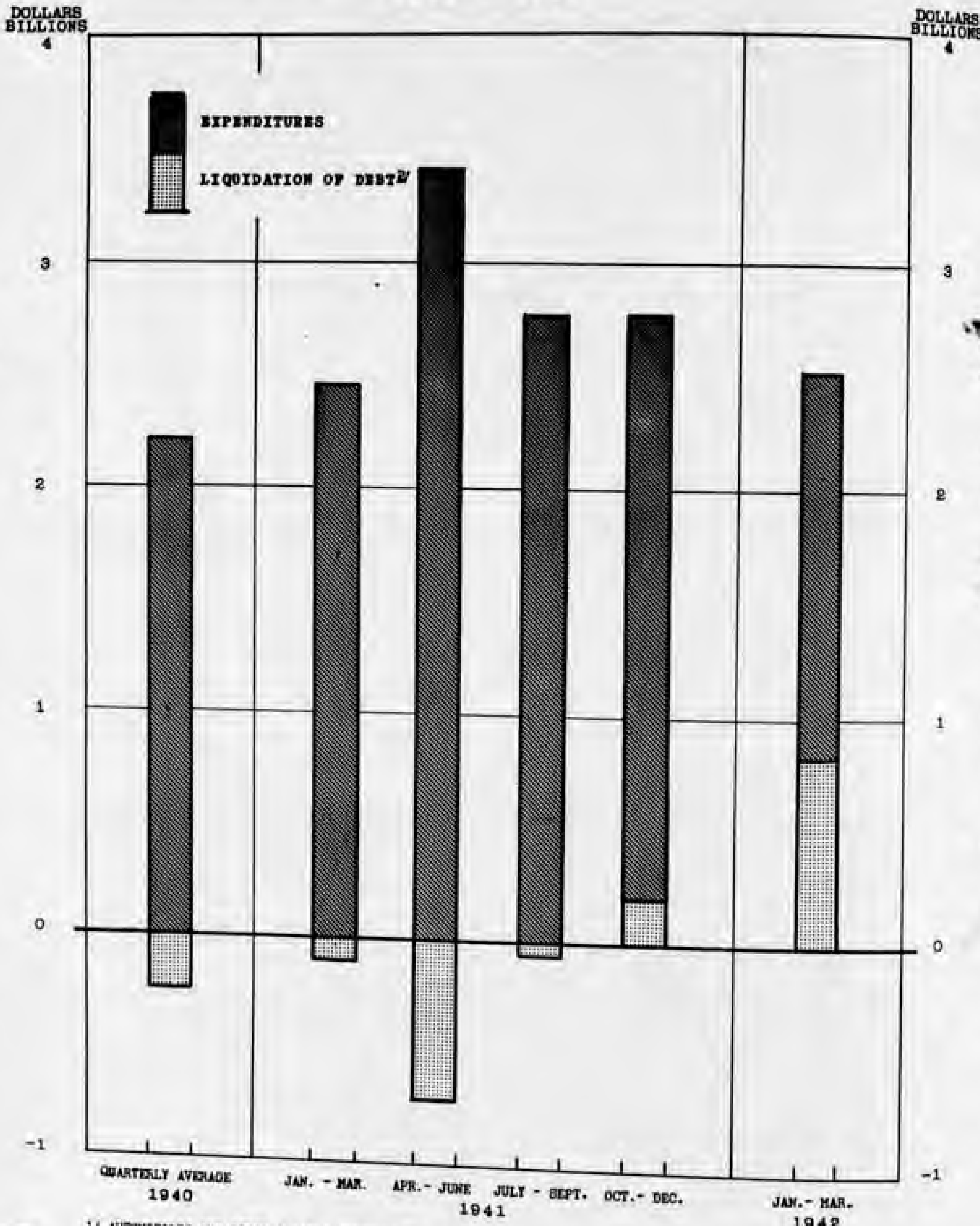
1/ INCLUDES "LIQUIDATION OF DEBT NOT ELSEWHERE CLASSIFIED". SEE FOLLOWING CHART FOR BREAKDOWN.

2/ INCLUDES SAVING IN GOVERNMENT INSURANCE FUNDS.

3/ INCLUDES SAVING IN SAVINGS AND LOAN ASSOCIATIONS.

DS-2109

INDIVIDUALS' EXPENDITURES ON DURABLE CONSUMERS' GOODS 1/ AND THE RELATED LIQUIDATION OF DEBT 1940 - 1942



1/ AUTOMOBILES AND OTHER DURABLE CONSUMERS' GOODS.

2/ DEBT, NOT ELSEWHERE CLASSIFIED. FIGURES BELOW THE BASE LINE INDICATE AN INCREASE IN DEBT, i.e. DISSAVING.

Treasury Department 116
Division of Monetary Research

Date June 4 1942

To: Miss Chauncey

I don't know if the Secretary would want to do anything about this.

But merely to keep himself informed, he might like to know the Department of Commerce's verdict on the voluntary sale of War Bonds -- and might, justly, conclude that such comments by a Government agency ought to first be cleared through the Treasury.

MR. WHITE
Branch 2058 - Room 214½

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 3, 1942

TO Mr. White

FROM Mr. Gass

Subject: The Department of Commerce on Compulsory Saving

1. In its confidential bulletin on Domestic Economic Developments, dated May 23, 1942, the Department of Commerce -- by implication -- describes the existing program of voluntary sale of War Bonds as a failure and calls for a compulsory program.

2. This bulletin estimates the total necessary individual saving for the fiscal year 1943 as about $35 billion. Such an estimate is in broad agreement with Treasury studies on this subject.

The bulletin estimates further that sales of War Bonds to individuals are now running at an annual rate of about $5 billion. It contends that the Treasury hardly hopes to raise sales to individuals above the rate of $10 billion a year. And it argues that sales of anything like $35 billion can only be achieved by a drastic compulsory system.

3. The scheme advocated by this bulletin is a compulsory one, with exemptions, and on a graduated scale. The bonds involved would also be non-redeemable except on proof of need.

4. The bulletin argues that the only real alternative to compulsory saving as a borrowing policy is the selling of securities principally to banks in exchange for new deposits. This policy is rejected as undesirable because: (a) it would make the task of price control almost impossible, (b) it would necessitate over-all rationing, and (c) it would allow the accumulation of an immense reserve of cash and idle balances which would be hard to control in the immediate post-war period.

5. Great — perhaps undue — emphasis is laid in this bulletin on the advantage of compulsory saving in preventing a post-war inflation. It is argued that other controls would be relaxed as soon as the war was over, but the funds accumulated under compulsory saving could be released gradually as consumer goods became available for purchase.

May 23, 1942

CONFIDENTIAL - NOT FOR PUBLICATION

DOMESTIC ECONOMIC DEVELOPMENTS

$77,000 MILLIONS—THIS IS THE ESTIMATE OF FEDERAL EXPENDITURES IN FISCAL 1943—a sum identical with the total 1940 national income. Attention recently has been concentrated on the ability of the war agencies to spend that much in one year. It seems pertinent, therefore, to consider briefly some of the problems relevant to the procedure of raising that much money in fiscal 1943.

THERE IS NO DOUBT THAT THE GOVERNMENT CAN FINANCE THESE CONTEMPLATED EXPENDITURES. Their sources are common knowledge. Some will be derived from taxation, some more from customs and other revenues, some from bond sales purchased out of savings, and the remainder—whether it is one or seventy billion—from bond sales to banks through credit or currency creation.

Come what may, there need ~~to~~ be no recourse to the ancient and dishonorable methods of printing fiat money or debasing the currency. With the perfection of modern banking technique, the procedure of creating note or deposit currency is effected simply by the sale of Government bonds to the commercial banks or directly to the Federal Reserve banks. The banks pay for the bonds by creating new deposits to the credit of the Government. If the bonds are used as collateral, Federal Reserve notes may be issued equal to their par value. The only legal limit to such expansion of note and deposit credit is the gold reserve of the Federal Reserve banks. With the present gold stock, our banking system could unquestionably absorb an additional $70 billion of Government bonds and more if necessary. In short, there is no doubt that the Government will be able to finance the $77 billion in fiscal 1943.

NOR IS THERE ANY POSSIBILITY OF PASSING ON AN APPRECIABLE PART OF THE WAR COST TO LATER GENERATIONS. War materiel flowing currently into our war effort is at the expense of our current standard of living. Abstinence on the part of Americans in 1960 will not give us more war supplies today, nor will abstinence be required of future generations because we choose to make guns instead of butter today. In general, then, 1943 Government expenditures must be, and can be, paid for in 1943. The only problem is the best way by which to do it.

THE WAR MIGHT BE FINANCED ENTIRELY BY TAXATION. This would involve the collection of $77 billion in Federal taxes and other revenue in fiscal 1943. Such a program is, for a number of valid reasons, impracticable. It might make the war unpopular. It would enforce hardships on many people. It would adversely affect the incentives and motivation to increased production. It would ruin many business concerns which serve a useful, though militarily nonessential, purpose in our economy. It would, finally, be politically impracticable because of the difficulty of making such a rapid and extreme adjustment.

2.13114

$26 billion taxes
$5 billion corporation revenue
The decision has apparently been reached to raise only $24 of the $77 billion through taxation and other revenue in fiscal 1943. This figure includes the currently debated $7 billion Revenue Bill of 1942. Hence unless the tax program is severely stepped up in the near future, the major decisions with regard to financing the war will center on the best means of borrowing the remaining $53 billion.

could easily be $12 billion
The sale of Government securities to mutual savings banks, insurance companies, and business concerns is not likely to expand greatly in the future, and in any case is not a very large source of financing to the Treasury. Computed at the same rate of purchase as in 1942, these sales are estimated to yield a total of $5 billion for fiscal 1943. This estimate is admittedly rough and uncertain, but a variation of a billion or so dollars one way or another does not alter the aggregate financing picture much. As estimated, these purchases will reduce the financing requirements to $48 billion.

WITH THE PROPOSED $2 BILLION INCREASE IN SOCIAL SECURITY TAXES the various Government trust funds can be counted upon to absorb $5 billion of the remaining bond offerings. The remainder—$43 billion—must be sold to individuals and/or to the commercial banks. The source of funds used to purchase this debt—whether out of the pockets of individuals or by credit newly created by the commercial banks—is the crucial problem of war finance.

Table 1.

Estimated Revenue of Federal Government by Sources, Fiscal 1943
(Billions of dollars)

77	Required Federal income1/	77
27	Total net revenue1/	24
50	Total deficit financing	53
	Sale to Saving Institutions and business2/	5
	Sale to Government trust funds2/	5
	Remainder to be financed by bond sales to individuals and banks2/	43

1/ Bureau of the Budget estimate.
2/ U. S. Department of Commerce estimate.

at least $12 billion, at this level of income
$60-65
?
With income payments estimated for fiscal 1943 at $117 billion, direct personal taxes of $10 billion would make individuals' disposable income $107 billion. $70 billion worth of consumption goods and services will be available for purchase, leaving a balance of $37 billion which has to be saved. If $2 billion savings take the form of offsets to depreciation, etc., there remains a maximum of $35 billion which might be used for the purchase of war bonds. The commercial banks would then be called upon to take the remainder of the bonds—only $8 billion.

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Table 2.

Estimated Maximum Savings of Individuals, Available for War Bond Purchases, Fiscal 1943[1]
(Billions of dollars)

Income payments	117
Direct personal taxes	10
Disposable income	107
Value of goods and services	70
Offsets to depreciation, etc.	2
Individuals' maximum savings available for bond purchases	35

1/ Source: All estimates by U. S. Department of Commerce

THE ALTERNATIVE TO THIS PROGRAM OF MAXIMIZING BOND SALES TO INDIVIDUALS would be to sell to individuals at the current rate—$5 billion a year—and let the banks absorb the balance of $38 billion. Whichever program of financing is adopted will have tremendous economic effects, and these should be carefully analyzed.

The prerequisite to selling $35 billion of war bonds to individuals is the adoption of a program of deferred pay, or compulsory savings through bond purchases. The current voluntary purchase program will be judged highly successful by the Treasury if $12 billion of war bonds are sold. Presumably somewhat less than $10 billion of these would be taken by individuals, the rest by institutions other than commercial banks. To expand the maximum voluntary sales by three to four times would undoubtedly call for rather drastic compulsion to purchase.

If $35 billion of war bonds were to be sold to individuals during fiscal 1943, the effects would be roughly as follows:

(1) The danger of inflation would disappear. Consumers would be left with $70 billion and there would be available for purchase $70 billion worth of goods and services, when valued at March 1942 prices. Some commodities which were in particularly short supply due to diminished imports or extensive diversion to war uses would be subject to strong upward price pressure and these goods would have to be price-stabilized through selective price controls, and very likely these commodities would have to be rationed. The need, however, for over-all price controls as promulgated on April 28 would be greatly reduced as also would be the case with rationing.

(2) The liquifying of these savings held by individuals after the war would insure that there would not be a deficiency of purchasing power leading to post-war deflation and depression, as was the case generally after the last war. This would be possible through refunding the public debt by bond sales to the commercial banks.

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(3) The possible inflationary effect of this program would arise from the fact that many individuals might be tempted to turn in their bonds for redemption either during the war, when additional consumer goods for purchase are not available, or immediately after the war, before industry has been reconverted to a peacetime basis. This danger would have to be guarded against by means of placing certain restrictions on the right of redemption, and possibly leaving the maturity date of the bonds to the discretion of the Government—a discretion that would be exercised in terms of available supplies of consumption goods.

(4) The maximization of sale of Government bonds to individuals would have the effect of achieving a more equitable distribution of the public debt than would otherwise be the case—for people in the lower and lower-middle income groups would be expected to make purchases roughly proportionate to their incomes. Many of the difficulties which otherwise would arise in the post-war period from the fact of an unequally distributed public debt would therefore be avoided. In fact, such a bond distribution would be a most powerful stimulant to post-war reconversion.

IF BOND SALES TO INDIVIDUALS ARE NOT MAXIMIZED, BUT STAY AT THE CURRENT level of \$5 billion a year, the banks will be called upon to purchase \$38 billion of bonds. The economic consequences of this expansionary financing would be highly undesirable.

(1) Price controls, which now fix ceilings on most of the cost-of-living commodities, would have to be extended to include all consumption goods, and perhaps some capital goods (farms, houses, etc.) if inflation of their prices is to be avoided. Individuals would have \$30 billion to spend for a few uncontrolled goods, and an inflationary rise in their prices would be certain.

(2) With over-all price controls, over-all rationing would be necessary. With the available goods and services totaling only \$70 billion, and with consumers having \$100 billion to spend, the only way to insure an equitable distribution of commodities would be to initiate an all-inclusive goods rationing system or else rationing of disposable funds of consumers to 70 cents of every dollar.

(3) Price control and rationing regulations would be extremely difficult to enforce if individuals had, as they would have, both the desire and the money to pay higher than the fixed prices for goods—or to buy more goods than their rationed allotment. The avoidance of a large-scale black market would be difficult if not impossible.

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(4) The problem of inflation would not be removed, but only temporarily shelved. With individuals building up cash hoards and idle bank balances at the rate of $30 billion a year, the liquid purchasing power available at the end of the war would be staggering. Millions of individuals will then want to purchase the cars, suits, radios, furniture, etc., of which they will have been deprived for so long. Obviously, the goods will not be available in even moderate quantities until after industry has been reconverted to peacetime production, and even then industry will normally be able to distribute as much in purchasing power as it produces in product. Consumption expenditures will have to be restrained then as now, and the obvious method is to continue price controls and rationing. The removal of such controls would initiate the inflation they were created to avoid on April 28. Price controls and rationing would continue necessary until an extremely high peacetime productivity is reached.

Of the two alternatives, obviously the former—maximization of bond sales to individuals with minimum reliance on bank financing—has the greatest advantages and the fewest disadvantages. As indicated, it would have to be compulsory. To avoid injustices, the percentage of income devoted to bond purchases would have to be on a progressive scale. Exemptions for dependents and for essential expenditures would have to be worked out. Allowance for unforeseen financial demands would have to be made.

Further, the bonds would have to be, as is now the case with Series E war bonds, nontransferable and not usable as collateral on loans. In addition, they should not be redeemable at the owner's pleasure, nor should they become payable in the post-war period until after a sufficient lapse of time for consumption goods on which the proceeds would be spent, to be available on the market.

The advantages of this program of war financing become obvious when comparison is made with the fiscal program of the last war, or of the first 21-month period of the present defense-war period (July 1, 1940 to March 31, 1942).

During the last war, each major belligerent power placed primary reliance on expansionary financing through sale of bonds to the banks, especially central banks. They suffered, as a direct result, extensive inflation which was not only the cause of much discontent and economic maladjustment during the course of the war, but the source of many of the devastating post-war upheavals. This is such common knowledge that it is only necessary to point out that, in 1914-15 Germany financed 73 percent of her expenditures by loans, Russia 78 percent and Italy in 1915-16, 81 percent. From April 5, 1917 to June 30, 1919, the United States Government met 72 percent

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of its expenses by borrowing. If now we again refuse to pay for a large portion of the war costs by taxation, the least we can do is to avoid the pit-falls of expansionary financing by borrowing from individuals rather than banks.

SO FAR, OUR RECORD HAS BEEN SOMEWHAT BETTER THAN IN THE LAST WAR. Tax and other revenue receipts were more than twice as great in the first 9 months of fiscal 1942 than in the comparable period of fiscal 1940. But the trend, as indicated in the budget for fiscal 1943, and as shown below, is unmistakably in the direction of increased expansionary borrowing (i.e., borrowing from banks which leads to purchasing power expansion). Whereas taxes and other revenue paid for 68 percent of expenditures in fiscal 1940, they paid for only 40 percent in the first 9 months of fiscal 1942. Conversely, the percentage of expenditures met by borrowing has increased from 32 to 60 in the same period.

Table 3.

Treasury Income by Sources, Fiscal 1940-42
(Millions of dollars)

	July 1, 1940 to March 31, 1942 21-month defense and war period		1940	1941	1942 1/
	Dollars	Percent	-- Percent --		
Direct personal taxes....	4,408	12	17	13	12
Other revenue............	12,250	34	51	44	28
Total net receipts.....	16,658	46	68	57	40
Increase in public debt..	19,452	54	32	43	60
Total.................	36,110	100	100	100	100

Source: U. S. Treasury Department. 1/ First 9 months only.

THE INCREASE IN BORROWING, WHICH TOTALED $19.5 BILLION DURING THE FIRST 20 months of the defense and war program (July 1, 1940 to February 28, 1942) has obviously been expansionary in its effect. As shown in table 4, the commercial banks were called upon to absorb one-third of this increase in the public debt. If all factors are considered, it is probable that, on balance, as much as one-half the increase was expansionary.

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Table 4.

Purchase of Government Securities,
July 1, 1940 to Feb. 28, 1942
(Billions of dollars)

Individuals war bond and tax note purchases..........	3.3
Commercial banks....................................	6.4
Insurance companies.................................	1.5
Savings banks.......................................	.6
Government agencies and trust funds.................	2.7
All others..	5.0
Total..	19.5

Source: War bond and tax anticipation note sales from Treasury data. All other items computed from Federal Reserve Board data (July 1, 1940 to December 31, 1941) and from Treasury data (December 31, 1941 to February 28, 1942).

Although other factors have undoubtedly played a part, two outstanding developments can be traced directly to this inflationary financing. First, the volume of circulating media in the country has increased, as shown in table 5, by $15 billion during this 20-month period. Second, there was a 14 percent rise in the cost of living. These constitute warning signs that cannot be disregarded.

Table 5.

Circulating Media, June 29, 1940 and March 31, 1942 1/
(Millions of dollars)

	June 29, 1940	March 31, 1942	Increase
All bank deposits..........	60,582	72,000 2/	11,418
Money in circulation.......	7,848	11,566	3,718
Total....................	68,430	83,566	15,136

1/ Source: Federal Reserve Bulletin.
2/ Estimate - actual data not yet available.

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SIGNIFICANCE: Fiscal measures which soon must be decided and adopted by the Government, will determine whether the national economy shall work in the shadow of a mighty reservoir of dammed-up funds. The crux of the problem: shall all or a major portion of the war bonds not absorbed by Government trust funds and by savings institutions, be sold to individual savers or to banks? The amount in question is $43 billion in fiscal 1943 and many more scores of billions during the rest of the war.

If the bonds are sold to individuals, the war will be financed largely out of the surplus purchasing power of consumers. If they are sold to banks in return for newly created deposits or note currency, the war will be financed by money and credit expansion.

In the latter instance, consumers will remain in possession of a vast and swiftly growing reservoir of surplus, idle purchasing power. The price ceilings will prevent these idle funds from causing inflation as long as the ceilings are effectively enforced. Comprehensive rationing will be necessary to prevent consumers from attempts to convert these funds into commodity hoards. Even if we assume the complete effectiveness during the war of both price ceilings and rationing, in sterilizing this reservoir of accumulated purchasing power, continuance of both these controls well into the post-war period would be necessary to avert an inflation of destructive force when these dammed-up funds burst into the relatively denuded consumer goods markets after the war.

Clearly what before the inauguration of price ceilings was called the inflation gap should not be allowed to form such a vast reservoir of unused purchasing power. The obvious measure for the Government to adopt is the absorption of these funds by the sale of bonds to individual savers on the necessary large scale. However difficult the administrative problems may be, the correctness of the principle is beyond challenge.

Bureau of Foreign and Domestic Commerce
Washington, D. C.

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150 Central Pk. South
New York City
June 3, 1942.

Dear Mr. Morgenthau,

Thank you so much for your telegram of June second. I do appreciate the interest you and Mrs. Morgenthau have shown, and I am looking forward to meeting Professor Welch.

Most sincerely,
Lucy Monroe

June 3, 1942.

My dear Professor Welch: filed 6/1

I have just carefully read your memorandum of June 1st, and am most enthusiastic about the suggestions that you have made. Please continue along the lines that you have suggested yourself. I feel confident that the Treasury is going to benefit greatly from these suggestions.

Whenever you are ready to talk to me further, I will be at your disposal. I am going away, I hope, on June 5th for a week. If you have any ideas, please either write me or telephone me at the Farm.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Professor Roy D. Welch,
Princeton University,
Princeton, New Jersey.

n.m.c.

cc - Mr. Graves

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 3, 1942

TO Mrs. Klotz

FROM Secretary Morgenthau

Please see that Harold Graves gets a copy of Professor Welch's memorandum to me and a copy of my letter to Welch, with a note to Graves that he should distribute this to anybody in his organization who he thinks would be interested. Sent to Graves 6/3.

June 3, 1942

Mr. Graves

Secretary Morgenthau

Would you please distribute copies of the attached to any one in your organization whom you think may be interested.

AIR MAIL

June 3, 1942.

Dear Mayor McCrary:

I am writing with some advance information which I wish you would treat with strict confidence. Sometime between the 8th of June and the 4th of July, an Army plane will arrive at your city with about a dozen outstanding war heroes who have distinguished themselves in actual combat. Some of these men will be from our own Army, Navy and Coast Guard; some of them will be British bomber crews, Commandos, and other fighting men who are being flown to this country at the invitation of the Treasury Department. The group will tour the principal cities of the nation to tell the story of their experiences and thereby to help in promoting the sale of War Bonds and Stamps.

Fort Worth has been selected as one of a number of the more important cities to be visited by this group of heroes in uniform. To attain the best possible results, we feel that a public rally and parade should be staged in your city to welcome them.

It goes without saying that we shall need your active assistance. I realize, of course, that your time is severely taxed, but I shall appreciate your designation of a member of your official family or some other outstanding citizen who can take charge of all the arrangements. A member of the War Savings Staff of Fort Worth will call on you and discuss the various details with you. For your information, we would suggest July 2nd as a tentative date on which the visitors could appear in Fort Worth.

Sincerely,

(Signed) H. Morgenthau, Jr.

Hon. I. N. McCrary,
Mayor of Fort Worth,
Fort Worth, Texas.

N.M.C.

Copies to Thompson

FK:eg

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 3, 1942

TO Secretary Morgenthau

FROM Vincent F. Callahan

Portions of the inter-racial rally in New York at Lewisohn Stadium tonight will be broadcast locally by Stations WNYC, WOV, WBYN, and possibly one or two others.

The rally will NOT be broadcast over any nation-wide network. The networks declined the broadcast, pointing out that a similar rally had already been broadcast from Chicago. Because of this, and because of the fact that we are constantly asking them to do other broadcasts, I did not think it wise to press the network companies on tonight's program.

For your information, on tonight's show there will be Barry Wood, Marian Anderson, Paul Robeson, Olivia de Havilland; speeches by Thomas E. Dewey and Pearl Buck; music will be by the Fort Jay band.

Vincent F. Callahan

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Song submitted by Mr. Callahan 6/5/42

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 3,1942

TO Mrs. Klotz

FROM Vincent F. Callahan

Secretary Morgenthau this morning asked me to get a record of the song "The Old Flag Never Touched the Ground". I have checked and found that no recording has been made of this song. However, I am getting a copy of the sheet music and I will send it over some time tomorrow.

Vincent F. Callahan

June 3, 1942

Vincent Callahan

Secretary Morgenthau

I see in the Chicago Daily News that they sang a song entitled "The Old Flag Never Touched the Ground". This was written by James Rosamond and sung in Chicago by the Metropolitan Church Choir under the direction of J. Wesley Jones. I wonder if there is a record of this song. I would like to hear it very much. Please try and get me one, and please send it direct to Mrs. Klotz so that I will receive it promptly.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUN 3 1942

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Issuing agents for war savings bonds qualifying during the week ended May 30.

Attached to this memorandum are 3 tables presenting the most recent data on corporations qualifying as issuing agents for war savings bonds. A summary of the data incorporated in the tables follows:

(1) During the week ended May 30 there were 134 new corporations qualified as issuing agents (Table 1), bringing the total number of corporations qualified to date to 1,887. In the aggregate, these companies employ nearly 1.3 million workers, or 26 percent of the total number of employees in all companies having payroll savings plans (Table 2).

(2) With respect to the larger corporations, the number with 500 or more employees which had qualified as issuing agents was 1,240 at the end of last week, or 26 percent of the total number of companies of this size with payroll savings plans. The Federal Reserve Banks of Richmond, Minneapolis, and Cleveland are behind the other banks in qualifying larger corporations as issuing agents (Table 3).

The slow progress of the 3 Reserve Banks referred to in the foregoing paragraph has not been entirely unexpected. It is accounted for as follows:

(a) Richmond. The bank has had some difficulty in clearing up final details with some of the companies contacted. At the moment, there are a great many cases in process. Included among these are the Chesapeake and Ohio and the Atlantic Coast Line Railroads and the large tobacco companies.

(b) Minneapolis. Last fall the large commercial banks in Minneapolis and St. Paul made arrangements with the large corporations in the District to issue the bonds sold under the payroll savings plan. The service has been good and these corporations are now unwilling to disturb their existing fiscal relationships.

(c) Cleveland. Corporations in this area feel that as long as the Federal Reserve Bank is in a position to provide good service, they need not hurry to become issuing agents. The Bank is equipped to handle triple its present volume of bond inscriptions -- and to turn out this volume in 3 or 4 days from the time the applications arrive. This performance is so much better than the corporations expect to be able to do that many of them are unwilling to consider becoming issuing agents until some later date.

Table 1

Corporations with Payroll Plans Appointed as Issuing Agents
May 2, 1942 to date

Federal Reserve District	May 2	May 9	May 16	May 23	May 30
Boston	11	4	11	5	10
New York	35	41	26	26	24
Philadelphia	8	3	9	7	8
Cleveland	11	16	18	11	6
Richmond	6	11	6	3	7
Atlanta	7	21	25	8	6
Chicago	8	24	16	23	26
St. Louis	2	7	14	20	13
Minneapolis	1	3	2	2	1
Kansas City	10	4	4	2	4
Dallas	1	3	2	1	-
San Francisco	8	7	16	21	29
Total	108	144	149	129	134

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

June 2, 1942.

Table 2

Corporations Acting as Issuing Agents for Savings Bonds
Purchased by Their Employees Under Payroll Savings Plans
January 31, 1942 to date

Date	Number of corporations acting as issuing agents	Number of employees in corporations acting as issuing agents	Number of employees in all corporations with payroll plans in the country	Percent of employees in corporations acting as issuing agents
January 31...	351	*	15,000,000	*
February 28..	686	*	17,000,000	*
March 28.....	931	*	19,000,000	*
April 18.....	1,110	3,179,349	19,500,000	16.3
April 25.....	1,223	3,449,927	19,700,000	17.5
May 2........	1,331	3,934,448	19,900,000	19.8
May 9........	1,475	4,401,738	20,000,000	22.0
May 16.......	1,624	4,917,904	20,000,000	24.6
May 23.......	1,753	5,083,890	20,000,000	25.4
May 30.......	1,887	5,286,402	20,300,000	26.0

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

June 2, 1942.

* Not available.

Table 3

Progress of the Federal Reserve Banks in Appointing Corporations With 500 or More Employees as Issuing Agents

Federal Reserve District	Number of corporations with 500 or more employees in the Federal Reserve District	Number of corporations with 500 or more employees appointed as issuing agents, Week Ended May 23	Week Ended May 30	Percent appointed as issuing agents, Week Ended May 23	Week Ended May 30
Boston	475	91	98	19	21
New York	902	231	247	26	27
Philadelphia	427	157	163	37	38
Cleveland	592	104	109	18	18
Richmond	446	50	53	11	12
Atlanta	228	54	59	24	26
Chicago	868	282	303	32	35
St. Louis	152	54	58	36	38
Minneapolis	101	12	13	12	13
Kansas City	147	28	32	19	22
Dallas	72	19	19	26	26
San Francisco	368	65	86	18	23
Total	4,778	1,147	1,240	24	26

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

June 2, 1942.

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UNITED STATES SAVINGS BONDS - SERIES E

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

(At issue price in thousands of dollars)

Date	June daily sales	Cumulative sales by business days			
		June	May	April	June as percent of May
June 1942					
1	$19,834	$ 19,834	$ 12,679	$ 12,993	156.4%
2	8,008	27,841	24,263	24,256	114.7

June 3, 1942.

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

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

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UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	June daily sales	Cumulative sales by business days			
		June	May	April	June as percent of May
June 1942					
1	$ 9,705	$ 9,705	$ 7,302	$ 11,987	132.9%
2	7,895	17,601	15,168	21,677	116.0

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

June 3, 1942.

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

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UNITED STATES SAVINGS BONDS - TOTAL - ALL SERIES

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

(At issue price in thousands of dollars)

Date	June daily sales	Cumulative sales by business days			
		June	May	April	June as percent of May
June 1942					
1	$29,539	$29,539	$19,981	$24,980	147.8%
2	15,903	45,442	39,430	45,933	115.2

June 3, 1942.

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

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

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Sales of United States Savings Bonds
June 1-2, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

Date	Series E: Actual Sales: Daily	Series E: Actual Sales: June 1 to Date	Series E: Quota, June 1 to Date	Series E: Sales to Date as % of Quota	Series F and G: Actual Sales: Daily	Series F and G: Actual Sales: June 1 to Date	Series F and G: Quota, June 1 to Date*	Series F and G: Sales to Date as % of Quota	Total: Actual Sales: Daily	Total: Actual Sales: June 1 to Date	Total: Quota, June 1 to Date	Total: Sales to Date as % of Quota
1	$ 19.8	$ 19.8	$ 21.7	91.2%	$ 9.7	$ 9.7	$ 12.1	80.2%	$ 29.5	$ 29.5	$ 33.8	87.3
2	8.0	27.8	32.0	86.9	7.9	17.6	19.7	89.3	15.9	45.4	51.7	87.8
3			46.4				31.9				78.3	
4			63.6				42.4				106.0	
5			79.6				51.0				130.6	
6			93.7				57.6				151.3	
8			120.0				69.6				189.6	
9			132.4				77.3				209.7	
10			149.6				89.5				239.1	
11			170.0				100.0				270.0	
12			189.0				108.6				297.6	
13			205.6				115.1				320.7	
15			236.5				127.2				363.7	
16			251.1				134.8				385.9	
17			271.3				147.1				418.4	
18			295.2				157.6				452.8	
19			317.4				166.2				483.6	
20			336.9				172.7				509.6	
22			373.0				184.8				557.8	
23			390.0				192.4				582.4	
24			413.5				204.6				618.1	
25			441.1				215.2				656.3	
26			466.8				223.7				690.5	
27			489.2				230.3				719.5	
29			530.6				242.4				773.0	
30			550.0				250.0				800.0	

June 3, 1942.

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

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

* Takes into account daily trend within the week, but does not take into account the trend by weeks during the month.

Re meeting of 6/4/42.

June 3, 1942

. RUML:

We have two kinds of information on current customer activity in and around Macy's along the lines I discussed with Mr. Haas last week. Inferences from both must be recognized as tentative.

A. Statistics on What Consumers Have Done.

1. There has been little evidence as to date of the release of powerful buying pressure except for the scare buying spurts in lines such as Silk Hosiery, Underwear, Radios, Refrigerators and other major electric appliances, Sheets, Woolen Yard goods, Coats, Suits and Blankets. Mostly, these occurred previous to the past four months.

2. There has been a substantial drop in Dollar volume during the last two weeks (three, if this week ends as it started). Explanations are varied and difficult to establish. The institution of ceilings may have taken some of the incentive out of buying now rather than later. Newspaper Publicity on other phases of the Government's attack on inflation is also cited as an explanation.

3. Physical volume, as measured by transactions (and on investigation this appears to be warranted) is substantially below last year in most lines. Exceptions are Men's Suits and Coats, Women's Underwear, Toys, Radios, Refrigerators and other electrical appliances, Pianos, Jewelry, Sportswear (Men's, Women's and Children's).

4. There has been some shift in purchasing from lower to higher price lines in these types of merchandise where this can be quickly studied, such as Women's Dresses, Slips and Shoes. On the whole, the customers seem to have continued to buy the same quality at the new higher price, but in smaller quantity. There are some exceptions such as Silverware where plated ware is being replaced by the lower price ranges of Sterling, which is still more expensive.

5. Customer traffic is in general not very much different from last year (some days higher, some lower). But consistently we have been getting fewer transactions per customer during the last few months.

6. Cash Time (Instalment) sales have been lagging behind total Store sales, all of this year and part of last.

B. What Consumers Say about What they are Doing.

The statistics are fragmentary and may cover up rather than reveal the answers. We felt that we should experiment with an attempt to find out from the people what their own ideas are about their situations, how they have been spending and saving, and what they might do in the future.

We therefore talked to twenty-four people in an informal fashion to test the kind of information we could get and the problems we might have getting it. I am attaching our report on these "case studies". It is difficult to summarize them and if you possibly can, I suggest you read them over carefully in order to get the "feel" of the situation.

We talked to people in Macy's, in Bamberger's Basement, outside a defense plant in Edgewater, New Jersey and Parkchester (The Metropolitan Life Insurance Company's housing project in the Bronx for 12,000 middle income families - civil service workers, etc.).

We found three groups:
1. Those who had more real income than last year.
2. Those who had the same dollar income but less real income.
3. Those who had less dollar income.

We found, and this is tentative, but possibly significant, that:

1. People seem to be quite willing to tell their government not only that they are behind it, but specifically what they would like it to do.

2. Except for isolated items like rubber pants for babies, there seems to be little consciousness as yet of any shortages.

3. When asked what they would do if they suddenly had to adjust to a lower income, a number said they would cut down on clothing, entertainment and amusement. Considering the possible goods and services that might be expanded with less effect on war production than others, this kind of answer is interesting. It might be desirable to pursue this further.

4. A number of people did not expect any further raises. This might also be a good thing to look into further.

5. A number of points that may be of interest even though they might be true of only a minority of people—such as some confusion over the rights of the owner of war bonds, etc.

It is our feeling that it would be wise for some agency to go much further along the second line of talking with the consumer. The few cases we have indicate the consumer's willingness to talk, and, we think, the fact that she has important things to say. We think this is the kind of question where much more than a set of averages is required for a real answer. You will undoubtedly find more in the twenty-four cases than the few points I have mentioned.

A. Hackman

FIRST COPY

R. H. MACY & CO.: RESEARCH DIVISION

June 2, 1942

EXPLORATORY REPORT ON A PROPOSED CONSUMER POLL

PART I: PURPOSE

Stated simply, the problem posed to us was this: In the coming year it is estimated that there will be an excess of something like 17 or 18 billion dollars in purchasing power over and above the total value at retail of consumers' goods and services available. (This is on the basis of March 1942 prices.)

The question is how people will spend their money under these circumstances. One way of finding out is to ask them what they have been doing and what they think they might do under certain conditions. We thought it would be wise before attempting to construct anything like a rigid questionnaire just to talk with consumers. Among the things we tried to determine are:

1. What kinds of data we could get. This involves the degree of clarity and insight which people have on their own problems, as well as their willingness to talk (depending of course on their trust in the interviewer, his official status, etc.).

2. Whether there are distinct groups of consumers different from each other in important respects as regards this problem, i.e. their income and expenditure patterns. If such groups can be established and can be distinguished from each other in terms of simple measures: for example, occupation, age, income, etc., then we have a proper basis for the construction of a sample that will represent a good cross-section of the population.

3. Whether a quick estimate could be made of how far the problem has already developed: Possible shortages in goods and services, possible excess purchasing power, etc.

4. How specific the information is that we might be able to get, in terms of kinds of merchandise, other outlets for expenditure, whether there are immediately discernible any clear reactions to already instituted means of combating the inflationary gap (i.e. price ceilings, voluntary payroll deductions for bonds, etc.).

There is as yet no sample to speak of. Several clues have been revealed, however, which indicate that polling consumers in this fashion can yield interesting data, and that the method might be pursued. From the 25 interviews conducted so far, we found the following general clues:

1. People seem to be quite willing to tell their government not only that they are behind it, but specifically what they would like it to do.

2. Except for isolated items like rubber pants for babies, there seems to be little consciousness as yet of any shortages.

3. It is possibly significant that a number of people, when asked what they would do if they suddenly had to adjust to a curtailed income, said they would cut down on clothing and entertainment. We know that these items are optional as compared to food and housing, and part of the significance of the answer resides in the fact that the expansion of the supply of precisely these most-easily-curtailed things would least cut in on resources (plants, materials, labor, etc.) needed for war production.

4. Certain groups appeared who showed similar patterns of responses, and who may be somewhat typical of larger groups in the population. This seems to indicate that we would be able to build up a representative sample using certain occupational, regional, and income groups in the population (for example, defense workers in New Jersey, factory workers in Long Island City, white-collar workers in Manhattan, etc.).

The exploratory interviewing so far has missed certain types of people and certain lines of questioning, as for example: Women who work, families from which the chief earner has just been drafted, people with high incomes, and also questioning designed to get at a very detailed breakdown of expenditures, etc. Such temporary gaps would of course be remedied in future interviewing.

The interviewing so far was done in four places: R. H. Macy & Co., L. Bamberger & Co., Macy's Parkchester, and Edgewater, New Jersey.

PART II: METHOD

The interviewing so far was done in four places, for the following reasons:

1. We thought we might be able to pick up some wives of defense workers in the basement of L. Bamberger & Co., Newark, N.J.

2. The customers of R.H. Macy & Co., N.Y.C., represent a fair cross-section of the city's population.

3. There are several defense factories in Edgewater, N. J., and we expected that we might find a large increase in income among those workers.

4. We thought we might find typical white-collar and professional workers at Macy's Parkchester store, Bronx, N.Y. This community was developed by the Metropolitan Life Insurance Company, and the residents were carefully chosen for their stability and financial security. We thought therefore that it would be likely that the jobs and salaries of these people have remained the same, and that their real income consequently had probably decreased.

The interviews were made in an informal "chatty" fashion, encouraging the respondent to talk spontaneously as long as he wished. 25 interviews have been made so far. The following questions were used as a reminder list of certain topics to be covered, rather than as a formal questionnaire:

I. General Status Information

1. Occupation (very specific)

2. Age, sex.

3. Marital status ... how long married.

4. Address ... how long lived there ... where lived before.

5. Any children ... how many ... how old.

6. Any dependents ... how many ... for how long have you supported them.

7. Salary (including overtime pay).

8. When did you get your last raise ... how much was it ... when do you expect another raise ... how much do you expect.

9. What salary were you making a year ago ... was it on the same job ... are you planning to stay in your present job ... if not, what have you in mind ... do you think it will be at a higher salary.

(Ask same questions about the spouse, or any other earning members of the family.)

II. Expenditure Information

1. Do you feel you have more money to spend than last year, or less, or the same amount.

2. What are you spending your added money on, and/or what have you cut down, and/or what expenditures have remained the same.

   (Supplement the spontaneous information by inquiring about the specific items listed in the following checklist: Clothes, furniture, amusements, entertaining, housewares, house improvements, food, rent, medical care, savings, defense bonds, contributions (Red Cross, etc.), taxes, tax anticipatory notes, car, gasoline, jewelry, other luxuries, other department store merchandise, debts, mortgages, installments, etc.).

3. On the separate items, are you spending more (or less) for single items, or has the price gone up (or down) for the same item, or are you buying more pieces (or less) of that item.

4. Have you noticed much of a price rise in things you usually buy ... in what things ... how has this affected you.

5. Have you a car ... if yes, do you have any additional money due to using it less ... if so, what are you doing with that extra money. (Also inquire about any extra money that may be released by the rationing of typewriters, refrigerators, stoves, building materials, etc.)

III. General and Attitude Questions

1. What would happen if your income were reduced about 10% ... would you have to cut down on anything ... what might you have to cut down on.

2. How do you feel about price ceilings ... have you noticed any price differences since the ceiling ... have they affected your "pocketbook" in any way.

3. Have any shortages inconvenienced you ... have you been able to get all the things you want ... what things have you been unable to get.

4. Where are you doing your buying now ... where did you used to buy.

5. What is your reaction to the thought of buying a home since you have more money now (if the person does have).

PART III: DETAILED EXAMPLES OF INTERVIEWS

Three major types of income patterns appeared: 1) Those who have more real income now, 2) those who have the same actual income (and usually less real income), and 3) those who have less actual income now (i.e. who have suffered an actual cut in income). Each of these groups is illustrated below by one representative case given in full detail. Further cases are summarized more briefly in a later section. (Part IV)

GROUP I: THOSE WHO HAVE MORE REAL INCOME NOW (Primarily Defense Workers)

Case 1: Mr. X, a man of 45, works at the Aluminum Company of America. He used to drive a trolley car and then he lost that job. He tried to get another job but couldn't seem to land one because he had no particular training. His meager savings dwindled during this period and finally he was forced to borrow from his brother and friends who didn't have much money themselves. He moved with his wife and two children from a small apartment into one room. He finally decided that he must learn a trade and so he borrowed money to take a machinist's course. After a year and some months of unemployment he picked up his present job about a year ago.

Through overtime and regular wages his salary is now nominally about $60 to $65 per week. He expressed some surprise to me that a salary which he once considered munificent still is not sufficient to give him everything he wanted. For one thing, his actual salary is much smaller. Several deductions take away parts of it before he ever sees it: His union agreed by vote that all members should put 10% of their salary in war bonds. The company deducts this and when the sum collected is sufficient, gives him the bond. There is a hospitalization and insurance plan for which the company deducts. Unemployment insurance and old age pension deductions are made regularly. Union dues are checked off. Incidental contributions to the Red Cross and other charities further deplete his salary. His actual present income is more of the order of $46 to $50, than $60 to $65. This is still more money than he ever had before.

With this amount of money coming in regularly, he has done the following things:

1. The first thing he did was start paying back the loans from his brother and friends, and also paying the doctor and dentist whom he had owed for a long time. He pays each something out of each week's salary, but thinks it will be quite some time before it is paid off. He told me that I would be amazed if I knew how much he owed. He said "You try living without any money for a year."

2. He moved into an apartment, "so that the wife and kids can have a decent place to live in for a change." This costs twice as much as the room did. He thinks he is overpaying, but expects that of course everything goes up in war time. (He would like to see the government fix rents at levels of two years ago. His theory is that, if the owners could make a profit out of those rents, why should they make more of a profit in war time at the

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expense of people with low incomes.) He also bought some furniture to fill up the new apartment.

3. He bought an old jalopy so he could get to and from work. He said he could not afford to buy a new one.

4. He bought the oldest kid a nice bicycle which he had always wanted. He said he never minds spending money on the kids.

5. He bought his wife a new coat and some new dresses and shoes and a new hat and a carpet sweeper. He reminded me that she had been without these things for a long time. He also bought himself a new suit which he wishes he would get a chance to wear, but he can't because he works so much overtime. He thinks there is no sense in buying himself any more clothes till after the war, but he loves to surprise his wife with gifts of clothes. Just yesterday he bought her a new pocketbook which cost him $4. He said it was probably the most expensive pocketbook she ever had. But he admitted he had been extravagant, and anyway she bawled him out.

6. He pays more for food, and he wishes the government would put "a good stiff ceiling" on food prices. He gives his wife the money each week for food. He says that it seems to him every day he has to give her more than the day before.

7. He intends to send his wife and kids away to the seashore this summer with a friend. He has saved a little money for that, and knows where they can get a cheap bungalow.

He wishes he could put a little money away, but there never seems to be anything left over. He has had to do all the things mentioned above slowly, because food, rent, and deductions take away about 75% of his income. He would love to save because he doesn't feel secure. He does not know how long the job will last, and he is afraid that as soon as the war is over he will be out of work again. He thinks he will need some ready cash at that time, and so he is trying to save it up. He thinks he will need it before his bonds mature, and would not like to cash them in ahead of time. But he is afraid that if times are bad right after the war, he may have to.

He wishes he could get a raise because then he might save a little, but he does not expect one.

I asked him whether it might not be a good idea to start buying a home now that he has some money. He said he would be afraid to do that, because it certainly would not be paid off by the end of the war, and then he might lose the whole investment. He said that if he kept his job after the war and could depend on it, then he would think of buying a house.

When asked about the effect of a reduction in income, he said, "You must be talking about compulsory savings. I've read a lot about that in the papers lately." He said he certainly hopes the government does not do that yet, because he certainly could not save, and would have to go very easy what with paying taxes, etc. He is afraid if that happens he may even have to cut down on the amount of defense bonds he is buying. He said, "Please tell the government about guys like me, and then they won't do things like that. I think they misunderstand the situation." He was not resentful ... just hoping they would not misunderstand. He wanted me to "suggest to the government" that at least the compulsory savings should be in some sort of bonds that you could cash in right after the war but still get some interest on them, because he was sure that was when the money would come in handy. " the ke

He has not been affected by any shortages, and has not had any trouble getting everything he wanted to buy. He has been shopping in his local area, except for "big" things, such as some furniture he bought recently, because in town he would have more choice.

Cases 2 and 3: Two other men I spoke to who worked at defense factories in Edgewater had very similar stories: Both had more income now than formerly. Both mentioned the payment of private debt, and one was also paying off installments on furniture he had bought when less prosperous. He also had just bought a piano for his wife, and was paying installments on that. Both mentioned that they were willing to make short-term commitments, but not long-term commitments like a house, since they were not sure of their jobs after the war. Both had not been affected by shortages.

One felt that taxes were a little too heavy but added that if it helped win the war, he would not complain. Both are trying to save but finding it difficult. One went from $30 to $45 a week, and the other who had always worked in the factory went from $40 to $70 a week. Overtime was largely responsible. Although the amount of their expenditures differed, the pattern was essentially similar. Both had moved into more expensive apartments. One whose wife was managing to save something thought it would mainly go for taxes. When asked, both felt that the price ceilings would help. One said it should have been put on a year ago.

PART III: DETAILED EXAMPLES OF INTERVIEWS (Cont'd)

GROUP II: THOSE WHOSE ACTUAL INCOME HAS REMAINED THE SAME BUT WHOSE REAL INCOME HAS USUALLY DECREASED. (Primarily White-Collar Workers and Unskilled Labor)

Case 4: An Assistant Manager of a drug store, interviewed at L. Bamberger & Co., was fairly typical of this group. In the last year he has received two $2 raises, and now makes $40 a week. His wife does not work. He feels that he really has less money now than previously because: 1) he is buying bonds and has two $25 ones already, 2) he is saving for taxes, and 3) food costs a lot more, and prices in general are up.

He says that food rises are really what takes his money away. He feels that food increases hit the poor person unjustly. He has to spend four or five dollars more per week, "and that adds up". In order to meet these added expenses, he and his wife are not buying as many clothes, and are going out less often. He feels that clothing is one of the few things one can cut down on since one cannot do without food, and one cannot move out of a leased apartment.

Since he just got married he planned to furnish his new apartment nicely, but somehow they never managed to save up the amount of money needed, and so he had to cut into his savings. He doesn't like the installment plan, and so he bought it all for cash.

He feels that ceilings have helped considerably but that they should have been put on long ago, particularly on food since that is such a necessity. He stressed that clothing is practically a luxury compared to food. He had originally planned to buy more bonds but has since found that he couldn't afford it.

He hasn't noticed any shortages, and doesn't expect to be affected by them for a long time.

When asked what a curtailment of his income might mean, he replied that they would simply have to stop buying clothes altogether, since that is the only thing he could think of that he really could cut down on. He is using the remainder of his savings so that they can have a good vacation. On his salary alone they could no longer afford one.

He has not tried to get a defense job for two reasons: 1) He has no training, and 2) he expects to be drafted soon and does not want to give up the vacation that is coming to him. Also he would have to move, etc., and so prefers to be comfortable in his present position until he has to go into the army even though he thinks he could pick up more money elsewhere. He has been paying off certain private debts (such as for the pharmacy course he took recently) as rapidly as possible, even cutting into his savings to do so, because he would like to get rid of them so that they won't bother his wife after he is drafted. There is nothing he would like to do better than add to his savings, but thinks that at this point it is practically impossible.

PART III: DETAILED EXAMPLES OF INTERVIEWS (Cont'd)

GROUP III: THOSE WHOSE ACTUAL INCOME HAS DECREASED

Case 5: This woman, about 36, was interviewed at L. Bamberger & Co. Her husband worked in a garage but, since the severe gas rationing, has just been laid off. At first he was glad because he thought he could easily pick up a defense job for more money. He has been looking for one for over a month now but hasn't been able to find anything, since he has no particular training. He thinks the factories to which he has gone are too choosy for their own good, since he is sure that he is capable of catching on to anything if simply given a chance to watch others for about a week. He is still hopeful of getting something, but is becoming a little discouraged.

His wife works at the American Can Company as a secretary and now they are living on her salary alone, or about $1500 a year. First they cut into their savings. When those were used up the first things they cut down on were clothes, amusements, and entertaining. Finally they gave up these things altogether. They buy absolutely nothing except vital necessities, since it is all they can do to buy food and pay the rent. She hopes he will get a job soon so that they don't have to move.

When he gets a job, she says that the first thing she will do will be to try to build up a small bank account. This experience has scared her. She says "This certainly taught me the value of having something to fall back on". The next thing she would do is replenish their clothes which are beginning to run low and get shabby. She would also like to be able to purchase bonds, but of course can't do so at the moment.

PART IV: FURTHER CASES SUMMARIZED BRIEFLY

Case 6: Waitress, interviewed at R. H. Macy & Co. Has part-time job. Works from November to May every year. She, her husband, and two children live in Astoria. She earns about $20 a week including tips. Has gotten no raise, and salary this year is lower than last. Tips are much smaller since now has more women patrons who don't tip as well as men. Her husband is also a waiter. He earns about $35 a week. Their basic salaries without tips are respectively $5 and $12. (?) He expects a $1 weekly raise next week. Last year he averaged $45 a week, but this year there are fewer parties, except for parties of soldiers who don't tip as well. He has no intention of changing his job. He feels he knows what he has but doesn't know what he might get.

She feels she has less money this year, and what little she has is used to pay bills. She has cut down on everything, particularly clothes. Feels rise in prices, particularly food. "Wouldn't be able to live" if prices rise further, or if income is cut. If it happened, however, she would have to cut down on everything, especially clothes. Would like to move to larger apartment because children becoming too old to have same room, but this would be impossible if income was reduced. Pays $40 rent now will pay no more than $45. Sold car last month because needed money, and with gas rationing doesn't need car. Hasn't been at all affected by shortages. Has offered to give sugar to someone who needs it. Feels we must win the war, and willing to do whatever government says is necessary.

Case 7: Male, married, about 40, white-collar worker, dependent wife and daughter, partially dependent parent. Received a $5 raise this year on a $45 salary. The raise doesn't seem to have helped much. Very little to show for it. Doesn't expect another soon. Thinks he will stay in present job unless drafted for army or war work, but wonders if he should not try to get into defense work where wages are higher, so that he could save more. (Saves a little, but very little ... has bought some defense bonds). Expects that after the war it will be very likely that younger men will be coming back from the army and will replace older men in jobs. Worried that he ought to be putting away money against such a possibility.

Case 8: Housewife of Arlington, Va. Husband owns small defense plant in Baltimore. Feels she has more money to spend but spends less. Puts a great deal into defense bonds. Doesn't buy much because she feels she shouldn't with conditions as they are, and for no other reason. Has cut down on clothing, and is more careful of food (Uses leftovers, etc.). Hasn't felt price increases much except on food. Is trying to cut down on gas use. All money saved is going back into the business for the necessary expansion to meet government contracts. (Family income in region of $6000 to $7000.)

Case 9: Woman, past 40, single, lives alone, interviewed at Macy's. Income is about $1300. Is a dressmaker. Does not feel pinched in present situation. Living pattern simple. Any extra money used to go into travel and amusements, (Movies, etc.). Now any surplus goes into bonds. She had savings in the bank and still has. She lives from day to day, and has no plans for the future. She has no debts and gives as much as she can to War Relief Societies. She doesn't feel that this year is worse than any other.

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Case 10: An extremely neat, not too well-off woman of about 55. Lives in Manhattan with one daughter (30) who works for the N.Y. State Employment Service. On recent death of husband has been trying to get a job. Now working as vacation relief at Spring St. Dispensary. She says far more men come in for medical treatment to this Dispensary who are not on relief than in the past because food costs are so high that they can't pay for medicine. Daughter has been one year with the N.Y. State Employment at $6 a day. No cost-of-living raise and no other raise.

Thinks price rises are "terrific". Says every bit of foodstuff has gone up in price. Daughter is buying bonds now —— but slowly. Next year's taxes she refuses to think about. Is already cutting clothing expenditure in favor of food. Would be very hard up if income should be reduced in any way.

Case 11: Parkchester housewife, about 39. Her husband is an engineering salesman ~~from~~ for a heating concern. Have 2 children — 16 and 1 year old. Husband and his brother are the complete support of his parents. Husband has held this same job for 20 years. Salary $2700 a year. At present her husband has 2 months' leave from his job because it's a slack season, and he is working as a draftsman in an airplane factory in Rome, N.Y., at $80 a week. Husband is going back to the salesman job at the end of 2 months. When asked what she was planning to do with her extra money, she replied, "We're not people to splurge. I have doctor's bills to pay, and we'll save the rest." She thinks the price rises are terrific, and price ceilings haven't helped a bit. They are buying bonds regularly by the stamp method.

Case 12: Postal clerk, 32, who has lived in Parkchester 2 years. His wife is a teacher on maternity leave, and they are struggling to pay last year's taxes (his wife was then earning also) out of his present $2100 fixed salary. He answered interview questions as if he were on a soapbox. He is ardently pro-union. Thinks the government is influenced too much by capital and too little by labor groups. Besides his wife and 3-months old son, he has no other dependents. Post-retirement pension deduction used to be 3½%...is being increased to 5% on July 1st. Owns a car but never used it very much and is completely unconcerned about gas rationing. Is buying defense bonds but not by salary deductions. He believes that he is expressing the working man's viewpoint when he says that government taxation is hitting far too hard on the little man: "Roosevelt was going to limit all incomes to $25,000 per year, and now you never hear anything about it." He says that labor is afraid of wage fixing. Price fixing came far too late and on too high a level to do any good. By March, the wholesaler and manufacturer had already picked up plenty of gravy, and as far as the consumer was concerned the March price level was still far too high in comparison to wages.

Case 13: A Parkchester housewife, 28, whose husband is a clerk in Wall St, with a banking firm. Last September he had a 10% cost-of-living increase which brings his salary up to $3200 per year. They have a 1 year old child and no other dependents. Her husband has had the same job for 12 years. She says they are "insurance poor". Her husband's parents are well off. When her husband first started working, his parents paid most of his expenses and he put almost his entire earnings into insurance, which is now very difficult for them to keep up. They have bought $150 worth of bonds since February. They bought them outright, not by stamps or salary deductions. She does not feel that prices have risen too much, but from other things she said, I gathered that she does not keep close track of grocery prices. She simply pays an accumulated bill every 2 weeks. The only shortage she has felt so far is that she can't buy rubber pants for her baby any more in Macy's-Parkchester.

Case 10: An extremely neat, not too well-off woman of about 55. Lives in Manhattan with one daughter (30) who works for the N.Y. State Employment Service. On recent death of husband has been trying to get a job. Now working as vacation relief at Spring St. Dispensary. She says far more men come in for medical treatment to this Dispensary who are not on relief than in the past because food costs are so high that they can't pay for medicine. Daughter has been one year with the N.Y. State Employment at $6 a day. No cost-of-living raise and no other raise.

Thinks price rises are "terrific". Says every bit of foodstuff has gone up in price. Daughter is buying bonds now —— but slowly. Next year's taxes she refuses to think about. Is already cutting clothing expenditure in favor of food. Would be very hard up if income should be reduced in any way.

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Woolworth's, she said, quit carrying rubber pants last November. When asked about a reduction in income, she said she doesn't know how they would get along if her husband's salary were reduced. As it is, she plans to cut clothing and entertainment expenditure. She and her husband wanted to move to the country this Fall with the idea of renting now, with a view to buying or building later, but now they are afraid to take this step.

Case 14: Housewife, East Bronx, with 3 children at home, oldest 21 and self-supporting. Husband is defense worker in a shipyard. Says that people are frequently laid off at his place, and he is not at all sure of his job. There do not seem to be enough ships to repair. He explains it by the fact that most ships these days are sunk outright, and the ones that are not go to the nearest port, and don't try to come all the way to N.Y. At any rate, last week 1500 men were laid off. They were all told that they might be called back any day and so shouldn't be too discouraged. There is another rumor going around now that more will be laid off, and he is afraid he will be one of them.

He was formerly in business for himself, but failed last year. Salary about $90 a week if works a full week. Paid by the hour and has been laid off occasionally for a week or so in the past. Had a raise last month of 7¢ an hour. Expects a raise in about 2 months of about 16¢ an hour. Was a building contractor last year and had no steady income. Has more money to spend but has a lot of debts to pay. Is fixing up his home while he can, buying various home furnishings, curtains, rugs, etc. Feels the price rise in food particularly. Is trying to put away a regular amount of money each week. If income were cut, would find it necessary to tighten up a bit on luxuries (entertainment, beauty parlor for wife, etc.), but is willing to do all this if it becomes necessary in any way. Has not felt shortages at all.

Case 15: Housewife, has no children or dependents. Lives in East Bronx. Husband is stock manager and now makes about $2000 a year. Received a raise of $4 a week about 6 months ago. Doesn't expect another raise for quite a while. Plans to stay on present job. Doesn't particularly feel the rise in prices except in food. Has not found it necessary to cut down on anything, although she feels she has less to spend this year than last year. Husband has payroll deduction for war bonds and thinks it is a fine idea. Doesn't feel that she is able to spare or put away a specific amount each week. If she had to retrench, however, she would have to cut down all across the board, especially entertainment and clothes. The only shortage she has felt so far is tea.

Case 16: Housewife, 23, lives in Parkchester. Is expecting a child shortly. No other children. Her husband is a defense worker who now makes about $4000 a year. Three months ago he received a raise of 7¢ an hour. Last year he made $30 a week at a different job. He expects another raise next month. She feels she has more money than last year, and is spending it primarily on furnishing the home. Because of this she is unable to spend more on other items or to save [redacted]. Her husband works out of the state and therefore has living expenses. He also has unemployment insurance, social security, and 10% for war bonds deducted from his salary. She has definitely felt the rise in prices because drapes, lamps, furniture, and other home furnishings have all gone up. Lamps with metal bases are unobtainable any more because of priorities. She wishes she had been able to furnish her home a few years ago when she could have gotten anything she wanted and at the old prices. She is saving regularly. She says she has felt no shortages except that "prices have risen so sharply that maybe it means there is a shortage behind the scenes."

Case 17: Housewife, interviewed at Parkchester. Husband is an actuary whose salary has in no way been affected by the war. Makes $7,500 a year, got a $500 raise (per year) last year, but expects to remain at this present salary for a while. She feels she has less to spend but has not had to cut down on anything. Definitely feels the rise in prices. Is at the moment, and has for the past few years, been saving. Now puts some of this into war bonds. She puts away a definite amount each week now, and intends to increase the amount spent for defense bonds. Feels no shortages whatever.

Case 18: Young woman, married two years, moved to Brooklyn from Washington 8 months ago. Has no children. Supports her mother. Used to work as a secretary, but is not working any longer. Her husband is an auditor in the Navy Dep't. Salary $2400. He recently got a raise and doesn't expect another. While she worked, their income was about the same as now. Living costs have risen due to higher rent, gas, electricity, and telephone. In order to move, they used up a lot of their savings. Her husband is pledged to convert a potion of his salary to bonds. They have cut down on clothes expenditures. They had planned to spend on furniture for their new apartment, but don't seem to have the money. Another extra expense is her husband's return to school. Her attitude toward shortages is interesting: She had planned to buy things, such as electrical appliances, but with talk of shortages in these things, she has decided to do without them for the duration, even though they are available to buy. When asked what she would do if her income were reduced, she said she wouldn't mind too much——she would simply limit herself to necessities. She expects taxes to take more of her income. Her biggest worry is that her husband will be drafted. She doesn't mind what else happens so long as not that.

Case 19: Research worker in advertising agency, male, about 28. Wife worked as a secretary until recently. She quit in order to have a baby, which will come in a few months. His salary alone is now about the same as their combined salaries were when she was working. He received a tremendous raise recently. Several people in important positions were drafted out of the agency. He was asked if he would take over the space-buying along with his research work. He accepted, and they doubled his salary. He said this has happened quite a bit among professional people he knows. People who haven't been drafted have benefitted financially from the drafting of others in their offices. Actually, they are now getting about $10 per week more than they used to when his wife was earning. They are trying to save something for the baby, but not putting away as much as they would like to. There never seems to be as much left over as they plan. They have moved into an apartment that costs exactly twice as much as their old one. That uses up all of the extra money. They had planned to buy furniture, since they had more money, but so far they haven't been able to afford it. Somehow there is never any money left over for furniture. He is afraid he might be drafted and doesn't know what his wife will do then, but he thinks it won't be for quite a while yet, and is trying to save against such an emergency.

Case 20: Housewife, about 26 years old, married three years. Has no children. Has lived in Parkchester two years. No dependents. Her husband works at the Brooklyn Navy Yard. He went to a training school. He earns $58 a week, works 10 hours a day, 4 days a week. Daily rate is $8.48. (? Arithmetic seems peculiar. Interviewer did not check at the time.) He is expecting a raise. He was formerly employed as a soda clerk and earned $30 per week. Also received his breakfast and lunch. She also worked then as a cashier. Their joint income was $50 a week. Her husband is planning to stay in his job. Expenditure pattern: She does not feel that they have too much more money — in fact, practically none. As part of a voluntary deduction plan, $3.75 of her husband's weekly salary goes toward bonds — about a bond a month. They think it is a wonderful system and a good form of savings. They also undertook private savings for income tax payments. They feel that they should not spend too much because they want to insure the future. As yet, however, they haven't done any real cutting down — their standard of living is about the same. They carry a little insurance.

They have no car and are not spending money on their home. Nor do they have any debts. Whatever increases in dollar income they may receive, she is not planning any spending spree. So far they haven't bought much, and after savings, bonds, and taxes, she feels they will have enough simply to meet the cost of living. Shortages have not affected her. As for sugar, she doesn't use her full ration. At the moment she feels there is plenty of everything.

Case 21: Housewife, about 24 years old, married 4 years, has 1 baby. Has lived in Parkchester for 2 years. Her husband is a lawyer with his own practice where he intends to stay. Last year he averaged about $53 to $55 a week. This year he gets about $60. During the first 2 years of marriage she worked as a secretary. Their joint income then was about the same as now. Money does not go as far today. Of course, the baby is an additional expense. Nevertheless food prices are way up, and she feels this is one of the major increases in the cost of living. Also included are clothes as an additional cost item. They are not spending their additional money if they can help it. Whatever is extra, if any is, goes into bonds. They have had increased expenses due to medical care for the baby, and they both carry insurance. She herself has made no plans for saving toward increased taxes. She says her husband takes care of the finances. If cutting were necessary, she said the first expense she would cut would be entertainment, and then clothes. Shortages have produced a decline in the quality of dresses. Now she has to pay more for the same quality or to meet her own standard of quality. She is sure she has not been splurging. She feels that in her family, they just manage to meet their needs.

Case 22: Housewife, married 2 years, have lived at Parkchester a year. They have a baby. No other dependents. Her husband is a dress cutter. His work is seasonal. He has been doing it for 10 years. He is paid by the hour. Their annual income this past year was about $2,000. It increased recently and he has been promised another raise. The minimum base pay is $45 for a 35 hour week. He makes about $52 a week now. She feels they have more money actually, but less to spend on account of the price increase. They were buying for their home, but stopped about 6 months ago. At present they only purchase necessities. They have also been buying bonds. They own a car, but sometime ago decided to cut down the use of it, even before the rationing of gas. That money saved has simply gone into necessities. They have had no debts. They carry some insurance. They would prefer to buy more bonds than pay higher taxes. She considers it more as a personal savings which she can expect to get back, unlike taxes. If her income were curtailed, the first thing to go would be the car and garage rent. As for shortages: she ordered a bassinet for her baby 3 months ago and it has not yet been delivered. Her explanation is that it is because of freight business, because trains cannot travel unless full. She believes this story and thinks it is reasonable. Also rubberized things are difficult to get, such as rubber pants. So are things with metal parts such as sterilizers. When they can't get things like that, they buy substitutes of porcelain and enamel.

Case 23: Parkchester housewife with year old baby. Husband is a teacher. She is 32 and married 6 years. Has one other partial dependent. Husband's salary is $3000 a year. Gets a regular yearly increase of $150. Was making $2850 a year ago. Is planning to stay on present job. Wife taught part of last year before she had the baby. Her salary was under $1000. She feels she has much less money to spend than last year. "Income tax was a sock." Curtailments have been spread over all classifications. However major curtailments were amusements (said the new baby forced this anyway), clothing (not at business this year, so not the same need anyway), some charities (for teachers there are many "must" charitable contributions), food (a little). She feels food prices are up greatly. As for shortages: Husband mentioned recently that there was some sort of photographic material he couldntt get. She didn't know what it was or what he was doing about it. Also she couldn't get rubber pants for the baby. She has two pair on hand, and is not concerned about what she will do when they wear out. Her general philosophy is that things always take care of themselves. Anyway she said, everybody will be in the same boat, and who cares, if it helps win the war. She also had trouble with other rubber items for the baby. As for food, she has not been personally affected by shortages of canned salmon, etc., as she does not use them. But she knows people who are affected. She says "They will simply have to learn to make other things, because there are other things more important these days than salmon." She isn't worried any about food.

Her attitude is generally very level headed. She says she is "no alarmist". "As new shortages and situations arise, we will find other ways of doing things." Does not think we ("middle section of population", as she calls herself) will feel any actual shortages. Isn't worried about food, and for other things, "the middle section can float along for some time on what they have now. We will simply learn to preserve and conserve what we already have. We can get by on the clothes we have already. We have enough for a few years. We'll figure out something now to do with the curtains and drapes instead of hanging new ones, and so on. The middle section has a lot to fall back on, will not be pinched."

"Except in higher food prices we have felt the war so little. I think that's why we are so complacent." (She stressed this point. Thinks middle section won't feel any real pinch unless the war lasts a long time. "10 years of war would be a different story."). This attitude was particularly interesting in view of the greater income to which this women was accustomed.

Case 24: Salesman, 35, male, married 5 years, has 1 child one year old. No other dependents but expects to have one soon (mother) "when the army gets my brother". Earns $2500 a year. Got a $2 a week raise 2 months ago. "God knows" when he'll get another raise. Had the same job a year ago but made about $3 a week less. Will probably stay in same job. Feels he has much less money to spend than last year. Has cut down mainly on clothing, amusements, and food. "Prices are certainly much too high. There should be price readjustments. The ceilings were too late. The top prices had already been reached. Everyone had jumped on the band wagon and raised prices just about as far as the consumer would take them. Particularly benefiting were the manufacturers of raw materials. They caused the damage. Their prices should have been limited and should be readjusted now. Its a disgrace the way prices have gone up on domestic goods that have no excuse for having risen that way. For example, tuna fish at 41¢ a can — salmon from inland waters. Yes, the army has taken some, as they have of cottons and woolens, but look at the huge surpluses we had, particularly of cotton. Dairy products and local eggs have gone up. No excuse for such increases. Manufacturers and woolen mills have benefited." (Gave the impression that he had close connections with these manufacturers. Seemed to feel that he was talking directly to Washington and was very fervent.)

Wife had come along in the meantime, and when I explained that the government was interested in finding out how people are spending their money, she snorted "What money!" She mentioned magazine price increases and said she would simply have to buy fewer magazines and also fewer books. The husband made quite a speech at the end with which the wife agreed: "The administration has done a remarkable job with incredibly complex problems. Maybe they haven't kept the price of salmon down, but when you think of the millions of items in the U.S., what a job they're doing! We're living in historical days . . ." He seemed very sincere in this speech. Husband had explained to wife that I was doing interviewing so the government could help them.

For a while they were suspicious of me and of my official status because I had no printed forms, but as we talked they got over this. As I left, the father said to the baby, "Stop chewing the carriage, Junior, you're not going to get another one."

V. MILES

Secretary Morgenthau

CONFIDENTIAL

OFFICE OF FACTS AND FIGURES

National Economic Policy

Information Reports

No. 2, June 3, 1942

Public Opinion on the Economic Front

(A summary compiled by Office of Facts and Figure's Bureau of Intelligence)

Year ago, when drought and aluminum were bringing on a power shortage in the south, authorities in the Tennessee Valley tried to encourage voluntary reduction in the non-essential use of electric power. In this, they were pretty successful, but there were snags. Individual merchants hesitated to darken their windows until they could be sure that competitors would do so as well. Entire communities hesitated to darken Main Street unless they could be sure that the neighboring towns wouldn't attract shoppers by keeping their lights on. Rain, fortunately, saved the situation.

In the Fall, when the problem became again acute, power saving was made mandatory rather than voluntary. This time, when each could be sure that the other would have to stay in line, individuals and communities vied with each other for 100% compliance and were proud of the result. The underlying attitude appeared to be not "Let George do it," but rather "I'll gladly do it if George does too."

This attitude is worth stressing because it pervades the American scene today. Farmers will take price limits on their produce if they are sure nobody is taking advantage of them. Labor will take wage limits if it is sure that management isn't going to profit thereby. John Jones will take an A card if John Smith does not get an undeserved B card.

Americans went into this war with the 1929 collapse far enough behind them so that they could see it in relation to the last war. Some of them could still remember price trends of 1918, remember 1921 as well as 1929, and 1933. Americans went into this war, therefore, with vague but deep misgivings about the economic future. Seven out of ten expected to be financially worse off after the war; six out of ten expected wages to be lower and money to be worth less; three-quarters expected widespread unemployment at the war's end.

In this frame of reference, the people wanted the government to take positive action.

Before the Seven Point Program

Even before our entry into the war, public opinion polls had shown the majority favoring government control of prices and rationing of goods in which shortages might develop. Shortly after Pearl Harbor, many people still viewed the war, fiscally, as a boom sandwiched between two depressions. Two out of five at that time thought wages should go generally higher. Eighteen per cent thought rising prices were generally a good thing, even though nine-tenths of all the people said they had felt the pinch of rising prices in their own lives.

In February, seven out of ten were expecting prices to keep on increasing and four out of ten expected them to increase drastically.

By March and April, eight out of every ten people interviewed said that they wanted the government to control prices and the same number wanted rationing. Nearly three-quarters expressed confidence that the government would be able to control prices if it tried to, but there was widespread ignorance of the moves the government had already taken.

By the end of April, the number expecting drastic price rises had fallen to less than one-third of the people. Those who were expecting prices to stay about the same, or go up only slightly, indicated plainly that they were counting on the government to hold prices down. At that time, just before the seven point program was launched, 98% said they had felt the pinch of prices since the war began. Items most affected: food (72%) clothing (12%).

In the interviewing conducted just before the President's seven point message to Congress and speech to the nation it appeared very plain that while people might not understand the economic program, they wanted and expected the government to take the action it did. Nine out of ten, for example, said that the government should fix prices during the war so they wouldn't go any higher.

A sizeable majority wanted prices fixed on everything, and those who would discriminate said it was the government's business and not theirs as to what articles should be fixed. The same pattern held with rents. There was a general belief that rents had increased and it was the desire of eight out of ten people to have the government keep them from going any higher.

More than eight out of ten wanted a limit on profits. 82% wanted rationing and were willing to let the government decide what should be rationed and how much each person should get. And when asked why they favored rationing, people gave the preponderant answer "so that everyone will get a fair share".

Intensive interviews of the conversational type have also brought out a genuine feeling that rationing is the fair way to distribute available goods - the democratic way to make sure that those who have the money or get to the store first are not allowed to get more than their share while others have to do without. Even 78% of the retailers are in favor of rationing in these terms; 80% of the farmers; 84% of the factory workers; 87% of the white collar people.

In more specific terms, people were asked, "Do you think that the rationing of automobile tires by the government is necessary or not necessary?" 76% answered "necessary" almost exactly the same percentage that had answered affirmatively three months before.

Not so with sugar, however. At the end of April while 59% thought that the rationing of sugar by the government was necessary, 28% said it was not. The reasons for a sugar shortage had apparently not been fully put across to the public. About one-third of the retailers in the sample also said that sugar rationing was not necessary and another sizeable retail group didn't give any opinion.

The same people who overwhelmingly wanted to ration goods and fix prices, profits and rents were less enthusiastic at the idea of wage fixing. Two-thirds of the farmers and retailers thought that wages and salaries should be fixed so that they couldn't go higher during the war. But only half of the labor group and lower-bracket white collar workers felt this way. Earlier interviewing of factory workers had shown the reason for this lack of enthusiasm. Large numbers of workers (a majority in Detroit, for example) distrusted their management. They felt that factory owners had been to slow to convert to war work, were keeping too sharp an eye on their profits, were using war pressure as a weapon to wipe out some of labor's social gains.

Although three out of four people expressed confidence that the government would actually be able to control prices, newspaper editors, particularly those in the east, had less confidence. When the President's Message went to Congress on Monday afternoon, the 27th, there was hardly a one who was not sharply critical or, at the least, dubious, and they were cheered only slightly, if at all, when the vast price ceiling was banged into place for Tuesday's late evening editions. Too unwieldy, they called it. About wages, a ceiling was needed, not a vague directive. About farm prices, the Bloc would never accept parity. About bond-buying, only compulsion would work. About income limits, it was a political gesture unrelated to economic fact. News stories predicting the Program's defeat in Congress were predominant in the East's most influential newspapers on the day of the speech.

Quick Reaction

The President went on the air over all four networks at 10 p.m., Eastern War Time, and addressed an audience estimated by the Cooperative Analysis of Broadcasting to have included 69.5 per cent of all radio-telephone families in cities of more than 100,000 population. (For the February 23 and December 9 speeches, this figure was 83.)

Immediately thereafter the same private agency began telephone interviews in 33 large cities. "What," listeners were asked, "did you consider the most important statement the President made in regard to the effect on your family?" Twenty-one per cent, more than the total selecting any of the other five Points,* answered "Price ceilings." At least two factors might be involved in this answer, (1) the fixing of ceilings was the one action by which the majority of the President's listeners stood to gain, (2) it was the one action which actually had been taken, which had not still to run a gauntlet into the uncertain future. (News editors that night, almost without exception, put the "banner" on price-fixing above the "banner" on the speech.)

Fifteen per cent thought all points equally important. Another 15 per cent, unclassified, offered these typical comments:

"We should try to do everything to win, no matter what the sacrifice."

"He didn't say anything about the unions."

"Salaries don't go up, but prices do."

"I'm glad to do it."

When Americans were asked, "In general, were you pleased or dissatisfied with the way these problems were handled," only 3 per cent of them said they were definitely dissatisfied. ("To me, it was not explained explicitly enough.") Eighty per cent were pleased, the remainder uncertain. ("I don't know, I'll have to wait and read it in the newspaper.") Of those who were pleased, comments like, "He's the greatest man living," were frequent. "I'm all for him," said one man, adding, "Why doesn't the Government do some economizing?" "Just the

* The point about installment buying and debt paying was not included.

thing it will take to win," said another. (Comments of this latter type recurred sufficiently often to suggest that the Speech did a good job of tying the fighting abroad to sacrifice at home.)

Having expressed greatest approval of price ceilings, those interviewed expressed least approval for Wage Stabilization and Farm Prices, but here they were also most uncertain. Questioned on those points they disliked most, price ceilings had least opposition, wage stabilization had most. More persons had "no opinion" on price ceilings than on any other point.

Editorial Reaction

Against this background, the newspapers next morning and on succeeding days published editorials which discussed the Message, the Speech and the Price Order, interchangeably or simultaneously. (About 5 per cent discussed those portions of the Speech which did not deal with the Message — all offered high praise.) The editors did not materially modify the views they expressed on Tuesday morning, although there was a significant change in the tone of the news stories. The New York Times for instance, went from "Ways and Means Committee Lukewarm on Salary Ceilings" and "Farm Groups Stick to 110% Parity Ceilings" on Tuesday to "President's Plan Held Likely to Win Congress Support" on Thursday.

The eastern metropolitan press, always more searchingly critical of Administration fiscal policy, had only 12 of an even 100 editorials which fully approved the Speech (and/or Message.) In the rest of the press, the percentage of complete approval was 64. One modifying factor should be noted: only the largest newspapers, such as those represented in the eastern metropolitan press, can afford financial writers capable of authoritatively analyzing so vast a program as the President proposed. Many writers were likely expressing either confidence or lack of confidence in the Government when they approved or disapproved of the Program.

Only 6 per cent of the press disapproved of the Speech in its entirety, but one of these newspapers was the influential and liberal St. Louis Post-Dispatch, which captioned its editorial, "A Disappointing Speech" and urged the President to give his audience "more meat to chew upon." Another was the authoritative Wall Street Journal, which discussed only the Program.

The remainder of the press was divided evenly between complete approval and partial approval, with disagreement on specific points. Greatest volume of comment was on the price ceilings, but greatest disapproval was on wage stabilization. Next in gross volume of disapproval, although not in percentage, came the ceilings and then the recommendations concerning profits and incomes. On this latter point, while editors were perhaps surprisingly mild, the columnists were denunciatory. Fourteen out of 17 who discussed it were in thorough disagreement — Westbrook Pegler alluded to "Mother Russia" and David Lawrence saw it actually reducing Treasury collections because high-salaried men will slash their taxable incomes to a point below the minimum.

On farm prices, comment was low in volume and a third, all non-Eastern, disliked the President's recommendation. The points on rationing, bond-buying and credit were together at the bottom of the list, and except for those who were dubious about the effectiveness of voluntary bond-buying, everyone thought the President was right.

The business, financial and news magazines accepted the plan, but with no evidences of enthusiasm. (Since their first articles, they have come to urge a sales tax and to regard the $25,000 limitation as a Rooseveltian pleasantry.) The liberal intellectual weeklies and the religious magazines were enthusiastic; the leading labor weeklies offered no opinion, but reported the Program in great detail, indicating a degree of approval which it was perhaps not expedient to make known immediately.

Only Newsweek, of 21 magazines which commented, had no good word to print that first week.

Current Opinion

The press opposition to the $25,000 limit on incomes-after-taxes did not find a ready response in the public. Three-quarters of a sample interviewed the second week in May agreed with the President rather than with the press — and this was not a cross-section, it was a sample of community leaders.

Farm interviewing conducted in May reveals that farmers, long used to having a bottom limit on their prices, are somewhat confused about the idea of a ceiling. The general farm attitude, however, appears to be one of willingness to accept ceilings, provided, and only provided, that the farm cost of living and cost of operating can also be kept down. Farmers are more likely than other groups to feel that they have already benefited from war economy, but they are somewhat afraid of a squeeze. They approve price control, though by a smaller majority than obtains elsewhere, perhaps because they more than any other group have been burned before by successive inflation and collapse.

Cross-section interviewing conducted about the middle of May shows that the public is overwhelmingly behind the general program and is prepared in some cases to go further.

— 89% approved the general price order. Only 3% thought it a bad idea, with 8% giving qualified answers or saying they didn't know.

— 83% approved restrictions on installment buying, with only 8% saying they actually objected.

— 73% would favor a law to limit business profits for the duration of the war, with 13% opposed and 15% on the don't know or qualified answer column.

— 56% would favor having the government take a percentage of each person's wages or salary for defense bonds and stamps - not redeemable during the war except in the case of family emergency. 26% are opposed and 13% gave qualified answers, saying that it depends on the size of the family and the size of the family income. 5% gave no opinion.

— 35% would favor a Federal sales tax on everything, including food and another 26% would favor it on everything except food. 25% are opposed to any general Federal sales tax, even if food is excepted. 7% gave qualified answers and 7% don't know.

— Over 2/3 of the people would favor a withholding tax. Of those who already pay income taxes, or expect to pay them this year, 64% are in favor, 29% opposed. Of those who have not paid taxes or do not now expect to pay them, 73% would prefer to have such taxes, if paid, deducted from their pay throughout the current year, with only 14% opposed and the balance not expressing opinions.

— On limitation of wages and salaries, the public prefers the middle ground. Only 15% are in favor of setting no limit to wages and salaries; 48% are in favor of setting ceilings for different kinds of jobs; 20% are in favor of freezing wages and salaries as they are right now. 7% gave qualified answers, saying that it depends on cost of living or on the job. 10% expressed no opinion.

Interrelation

Intensive interviewing during the first three weeks of May showed that while practically everybody is aware of rising prices nearly half the people feel financially better off than they did a year ago. Only a few make the mental connection between purchasing power and prices. When asked specifically why they thought the price of meat had gone up, 4% attributed the rise to more money in circulation or greater purchasing power on the part of more people. Much more popular explanations were profiteering, shortages, increased production costs.

Even when asked directly, "Will extra spending have an effect on prices?" only about half felt that it would have an effect and only 13% answered in terms which showed a real understanding. (The law of supply and demand was never popular). About the same number would attribute price rises to pure cussedness, feeling that when there was more money in circulation dealers and others would mark up their goods for greater profits.

Bonds

People also fail to see, or at least to express, the connection between bond buying and inflation. Two-thirds of those interviewed gave reasons for buying bonds in general patriotic terms. Some of them also looked on bonds as a safe personal investment as a hedge against the expected post-war depression. But as might have been expected only 3% said that a prime reason for buying bonds was to keep money out of circulation or to curtail current purchasing power. Polled majorities have indicated a willingness to have a percentage of their pay deducted at the source for purchase of war bonds and stamps. But a majority are opposed to governmental coercion, hoping that it will not be necessary. When reasons for opposition were given, the most popular was that a compulsory plan would not permit the individual to adjust his buying to personal financial emergencies.

Sugar, Tires, Gas

Although only 12% of the people are convinced that the sugar shortage is serious and a large number of others think that the shortage is a mild one, people expressed very little dissatisfaction with sugar rationing. Most people felt that the 1/2 pound a week allowance was adequate. Some farmers felt, however, that the allowance for canning and preserving was much too small. General acceptance of sugar rationing, coupled with a belief on the part of many people that it really isn't necessary, is a paradoxical pattern which can not be expected in terms of all other commodities. There is reason to believe that the high approval of tire rationing is partly conditioned by the feeling that the tire shortage while real enough now will be alleviated before the present tires wear out. About one-third of the people interviewed have this expectation, and another one-half of the car owners feel that when their tires do go they can shift to other means of getting about without entirely changing their mode of existence. Farmers, however, are already harder hit by the tire situation and are much more pessimistic about the future.

The gasoline rationing situation in the east presents a more immediately disturbing picture. Sizeable numbers of people do not feel that there is a real gasoline shortage and do not yet see the connection between rationing gasoline and conserving tires. There is widespread evidence of grumbling. Some of the independent dealers feel that the big companies are favoring their chain stations with plenty of gasoline and many observers are reporting that while some stations are out of gasoline or allowing only three gallons to a customer, others are giving it out freely without even punching ration cards.

It is significant, however, that while 20% specifically complain about favoritism, chiseling, laxity in gas rationing, less than 1% complain about gas rationing being administered too strictly in their communities. Thus, the people show once again that they can take it — if other people take it too.

*****

Putting one detail on top of another, the public attitude on the whole economic front can be summed up as:

A. A general <u>personal</u> willingness to sacrifice and undergo restrictions.

B. An insistence that everybody be in the same boat - there must be <u>equality</u> of sacrifice.

C. A widespread lack of understanding of the interrelationships between the various aspects of the economic program.

June 3, 1942

Dear Frank:

I am sending you enclosed herewith a marked copy of my statement before the Joint Committee on Internal Revenue Taxation.

I think you will be particularly interested in my remarks about advertising on Page 6.

Sincerely yours,

(Signed) Henry

Honorable Frank Knox,

Secretary of the Navy.

(Testimony given May 28, 1942)

N.M.C.

By Messenger Sturgis 4:20 pm.

OFFICE FOR EMERGENCY MANAGEMENT

OFFICE OF DEFENSE HEALTH AND WELFARE SERVICES

WASHINGTON, D. C.

Director
FEDERAL SECURITY ADMINISTRATOR

Mrs. G. Forbush

JUN 3 1942

Dear Mr. Secretary:

I have your letter of May 29. We shall be glad to have you refer to us the letters on liquor control around Army camps, although there is very little that we can do about it except to provide a form letter calling attention to the existing powers of State Liquor Commission, as well as to the misrepresentation of the facts which is being widely spread by certain groups.

You will be interested to know, for instance, that Clarence Hall, the editor of the Christian Advocate, Chicago, Illinois, who visited all the camp areas a year ago in March and wrote what seemed to me rather lurid accounts of the situation at that time, has just written us again to say that the situation has changed profoundly for the better and congratulating all those concerned upon the accomplishment. We have, for instance, secured the closing of more than 220 red light districts near camps; and, along with that, much improved law enforcement in connection with taverns, juke joints, etc.

There is much to be done, but the record of the Federal Government and local cooperation in this field is one of which we can be proud.

Sincerely yours,

Charles P Taft

Charles P. Taft,
Assistant Director,
Defense Health & Welfare Services

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

June 3, 1942.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

RE: Seizure of Currency from DROTTNINGHOLM Passengers

The ticker item of 1:15 p.m. is based on the press release attached, which was prepared in the General Counsel's office. Customs personnel, on the arrival of the DROTTNINGHOLM, acted as agents of the Foreign Funds Control in taking from all American passengers on the ship, including diplomats and newspapermen, currency in excess of $250 each. The authority was General Ruling No. 5 of the Foreign Funds Control, which relates to securities, and an opinion that currency is included in the term "securities". The primary reason for the application of the ruling in this instance was the suspicion that there would be considerable amounts of American currency come in which had been purchased on the black market in Europe. The results seem to justify that suspicion. A total amount in excess of $100,000 was taken from the American passengers, some of it from our own diplomatic employees, which was done after prior consultation with the State Department. The largest amount taken from any one passenger was $14,800, but there were several rolls running from $9,000 down to $5,000. A great deal of the seized currency was in the form of the old large-size notes and some of it in gold certificates, including a high proportion of $100 bills and some $1,000 bills, the type of currency which is customarily hoarded.

The excess over $250 for each passenger was deposited in the Federal Reserve Bank where the passengers may make application for it but will be required to state fully the circumstances under which it was acquired. It may be that considerable parts of this currency will be held indefinitely if satisfactory explanations are not made.

In the case of the Latin Americans who were passengers on the ship, they were merely asked to state on their baggage declarations the amount of currency they brought in. The excess was not taken from them and they were informed that they would be free to take the entire amounts to their home countries. The matter of full declaration and the disposition of the currency is, in fact, left to their individual sense of honor. This method of dealing with the Latin Americans was also on the advice of the State Department, I am told.

MSG

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, June 3, 1942.

Press Service
No. 31-90

The Treasury announced today that heavy amounts of currency were taken up by Customs officials on the arrival here Monday of the S. S. DROTTINGHOLM. The DROTTINGHOLM carried many American and Latin American diplomats and other citizens returning from Axis areas.

One incoming passenger had declared that he had only $249 in his possession but, upon being searched, was found to have concealed over $9,000 in a sock. The currency discovered was taken into special custody.

Treasury officials said that as a whole they considered the results of the search for currency most gratifying. No announcement was made as to the disposition of any of the currency which was taken other than the statement made by Customs officials that it would be turned over to the Federal Reserve Bank of New York for further action by the Treasury Department.

-oOo-

Treasury - Currency seized 173

CUSTOM OFFICIALS SEIZED "HEAVY AMOUNTS" OF CURRENCY FROM PASSENGERS WHO ARRIVED ON THE DROTTNINGHOLM LAST MONDAY, THE TREASURY ANNOUNCED.

THE AMOUNT OF CURRENCY IN THE POSSESSION OF EACH PERSON, INCLUDING DIPLOMATS, WAS LIMITED TO $250. CUSTOMS OFFICERS REPORTED THAT ONE PASSENGER, WHO HAD DECLARED ONLY $249, WAS FOUND TO HAVE HIDDEN MORE THAN $9,000 IN A SOCK.

THE CONFISCATED CURRENCY WAS TURNED OVER TO THE FEDERAL RESERVE BANK OF NEW YORK AND THE TREASURY WILL DECIDE WHETHER TO RETURN IT TO THE INDIVIDUALS OR TO FREEZE IT AS HAS BEEN DONE TO OTHER FUNDS COMING INTO THIS COUNTRY FROM AXIS-OCCUPIED TERRITORIES.

TREASURY OFFICIALS SAID THAT THE SEARCH WAS MAINLY TO UNCOVER HIDDEN AMERICAN CURRENCY, BUT THAT CURRENCY OF OTHER NATIONS ALSO WAS SUBJECT TO CONFISCATION.

6/3--R115P

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE JUN 8 1942

TO Secretary Morgenthau

FROM Messrs. Foley and Pehle

Re: Jean Monnet and George Murnane

In response to your recent request, the following is a summary of the more significant facts now available to us concerning Jean Monnet and George Murnane.

JEAN MONNET

Jean Monnet was born in France and came to the United States in 1931. Prior to that time he had been deputy head of the League of Nations where he was in close association with the Earl of Perth, who for many years was head of the League of Nations and more recently British Ambassador to Italy. Viscount Strathallan, son of the Earl of Perth, later became affiliated with the London office of Monnet, Murnane & Co. and played a significant role in obtaining payment in dollars for certain properties held in Germany.

In 1935 Monnet became associated with Murnane in the partnership of Monnet and Murnane, and, from November 1939 to the time of the French armistice in June 1940, he acted as chairman of the coordinating committee of the British and French governments. Since August 1940 he has been in the service of the British Government here in Washington as a member of the British Supply Council in North America. Monnet may be connected by marriage with one of the Gianninis in view of the fact that he has a step-daughter, Anna Boucline Giannini and that in 1929 he was the Paris representative of the Bancamerica Blair Corporation.

Jean Monnet's principal source of income seems to be derived from the New York partnership and the Hongkong corporation in the name of Monnet and Murnane, although he appears to have been inactive in the New York partnership since early in 1940. In 1937 he borrowed $37,500 from John Foster Dulles, senior partner of Sullivan & Cromwell. This loan was repaid in 1940.

During the decade 1930-1940, Monnet spent a substantial portion of his time in Europe and some time in the Far East. In fact, his income tax return for the year 1939 discloses that he filed as a non-resident alien although he had previously filed as a resident alien for some years. Monnet has had accounts in Paris with Worms et Cie., and accounts in London with Lloyds and Lazard Freres and Company, Ltd. He is a director of Kreutoll Realization Co., Wilmington, Delaware; J. G. Monnet & Co., Wilmington, Delaware; and Societe des Proprietaires Vincote de Cognac, France. Monnet's TFR-300 report on himself shows assets in the United States in 1941 of $109,000, of which $99,000 is represented by his interest in the Monnet-Murnane partnership. We have no information as to his assets abroad. His gross income for 1940 was $54,000.

GEORGE MURNANE

Murnane was born in Brooklyn, New York, in 1887. From 1919 to 1928 he was deputy commissioner for the French-American Red Cross, and, during the same period, vice president of the New York Trust Company. From 1928 to 1935 he was a partner in Lee Higginson Company. Since that date he has served principally as a member of the partnership of Monnet, Murnane & Co. and the Hongkong corporation of the same name.

Since the outbreak of the war in 1939, Murnane seems to have been the active member of the partnership. His important contacts in Europe have included Ivar Krueger, Dr. Mannheimer (Mendelssohn & Co.), the Wallenberg family of Sweden, Ernest Frohnknecht (former president of Continentale Handelsbank), and the Petscheks of Czechoslovakia. An example of Murnane's close relationship with some of these persons is the fact that in 1938 Mannheimer carried a securities account for Murnane in excess of $185,000 under an arrangement whereby Murnane received the profits and Mannheimer bore the losses. This account was closed out in 1939 when Mendelssohn failed.

The international flavor of Murnane's personal contacts is reflected in his business connections. For instance, he is the voting trustee for the foreign-owned shares of the American Bosch Corporation. Together with Eli Whitney Debevoise, a New York lawyer, and John C. Traphagen, a New York banker, he acts as voting trustee for 300,000 shares of common stock of the Solvay-American Corporation (all of the common stock outstanding), which is held for the benefit of Solvay et Cie. of Brussels. Solvay-American Corporation is an investment trust with a portfolio aggregating over $90,000,000. The principal asset of this portfolio consists of 500,000 shares of Allied Chemical and Dye stock having a value of over $76,000,000. Murnane is also one of the voting trustees holding all of the stock of the York Commercial Corporation, which has assets of about $2,000,000 in the United States. The York Commercial Corporation is associated with the Continentale Handelsbank, which is allied with the German Potash Syndicate. This stock is apparently held for the benefit of Ernest Frohnknecht, previously referred to above, a Dutch Jewish refugee banker, who states in a TFR-300 report that he is holding funds in the United States which he believes to be beneficially owned by Germans. As also indicated in a previous memorandum, Murnane claims to have recommended to the Wallenbergs that Batt be made the president of S.K.F. and also recommended Batt as a director of American Bosch.

These "voting trusts" are devices adopted by prominent financial interests in Europe in order to insulate their business operations against the effects of war. By transferring the "legal" control of their enterprises into American names, they have hoped to avoid being designated as "enemy" or "enemy controlled," thus escaping the restrictions against trading with the enemy and the possible seizure of their property. It is signifbant that Murnane has been very active in these operations.

A recent application filed with the Foreign Funds Control by the Finnish-American Trading Corporation, which is a Finnish Government organization, indicates that George Murnane is the president and director of the corporation and that he is continuing as president and as director "at the request of the Export-Import Bank of Washington, in view of the large interest of the United States Government as a creditor of Finnish-American Trading Corporation." In this connection, it is reported that Mr. Murnane is a friend of Jesse Jones.

MONNET, MURNANE AND COMPANY, NEW YORK

This partnership was formed in 1935 under an agreement which, up to December 31, 1940, provided that Monnet and Murnane divide the income equally between them. The partnership agreement was drawn up by Sullivan & Cromwell. The activities of the firm appear to consist primarily of giving financial and business advice to various clients, particularly with respect to relationships of their clients to the United States and foreign governments.

During 1940 the partnership's net income was $78,000, which was derived from 17 clients. Included in this income was $15,000 from the American Bosch Corporation. The rest of the income represented directors' fees paid to Murnane and income from service contracts with the partnership. The partnership's net income in 1941 was $110,000 derived from 22 clients. Participation in the partnership profits was changed so that beginning in 1941 Murnane received 75 percent and Monnet 25 percent.

When Mendelssohn failed in the summer of 1939, German Bosch was fearful lest the stock of American Bosch be sold by the New York Trust Company to competing interests. George Murnane and his partner, Jean Monnet, participated in negotiations to prevent the sale of the American Bosch stock to interests who would not be friendly to German Bosch.

MONNET AND MURNANE, LTD., HONGKONG

At the same time that the New York partnership was set up, Monnet and Murnane organized a Canadian company by the same name. Actually the capital in such Canadian firm was furnished by John Foster Dulles and W. N. Cromwell of the firm of Sullivan & Cromwell, who acquired the 1,000 shares of preferred stock for $100,000 against the 2,000 common shares owned by Monnet, Murnane with a value of $10,000. In August 1937, this company was liquidated and the interest of Dulles and Cromwell was extinguished. At the same time a new company, Monnet and Murnane, Ltd., Hongkong, was organized, all of the stock of which is divided equally between Monnet and Murnane. This corporation was apparently set up to receive the fees paid in connection with transactions effected outside of the United States. For example, the $200,000 fee received by Monnet and Murnane in connection with the Petschek coal sale described below was paid to the Hongkong corporation. Viscount Strathallan, previously referred to in connection with Monnet, although working out of London, was on the payroll of Monnet and Murnane, Ltd., Hongkong.

It is interesting to note that while Monnet actually withdraws very little money from New York, he has "borrowed" substantial sums from the Hongkong company. In fact, the Hongkong corporation seems at present to be the real source of his funds. The Hongkong corporation has assets in the United States totaling about $70,000. We have no information concerning other assets of the corporation.

OPERATIONS OF MONNET AND MURNANE

A previous memorandum has discussed the operations of Monnet and Murnane in connection with the American Bosch deal.

Another interesting transaction engineered by Monnet and Murnane was the liquidation of the Petschek coal holdings in Germany. The Petschek family (Jewish) was one of the leading industrial families of Czechoslovakia, holding important coal, chemical, paper, and textile properties throughout central Europe. In 1937 the Petscheks became convinced of the necessity of liquidating certain valuable coal properties held by them in Germany. Viscount Strathallan, who was on the payroll of Monnet and Murnane, Ltd. of Hongkong, negotiated with important political and industrial interests in Germany. Strathallan, with the consent of Petschek, retained a Mr. Weisman who was a former assistant to Hjalmer Schacht, president of the Reichsbank, and the son of a former Prussian secretary of state. Through Weisman contact was made with a Mr. Flick, head of the Mittel Deutsche Steel Works. (A recent British intercept indicates that there is now a Weisman connected with Monnet, Murnane and Company who, in the autumn of 1940, was apparently interested in certain similar transactions.) As a result of these negotiations, the Petschek family received a purchase price of six and a quarter million dollars paid to them in the United States in 1938, despite the drastic regulations then in effect in Germany. For these services, Monnet and Murnane, Ltd., <u>Hongkong</u>, received a fee of $200,000.

It will be recalled that Viscount Strathallan, who participated actively in these negotiations, is the son of the Earl of Perth, who was head of the League of Nations at the time that

Monnet was deputy head. The Earl of Perth was subsequently British Ambassador to Italy.

* * * * * * * * * *

Certain phases of this investigation are still under way. Two leading members of the Petschek family are scheduled to appear at the Treasury Department on Wednesday, June 3, accompanied by counsel (Sullivan and Cromwell) to discuss pending applications. At such time we intend to inquire into their activities, particularly into the sale of the coal properties in Germany. We are also going to question Murnane in detail about his activities and the services he renders to the various clients from whom the partnership derives substantial fees.

JWP

E.H.F.L.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 3, 1942

TO Secretary Morgenthau

FROM Mr. Haas

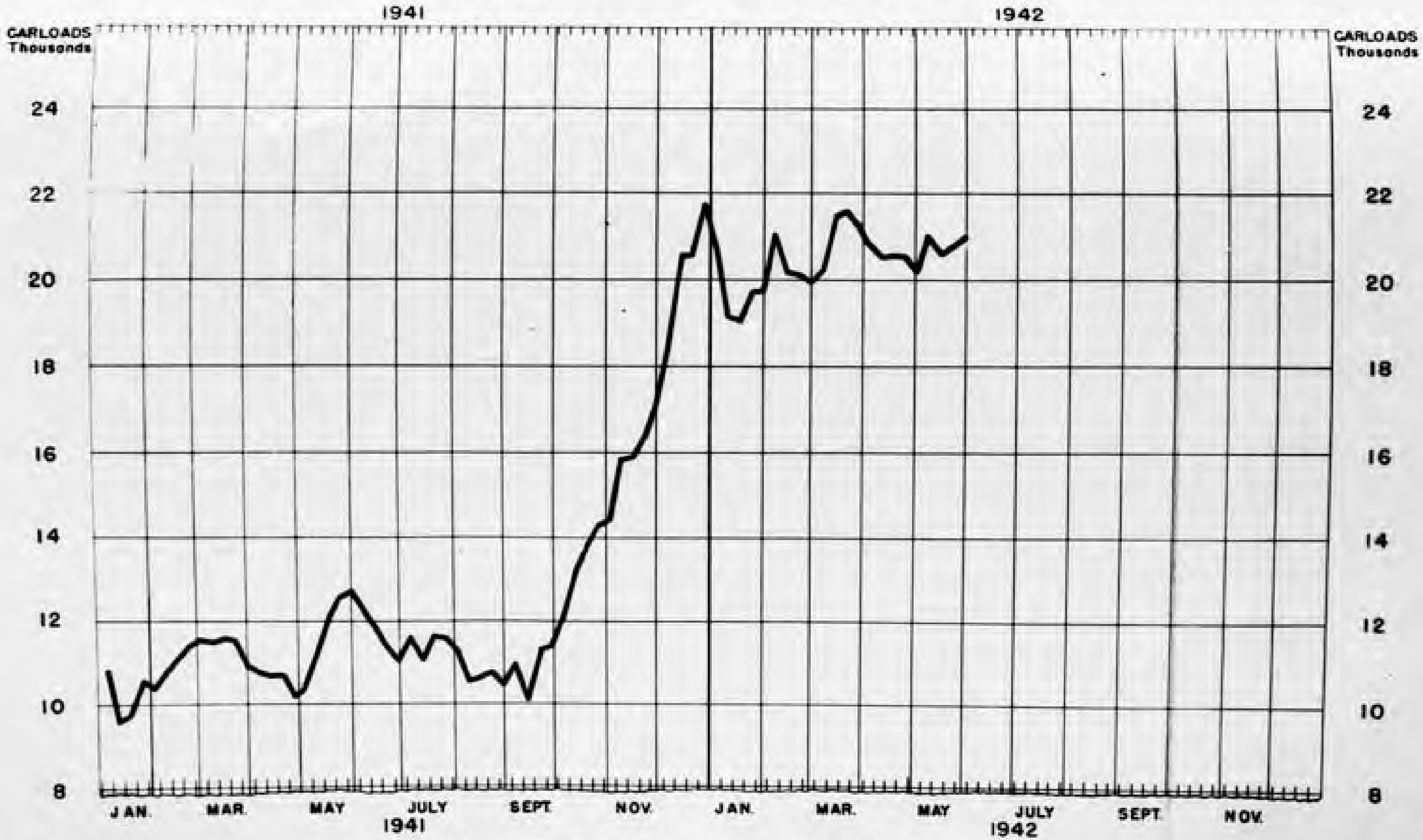
Subject: Export Freight Situation.

Lighterage freight in storage and on hand for unloading at New York increased last week by 146 cars to 20,992 cars. (See Chart 1.) The amount of rail storage space occupied at New York on June 1 was 14,555 carloads, and there was additional storage space available for 5,328 carloads.

Exports from New York decreased last week by 758 cars to 5,633 cars -- a drop of 12 percent. (See Chart 2, upper section.)

Receipts for export at New York also decreased. They fell from 6,626 cars to 5,764 cars -- a decrease of 13 percent. Receipts for export at 9 North Atlantic ports also dropped by 13 percent to 3,237 cars. However, receipts for export at 6 Pacific ports increased by 476 cars to 3,365 cars -- a gain of 16 percent over the previous week. (See Chart 2, lower section.)

LIGHTERAGE FREIGHT IN STORAGE AND ON HAND FOR UNLOADING IN NEW YORK HARBOR*



* *Largely export freight, but about 10% represents freight for local and coastal shipment. Figures exclude grain.*

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

C-303-D

Chart 1

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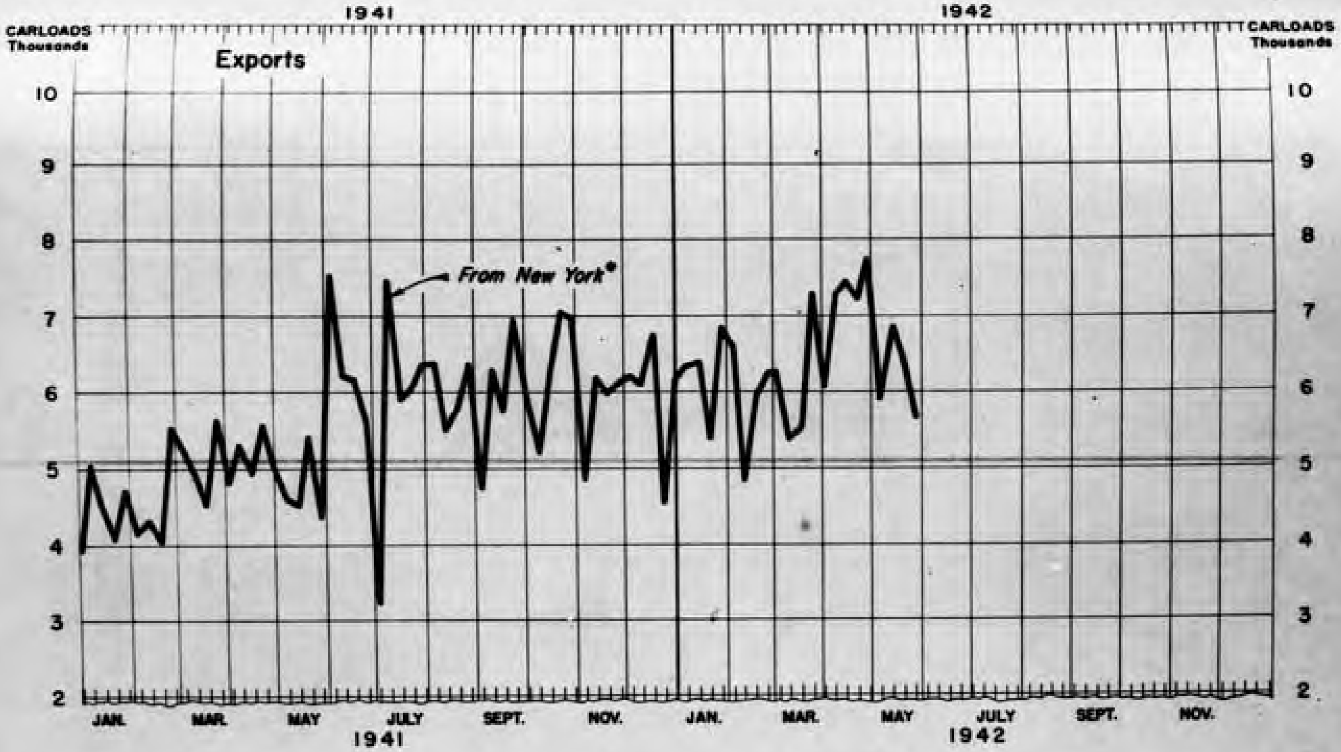
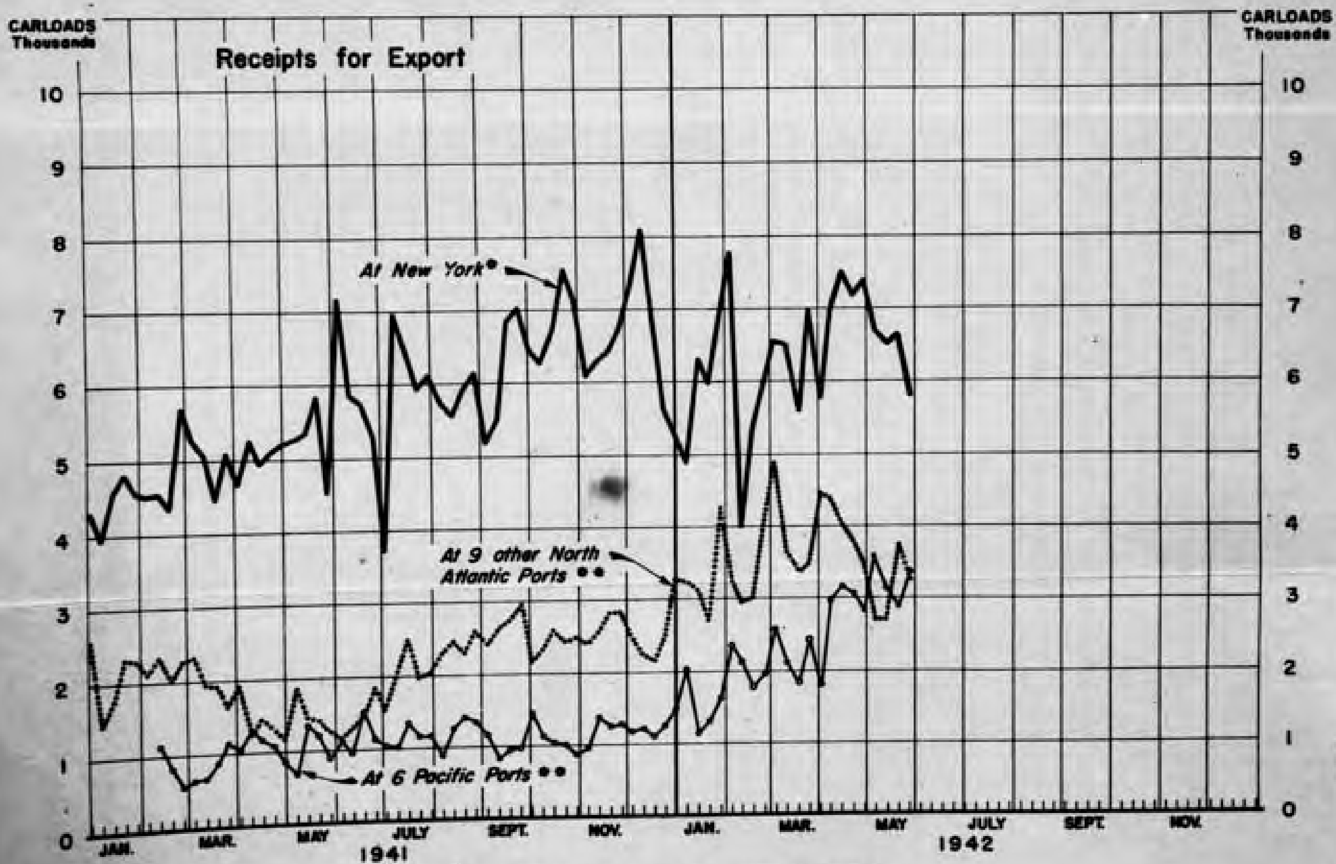
EXPORT FREIGHT MOVEMENT





* As estimated from data of general managers' association of New York.
** Association of American Railroads.

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

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Chart-2

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

Chungking

Dated June 3, 1942

Rec'd 12:25 p.m.

Secretary of State,

Washington.

655, June 3, 3 p.m.

FOR SECRETARY OF THE TREASURY FROM FOX: TF 43

One. In hour conference with Generalissimo on June 2 he expressed appreciation for American financial assistance to China as had Dr. Kung previously.

Two. Learn from Hsi Temou his trip to the United States indefinitely postponed.

GAUSS

EDA

C
O
P
Y

REQUIRED 13686

"(Prepared in compliance with State Department instructions of July 5, 1941, File 102.81/5004.-)

STRICTLY CONFIDENTIAL BACKGROUND REPORT

MEXICO

CONFIDENTIAL - VIA COURIER

STRICTLY CONFIDENTIAL

From: ______________________________
Lew B. Clark Senior Economic Analyst

Economic Unit, American Embassy, Mexico

Date of Completion: June 3, 1942

Date of Mailing: JUN 5 1942

Approved:

Thomas H. Lockett,
Commercial Attache

Copy:lc:6/19/42

EXCERPT FROM BACKGROUND REPORT - MEXICO

United States Paper Currency in Mexico

In connection with the ruling of the Treasury Department of the United States Government whereby "United States and foreign currency imported or otherwise brought into the United States on and after May 19, 1942, shall be deemed to be 'securities or evidences thereof' for the purposes of this general ruling," the Banco the Mexico, S. A. has obtained the following figures in order to learn the value of American paper currency held by Mexican banking institutions. The figures represent practically complete returns as of May 30, 1942:

Holdings of Banco de Mexico and its branches throughout Republic on May 30th.....	2,343,243 U. S. cy.
Holdings of other Mexican banks	351,988 U. S. cy.
	2,695,231 U. S. cy.

The manager of the Bank of Mexico does not think that holdings of dollar currency by exchange dealers constitute an important sum. He said, however, that Spanish Republican interests were estimated to have about another $1,000,000 U. S. currency in their possession in Mexico, which he thought his bank could buy in providing this would be agreeable, or that there would be no objection on the part of the United States Treasury Department.

The Bank of Mexico, in order to show its good faith and to cooperate with the United States Treasury in its effort to control the movement of dollar currency from Mexico into the United States, immediately upon receipt of notice of the Treasury's order, inaugurated precautionary measures of its own to restrict purchases or sales of United States dollars by all its offices and branches throughout Mexico. The manager states that the Banco de Mexico will only buy dollar currency from sources and in amounts which the bank can satisfy itself are legitimate, such as tourists and bona-fide merchants and business firms. On this basis the Bank of Mexico and its branches acquired during the period May 22 to May 30 (on balance) $60,585 U. S. currency.

The manager of the bank seemed somewhat dubious about the effectiveness of such control however, evidently because he felt that other banks might issue checks on banks in the United

States against purchases of dollar currency, which checks an undesirable medium might then in turn cash or have cashed in United States currency on the other side of the border.

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Copy: lc:6/19/42

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 186

Information received up to 7 A.M., 3rd June, 1942.

1. NAVAL

2nd. Photographic reconnaissance of GDYNIA showed battle cruiser GNEISENAU with one turret removed and two turrets under repair.

2. MILITARY

LIBYA. 1st. Mopping up operations carried out against isolated detachments of enemy around KNIGHTSBRIDGE. An attack on Free French North of BIR HAKEIM by mixed force of tanks and Italian Infantry was repulsed. A motorised column engaged enemy M.T. in same area.

3. AIR OPERATIONS

WESTERN FRONT. 1st/2nd. Attack on ESSEN area was made by 726 aircraft dropping 795 tons of incendiaries and 440 tons of H.E. Accurate identification of target was difficult owing to ground haze and cloud but many intensive fires were reported. Three enemy aircraft shot down.

2nd. Approximately 650 Spitfires carried out offensive operations over Northern FRANCE. Bostons successfully attacked DIEPPE. Hurricane bombers hit two ships of 5,000 tons off USHANT and 3 Mosquitos bombed ESSEN. A vessel of 3,000 tons near STAVANGER was also hit. Enemy lost 3 fighters destroyed, 3 probably destroyed and 8 damaged. Our losses were 8 Spitfires and 2 Hurricane bombers, 2 pilots safe.

2nd/3rd. Aircraft despatched ESSEN 195 (86 heavies), DIEPPE 6, sea mining 10, leaflets 4. 14 bombers (6 heavies) missing. Approximately 38 enemy aircraft were active over South East ENGLAND with main concentration in CANTERBURY area and two over Central LONDON. Results at CANTERBURY are not considered serious and casualties are expected to be few. In LONDON no damage or casualties caused. Four enemy aircraft destroyed, 1 probably destroyed and two damaged.

LIBYA. 1st. Operations seriously hampered by sand storms.

MALTA. 2nd. Spitfires destroyed 1 enemy aircraft, probably destroyed another and damaged four. One Spitfire missing, pilot safe.

MEDITERRANEAN. 1st/2nd. Albacores claimed two hits on a 7,000 ton vessel South West of SICILY.

4. INTELLIGENCE

Absence of invasion activity imposed by the situation in other theatres continues, except for long term projects such as extensions to BOULOGNE Harbour and construction of invasion craft. These meanwhile are being used for other purposes such as supplementing flak defences in channel ports and elsewhere.

Treasury Department 192
Office of the Secretary

Date..................................19

To: Mr Kuhn R 332

From: AMK

UNITED STATES GOVERNMENT
COORDINATOR OF INFORMATION
WASHINGTON, D. C.

SECRET

June 3, 1942

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

Dear Henry:

The attached is the Weekly British Home Intelligence Report for the period ending May 26.

Sincerely,

Bill

William J. Donovan.

SECRET
COORDINATOR OF INFORMATION

There is continued general state of optimism and confidence, due to the Russian successes, Churchill broadcast, and Leeds "top-of-ridge" speech, feeling that "all is not well inside Germany", and assurance of an ultimate continental invasion.

However there is impatience over Parliamentary war debate, dissatisfaction at the slackening air offensive, failure to sink the Prinz Eugene, anxiety over the coal situation and increasing strikes.

Eight regions report the belief that the war will end this year, that is Germany will be finished off, if not the Japs. This belief is not in every case confined to the minority and is parelleled by fear that complacency may produce a slackening of the war effort.

The Parliamentary war debate is generally thought a waste of time. The general public has "so thoroughly regained any confidence they may have previously lost in Churchill" that there seems more irritation with criticisms than anything else.

There continues to be decline in public interest in the Far East. There is almost no interest in Burma. There is growing anxiety over supplies for China.

The public generally welcomed the United States' firm stand on Martinique but there was some disappointment that the negotiations "ended in nothing more than demilitarization of warships" and the U.S. is still not understood though Swing's broadcast of May 16 "explained the position very clearly."

Cripps. Although his standing in Scotland is skyhigh, London region finds (a) big business growing suspicious of him and (b) workers wondering what game he is playing.

According to one report Cripps in the role of government spokesman is losing some popularity.

In two regions the appeal for longer working hours. brought the following response:

(a) Although office workers are prepared for longer hours, they express a strong feeling for a parallel announcement on overtime. "If some of the staff is dismissed, called up or not replaced and others work correspondingly longer, managements should not benefit by money saving."

(b) Some employers and Trade Unionists in the cotton industry are "strongly against measures where juveniles are concerned. Fatigue is believed damaging to production."

In widespread areas of one region growing antisemitism is reported, for boasts by yound Jews of evading callup, for rationing infringement and black market allegations.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 3, 1942.

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Summary of Military Reports.

Raid on Essen

On the night of June 1/2, the R.A.F. sent 1,036 planes out. 956 of these, including 310 heavy bombers, were directed to Essen; the remaining 80 planes attacked German airdromes in the Lowlands and France.

The same night, the Germans used 40 bombers to bomb targets in England. (This is about the average magnitude of the German "reprisal" raids.)

/U. K. Operations Report, June 2, 1942/

Russo-German War

(The following cautious analysis by British Military Intelligence is certainly one of the most optimistic reports on the immediate prospects of the Russians that I have yet seen from an authoritative source. British Military Intelligence has had an excellent record of accurate analysis in the Russo-German War to date.)

The Russian Kharkov attack threw off the German dispositions for starting a major offensive in the South. A major German offensive in the South in June is still, however, to be expected.

The Russian attack caught the Germans completely by surprise. They were forced to employ armored units which they had been saving for operations later. These units have now been reduced by casualties.

The German Air Force has now about 2,300 planes on the Russian front. (This is considerably under last summer's peak of around 3,500.) More than half of these are in the South. The German Air Force on the Russian front at its present strength is considered inadequate to meet large-scale attacks on a number of widely separated sectors.

In the Kerch Peninsula attack (an attack on a 15-mile front), the Germans used nearly all the available dive bombers and fighters they had in the East.

/U.K. Operations Report, May 21-28, 1942/

June 4, 1942
9:05 a.m.

Inventories

CAPITAL ISSUES CONTROL

Present: Secretary Jones
Mr. Henderson
Mr. Nelson
Mr. Eccles
Mr. Bell
Mr. Buffington
Mr. Ruml
Mr. Currie
Mr. Kuhn
Mr. Stewart
Mr. Purcell
Mr. Pike
Mr. Haas
Mr. McCormack

H.M.JR: We have been meeting informally with the SEC on capital issues. As a matter of fact, we haven't told the President, haven't bothered him. We have just gotten together and put before us in an informal manner the issues to come out before they come out.

In that discussion came up the question of inventory, what, if anything, we could do. I had lunch the other day with Mr. Nelson, and I mentioned to him the possibility through the financial channels of sending out word in an informal manner, if that was the thing to do, discouraging banks and insurance companies and other financial agencies from lending money to certain businesses who wish to accumulate inventories. You two gentlemen didn't want them to do it, and Mr. Ruml and I are working on something else, a little different angle on this thing. He is helping me on the question of spot purchasing.

So instead of considering whether we should let Macy's get out an issue or not - that is settled, I hope, successfully for you?

MR. RUML: For us, yes.

H.M.JR: That is the purpose. Now, I don't know who wants to lead off or whether somebody wants to state the inventory problem or what we think we can do. What do you think, Donald?

MR. NELSON: I can state our problem very simply on this question of inventory in a few words. We have, as you know, a rapidly-mounting war program, and along with that there will be a decreasing amount of--

(Mr. Stewart entered the conference.)

MR. NELSON: I started to state this, that, of course, as our war program mounts rapidly, the amount of material for goods begins to decrease for the civilian. Now, unless we get a flow of these goods through without undue accumulations anywhere, you are just going to have a major disturbance in the economy, because a lot of people, a few of the bigger concerns, will get the goods that are available, and a lot of the smaller companies will not be able to get them.

In the retail field we have been thinking about some method of controlling that. We haven't found the answer. We don't know what the answer is yet, but the problem is controlling the inventories in the retail field, to prevent the bigger concerns from taking all of the goods that are available and leaving the smaller ones without an adequate supply to carry on a business.

In the manufacturing field it is pretty much the same general sort of thing. We feel today that from the standpoint of the--

(Mr. Eccles entered the conference.)

MR. NELSON: We feel that this control of inventories in order to assure a proper flow of goods - I mean, we look at it from the standpoint of getting a flow of goods through the economy of what is available as being a very important thing.

Now, we try to control it through orders of one kind or another. This would be an additional help in controlling it, to control it from a monetary point of view, so that we feel that it is a very desirable thing to do.

H.M.JR: I haven't had a chance to talk to other members of this - for a better name, we call it a volunteer committee on capital issues, but could you, for instance, indicate which particular kind of businesses you would like the banks to tighten up on on their credit?

MR. NELSON: Well, particularly in the retail field. I think there is no question but what the retail field has to be tightened up - I think in practically every field where the material that goes into it is important from the standpoint of making other things. Now, I personally haven't been disturbed by the tobacco companies, although that may be a problem I don't know anything about.

H.M.JR: It only was a problem because they happened to borrow - American Tobacco - a lot of money with which to pay off the banks; they have been accumulating back inventories. In the discussion we raised the point: Does Agriculture want so much tobacco grown? If they do, do they want the people to borrow the money to stock up on it? I mean, that would be something, I would think, that Agriculture--

MR. NELSON: From our point of view, I am trying to indicate types of companies. We can get you a list very easily of the types of companies, just give you an informal list of the types of things that we are anxious to see under control. Now the companies making items for war - we have a method now of getting control on their inventory. We are sending out every quarter a form which they fill out, showing their inventory, what they have received, and what they expect to get. We want to get a tight control on their companies, even our own arsenals and Government manufacturing plants, in order to assure a steady flow, a stream, a movement of this inventory, and not allow it to be stagnant if as it stagnates it can only hurt the economy. I would say that was true in almost anything except the agricultural companies. Now that I know nothing about, companies making stuff that agriculture grows. I don't know about their problem.

H.M.JR: Do you want to say something on it before we get down to whether we can or cannot be helpful, Leon?

MR. HENDERSON: My thinking runs along somewhat Don's line. We are interested in the flow. I would like to underline what I think has gotten to be so much of a day-to-day thing with him that perhaps if it isn't mentioned, it might not - we are just as impressed with it, that is, that production that you can get now is worth three times as much as anything that we could get next year. The civilian economy is fat right now, and this is the time for our forbearances and forgoings, and we are at points in certain things--

(Secretary Jones entered the conference.)

H.M.JR: We are talking about inventories.

MR. HENDERSON: We are at a point now in several items where any brakes that we could put on the demand for production are well worth while. That is, we are decidedly limited in the totality of the military production by the limitation on certain metals.

You may have seen in the papers that Batt and Henderson, A. I. Henderson, yesterday were talking about something we have had to face in the last three months, and we faced it very, very reluctantly and unwillingly, because we would have liked to have seen many months ago expansion in copper and zinc, lead, steel, all those things. That is, the position that Mr. Nelson and I have taken on that is well known, and we were just right up against the point where we have seen for several months that we have got to just simply get rid of our ideas of expansion on steel and on copper. In other words, we have got to eat our seed corn right now.

Now fortunately, as far as the retail inventories are concerned, we are at a very good point. The fast-moving prices in the early part of the year, the thing which finally lead us to the over-all ceiling, I mean, were really compelling the accumulation of inventory by merchandisers who wanted to be on top of things.

Beginning the first of ~~the~~ year, the line of inventory in relationship to sales made a distinct jump, and the inventory got ahead. Now, we face - that is out of the picture as far as a stimulant to inventory accumulation, but we have got another one, which the larger stores and larger companies are aware of much more acutely than the smaller ones. Now, beginning with June 1 there is a termination of the actual manufacture of any consumer goods, and independent of any price consideration it will be a stimulus to the well-informed groups to over-accumulate the items that are tending to disappear. In my opinion, it would be well to take any steps we could to prevent that bad distribution of the remainings; from the standpoint of maintaining the economy in any kind of a balance, we would be better off not to have an excessive amount of inventory accumulation in those items.

On the general matter of retail inventory control, while we shared the general uneasiness about the little trial balloon that was sent up recently, and Don had to move in pretty strenuously to assure the entire trade that we had no such intentions - there has been no consideration at the eye level of strategy in WPB about that.

I don't think there is any doubt but what we are coming to some kind of a retail control. We favor that very decidedly, and in that, of course, I think control over finance and capital issues would be helpful. I have no great feeling, however, Henry, that you can get at it through the capital issues. I think that there are other ways, particularly in Marriner's bailiwick, of getting at it, which would be extremely helpful; and as far as the type of things that need to be restrained, I think what Marriner and our staff have been doing, that is, his staff, ours, and WPB's, on the type of things that ought to be particularly curtailed by the installment method, would give us a key, if you needed it, by items. I am not sure that you need to know by items exactly what you ought to restrain.

I am more inclined towards Don's general approach, that is, there will be some things in which it is a case of who owns it - tobacco, somebody is going to own it. Eventually the tobacco companies are going to have it if they go out and get it. At the present time that involves merely a shifting of dollars. I don't think that that is such a serious thing. Certainly the kind of a grabbing for inventory which induces production, and particularly induces violation of priorities and diversions and black markets is something we ought to curtail.

H.M.JR: Well, I was thinking of that more than I was thinking of installment buying. I mean, that is controlled by the retailer, so to speak, at the spigot, isn't it? I was thinking more about--

MR. HENDERSON: It is controlled by the regulation W, not X, the regulation W, as amended, and it is one of the most effective controls that we have been employing. I mean, the amount of reduction in credit and the prevention of any expansion on it that has taken place by reason of regulation W is really amazing. It is an instrument of control. I haven't talked to Marriner lately, but certainly as far as effectiveness, it has exceeded our guesses as to what it could do. Isn't that your--

MR. ECCLES: Yes, we estimate that this year at least one-third of the entire outstanding consumer credit, that is, all types of consumer credit, loans as well as open account and installment credit, will be paid, possibly three and a half billion dollars of contracts in the outstanding open installment and cash lending business.

Now, that is a real deflationary - will have a real deflationary effect so far as that field is concerned.

It is one way of making people pay their debts, and the effect it has, of course, upon the demand for merchandise is that the terms are less favorable. They are so unfavorable with reference to the requirement of the down payment, with reference to the requirement of the monthly payment, whether on the installment basis or whether on the open account basis, that a great many people are prevented from purchasing where otherwise they would purchase, so where you get at it is from the demand source, that is you reduce the demand for the goods because of the unfavorable credit.

MR. HENDERSON: What it has prevented in the way of expansion, that is, what would have been the normal expansion related to income, has been tremendous. We have got an effective working tool there which can be adjusted to the things which are not competitive to the war industry. We haven't done as good a job there as we can do when the smoke clears away out of these curtailments. We ought to be able to relax on some places to give us an expansion where it is non-competitive with the war industries.

(Mr. Kuhn entered the conference.)

H.M.JR: Marriner, the thing I would like to hear your expression on is this: Supposing installers want to go and stock up on some goods that they can buy, the chances are they go to the banks to borrow the money in order to buy this merchandise. The thing that I had in mind and I was groping for was this, that through your studies, contact on the inventory, and if either Nelson or Henderson would let us know, say, which kind of merchandise they didn't want people to stock up with, couldn't we, through either the Federal Reserve System or bank examiners send out word informally to the banks and to the insurance companies that the Administration would rather that no new loans be made for this particular kind of merchandise so people can stock up. That is what I had in mind. You see, it is the buying at the stores rather than the consumers--

(Mr. Haas entered the conference.)

MR. HENDERSON: I am saying that the information that we get, you are partly responsible - at least you will be held accountable at the bar of justice for regulation W, but that is one place where Marriner and I really got you, you see. We do the work. (Laughter)

H.M.JR: The only place? (Laughter.)

MR. HENDERSON: That is one place. But in the drafting of the schedules as to the percentage of limitations and installment credit curbs, we have supplied Marriner with the information as we have gotten it from the War Production Board of what the limitation orders on manufacture would be, and I am saying the same kind of information that we get there would be valuable on any restraint here.

H.M.JR: But, Leon, I am thinking a little bit differently. I believe what you are talking about is restriction of credit for the consumer. What I am talking about is can we do anything about the credit of the store who buys the goods.

MR. HENDERSON: It is the same thing.

H.M.JR: It isn't the same thing.

MR. HENDERSON: Yes.

H.M.JR: I don't think it is. I think there are two separate steps.

MR. NELSON: I think there are two separate steps.

MR. HENDERSON: Two separate steps, but they derive, in terms of regulation, from the same basic idea; they derive from the L orders, the limitation orders on manufacture, and the limitation orders are based upon what we have to conserve in the way of material.

MR. NELSON: That is right, Leon, but you get into the whole textile field, the furniture field - there are very few technical limitation orders, and you are going to have soon a tremendously big buying program in these textile lines for the Army and the Navy, between us. As that begins to create a shortage, you are going to have stores rushing in to buy, even though their present inventories are very high. Leon is right, as applied to the things that we put the limitation order on, because those are mostly the consumer durable goods or the luxury goods made out of the metal lines.

Now, they have been curtailed, and as of the first of June they are practically gone as far as original manufacturing is concerned, or opportunity to stock up, that will hurt the economy. Radios, bicycles, washing machines, phonographs, all of those things, are practically through as far as manufacturing is concerned - just cleaning up inventories. But you have got the great textile field, you have got the wood field, and the furniture field, which is going to get scarce, and is scarce now. In these woods, as we get into more and more manufacturing of wood planes - anything like spruce, we just haven't a third enough at the present time to supply the British and ourselves. Furniture is going to begin to get tighter. We have had to close down on mahogany because shipments and other things get tighter and tighter; as they begin seeing those, the forward-looking ones start rushing in to buy inventory. It is that sort of thing that will precede the other. That is what Leon is--

MR. HENDERSON: I am saying that what we have been doing as far as regulation W is that we are in the WPB and when we see something coming over the horizon that is going to be limited - even before it gets limited, our staff has been working with Marriner's in the way of drafting the additional restraint by way of the installment credit curbs. Now, as we see them coming in the soft goods field, the same mechanism would be available if we are giving information as to what the restraints on store credit should be.

MR. NELSON: That is the point. The W order won't catch things that I am talking about.

MR. PIKE: It furnishes you with the credit to buy those other things. In other words, this three and a half billion comes back to the stores, switches it from receivables to inventories. The only one who had to borrow money didn't have any receivables and had to increase his inventory. These fellows with long credit, squeezed down, throw it from long-term receivables into inventories.

MR. ECCLES: You can't get at it from a credit mechanism. I think that we are approaching it from the wrong angle. I think at least the extent to which you can get at it is very, very limited. There are a great many merchants that have cash of their own and don't have to use credit, and the ones who are the larger ones, the ones who are the best off, they either have the cash or they will get the cash from this restriction of installment credit, in a lot of instances reducing their open account and giving cash instead of accounts, or they may get private credit, get credit from friends, get credit from members of the firm. There are different ways of getting credit without going to the banks, or an individual may borrow from a bank on securities; and you can't follow the dollars somewhere else. It is impossible to earmark and follow those dollars. You can't say that because money is borrowed from a bank that that money is going to purchase these goods which you want to restrict the purchase of; they will use cash to purchase those goods and use the credit for something else.

H.M.JR: Can I interrupt you a minute? We were successful, for instance, in stopping a department store in Baltimore from borrowing a million or two million dollars every time we got out an issue, to get a free ride in Government bonds. Now, it took a little time, but here we found a department store which every time we got an issue, borrowed a couple of million dollars, bought Government bonds, got a free ride, and then sold out.

MR. ECCLES: But you could stop the department store by not accepting the subscription easier than you can stop these with the credit.

H.M.JR: I am just saying you don't know who is going to borrow the money to do what, but anyway--

MR. ECCLES: I was just going to say you may get at a few instances, but the little fellow that needs the credit, we will say, the one that doesn't have the cash, is usually the fellow that will make the most noise politically. They are not the big buyers, but they are scattered ~~over~~ the country, and they will claim that because they are small they are discriminated against, and this fellow that has got the cash, he can go in and buy. I think what you have got to do - I think you have got, to make this thing effective - you have got to get at it through allocation, the question of controlling the purchase by the institution in relationship to the business that they have been doing.

In other words, you have got to ration the short supply of goods to the merchant, rather than undertake to get at it through the rationing of credit, because where they don't use credit they have got money of their own. The only way you can restrict the demand for these limited supplies of goods is to ration the goods.

MR. NELSON: To answer Marriner, I am not worried about the small fellow buying; I would like to see him buy. It is to get - what I would like to see is the inventory control on the larger ones, so that there will be enough for the smaller ones.

H.M.JR: That is what you said at lunch.

MR. ECCLES: And you are going to let the smaller ones have credit?

MR. NELSON: Yes.

MR. ECCLES: How are you going to see who gets credit and who doesn't?

MR. NELSON: I don't think - I wouldn't like to see a real fine control. Now, you talk about rationing goods - that would take thousands and thousands of people, hundreds of thousands of people.

MR. ECCLES: Same thing on credit.

MR. NELSON: Not if you can roughly control large blocks of credit. All I am interested in seeing is the large blocks controlled.

MR. ECCLES: If it is a question of where there is capital issues by merchants and it is quite evident they are out to buy, or where large bank loans - where you get into the question of large bank loans for large merchants, you can get at that.

MR. NELSON: That is all I am talking about.

MR. ECCLES: I thought we were talking about a national credit.

H.M.JR: No, no. All I was saying was that there was a possibility - and God knows if these people don't need it as a stopgap until they could see this thing through - that all in twenty-four or forty-eight hours word could go out from the Federal Reserve and the Treasury to the banks and insurance companies on certain items, furniture, and so forth, and so on, that we want to discourage inventory. If it was seventy-five percent helpful, it would just help you gentlemen to that extent.

MR. NELSON: That is all just very rough.

H.M.JR: Excuse me. If it was a flop, you would be no worse off.

MR. NELSON: No worse off.

H.M.JR: If you people wanted us to do it, asked us to do something we could do over the week end, we could move that fast - you see what I mean, if it is something that you and Henderson wanted. That is all, not settling anything great, but just as a stopgap, Marriner.

MR. ECCLES: What I am afraid of is if you announce that credit on furniture and certain articles must be restricted, the first thing you know fellows with cash, everybody that can get hold of anything, runs to get furniture; the consumer runs to get furniture.

MR. PURCELL: He is going to do that anyway as you take up your credit installment; he is going to have more cash as the supply of goods gets less.

MR. ECCLES: Yes, but that is the effect, that it will start to tighten, but it isn't done in a panicky rush of buying which usually comes when there is a public announcement of action with reference to specific articles.

It seems to me that we could well get out, possibly, a letter to the banks that with reference to a policy we would like to see them adopt in the extension of credit to merchants and jobbers and to ask them to scrutinize closely existing loans and also any applications for new loans; and where the loans are being made to increase inventories, to purchase inventories, or to maintain excessive inventories, that these loans should be either refused or an effort should be made to collect them where they got excessive, put him under pressure.

Now, the idea is that examiners will be asked that whenever they come to the bank that they will give close scrutiny to the loans made to see whether or not the banks have cooperated with the Government in their credit policy. Now, that would have, I think, a wholesome general effect without trying to regiment the thing too tightly, which I think would take hundreds of people and would get you involved in detail regulations and a lot of trouble.

H.M.JR: That is all I had in mind.

MR. ECCLES: I think that sort of thing would possibly get at it.

MR. NELSON: Plus one other thing.

H.M.JR: That is what we were talking about.

MR. NELSON: Plus one other thing you suggested - I don't know enough about your mechanism - that the Government would discourage capital issues to bail out the banks where they had made loans against inventories.

H.M.JR: We would have to make the movement Marriner talks about first, and then after having made that move, it then would be fair within a reasonable time to say, "Well, you were put on notice, you were told not to do this thing. Now we are very sorry, we are not going to let you make this public issue to bail yourself out; you have had a month or two months' notice." But to say that tomorrow no retail store could offer public issues to bail out a bank when they had no previous notice wouldn't be fair.

MR. HENDERSON: I would like a little more than a month or two. There are enough forced sales right now.

H.M.JR: Well, I mean, Leon, you have got whatever time is necessary, but certainly the letter Marriner is talking about will have to come first.

MR. HENDERSON: Yes, like these private loans, no payment where you are doing that through the examination.

MR. ECCLES: Yes, that is what you would--

MR. HENDERSON: This matter you were talking about, I think that the real effective control will come when we simplify our inventory-control mechanism, and I feel encouraged after the last two or three days - Don, I don't know whether you have been in on it recently.

MR. NELSON: Yes, I have.

MR. HENDERSON: And also on this thing of allocation, Marriner, we probably will be coming back in sometime on the manufacture of limited volumes of simplified and standardized items, consumer items. Now, we will be able to make sure that you get a distribution of them, that is, so that they go to the outlets that they normally went to; on the whole range of merchandise, that is just impossible.

MR. ECCLES: I think that credit to the manufacturer to hold items is all right. For instance, you are going to have the canners, a big stock, all kinds of food processors, and there are going to be large inventories in the hands of manufacturers for which credit should be furnished, and there should be no objection to supplying whatever credit a manufacturer might want to hold consumer goods. It seems to me--

MR. PURCELL: Is that true in all fields?

MR. ECCLES: I can't think of one that isn't true because the prices are controlled on those goods, and what you want to get at is not letting certain retailers gobble up all the supply of consumer goods in the hands of the manufacturers. The difficulty is that the inventories are not in the hands of the manufacturers because certain retailers have tended to build up, or are tending to build up, excessive inventories so that they are in the hands of the retailers and not in the hands of the manufacturers. It would be much better if the inventories were in the hands of the manufacturers, then they could be distributed, so I would think in the question of credit you would want to be very careful not to so restrict your manufacturer that you may even curtail his production. That is one point.

I would think if you are going to cover this credit thing in a general way, you had better confine it to the accumulation of inventories by the retailers and the jobbers, and keep out of the manufacturing end of the thing, or you are going to get it, possibly, very confused.

MR. PURCELL: Might I ask a question of Mr. Nelson on that point? In the textile and furniture fields that you have used as an example, Mr. Nelson, would you want bank credit or financing through public channels to go unwatched or unrestricted in those fields where the manufacturer might accumulate an inventory of goods which he would go ahead and process in a fashion which would not be consistent with your desires?

MR. NELSON: Well, of course that is a hard question to answer, certain ones yes and others no. About the holding of goods, we want to see an orderly liquidation, not a panicky one. It should be orderly and should come down - we want to find a mechanism to bring it down in an orderly fashion and not have people dump goods because that will waste them. If forced sales go on, the goods are dumped, and a lot of goods are wasted. In other words, a lot of people buy, attracted by the price, that don't need it, just buy it to be buying. In certain fields we want the manufacturer to produce what he can because we prevent him at the limitation of his material, so that whenever he can produce something out of practically nothing today, we want him to do it.

MR. ECCLES: You don't want to curtail the credit with, it seems to me, so much the manufacturer because, as Don says, he is restricted on the allocation.

MR. PURCELL: Except in fields where he isn't restricted.

MR. ECCLES: In fields where there is a supply you don't want to restrict him; let him use the credit. Where there is a shortage of goods you allocate, which restricts it; you do it by credit. Where there isn't a shortage, let him produce all he can. I don't think you want to restrict production in any aspect of this thing by the use of credit, which is a very different field than the hoarding of inventories in the hands of the retailers.

H.M.JR: That is all you and I are talking about.

MR. NELSON: That is right.

H.M.JR: Can I just ask Dean Ruml--

MR. RUML: Well, I have a number of mixed impressions. I think that Marriner's general suggestion is a good one. There is a terrific inducement on the part of people who have good credit today to borrow because it is a very inexpensive operation, everything taken into account; and accordingly it does seem to me that just to make - so that the public, so that everyone will feel that there has been a fair deal all around that there should be some measures taken which Marriner speaks of. I think there is a very important statistical illusion in this thing, which I was referring to yesterday, namely, that the thing we tend to watch is a comparison of last year's inventories. The thing that is really happening is lengthening the period of your commitment, and it depends what period you are lengthening your commitment and what bases you are comparing, whether your percentage increase is going up or down.

Now, for example, at the present time you are extending your commitment into a heavy fall season, as against a spring season, which from this point on tends to go up in volume and accordingly the percentage increase will go up, even if your policy doesn't change absolutely.

MR. ECCLES: I don't think you make that clear, B. What you mean is that deliveries are so much slower now.

MR. RUML: They are very irregular now.

MR. ECCLES: That is right. Therefore, because of the slowness of deliveries--

MR. RUML: Here we have perhaps in Macy's a normal six weeks' average period of inventory. If we extend it to three months, we have doubled our inventory. If extended three months in the fall season and compared to a spring season in inventory, we perhaps have trebled our position as compared to a year ago, whereas another institution that has a normal three months' period, if they extended it another six weeks their increase is only fifty percent. There are a great many factors there that come up through the period of commitment that are quite independent of the price factor itself.

MR. NELSON: Yes, but those things are relative, B. They are always relative, relative as of any period of the year.

MR. ECCLES: Every concern is in the same boat.

MR. RUML: Yes, but it depends a great deal on how long or how short the normal period is, whether a fixed period of extension has a large percentage factor or small percentage factor; but the reason that I am attracted to Marriner's suggestion is that it gives a good deal of latitude in the first instance, at any rate, for the consideration of regional considerations and all the rest that are involved in this type of commitment. I also think that the problem of protection - I don't know whether you call it the small retailer - certainly for the man that doesn't have complete access to the markets it is to become more and more acute, and I think that the whole industry requires some sort of protection against that contingency.

H.M.JR: Just to get down to brass tacks, because I see you are going to step out--

MR. NELSON: Captain Lyttelton is coming over at ten, so I have to.

H.M.JR: Three minutes?

MR. NELSON: Yes.

H.M.JR: Such a letter as Eccles suggests going out, you think - talking now from the standpoint of the retailer, do you think it would be in any way unfair?

MR. RUML: No, I do not.

MR. NELSON: A very good thing.

MR. RUML: I definitely do not think it would be unfair.

H.M.JR: Unfair?

MR. RUML: No, I think it would be good. I think it would be good, because it--

MR. HENDERSON: It would be fair, because eventually we are going to impose some inventory controls, so this would put them on notice about it.

H.M.JR: Would you like to see the Federal Reserve do this sort of thing?

MR. NELSON: Yes, I would.

MR. HENDERSON: Yes.

H.M.JR: Jesse, do you want to express yourself?

MR. JONES: I don't know enough about it. I see no objection. If we are all in favor, certainly I have no objection.

H.M.JR: Well, could we leave it this way? Marriner, would you be willing - well, certainly the members of your committee, if we can have a look at it, plus these two gentlemen, (Nelson and Henderson) before it goes out, do you think it could go out over the week end?

MR. ECCLES: Well, I would like to think - of course, now under what authority - this is merely a letter of persuasion. I mean, it is no - you see, the regulation W is an executive order. When we put that into effect, it had some teeth in it. A letter of this sort could be sent to all of the member banks, which would include all the national banks and all the State member banks, which represents possibly eighty-five percent of the resources of all the banks; but we have no control whatever over the non-member banks, which in number make up more than half the banks in number, although in resources it is possibly fifteen percent.

H.M.JR: I think we could get the FDIC to take care of those.

MR. ECCLES: Yes. Well, let me think about this and discuss it as to the best means of putting it out, whether the Fed should put it out alone or whether we should put it out as a group letter, or how it should be done. I think if we do put it out we should be privileged to say that as a result of the conference with these people here in the discussion of this problem it was decided or requested that the Federal Reserve advise all of the banks, and we could advise the FDIC banks on that kind of a score. In other words, if we are sort of informally put in here as the agent, we will say, for this committee, to advise the banks, rather than simply do it on strictly a legal, formal basis--

MR. JONES: Not too dictatorial.

MR. ECCLES: No, it can't be dictatorial because we haven't any teeth in it. It has to be a question of persuasion, of asking for their cooperation in this thing.

MR. NELSON: I can send you a copy, Marriner, of the letter I wrote to the retail associations on this subject of inventory.

MR. ECCLES: I would like to have that.

MR. NELSON: I think you will see in that a basis for some sort of an action in this direction.

MR. HENDERSON: You and I, Don, both could write a letter to Marriner or the committee, which would be the basis on which you would make your advice. I think they should draft that.

MR. ECCLES: That would be fine if we could do that, then, as a request - as a result of a request of you and Don, Leon.