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Appointments for the Secretary
on financing, Wednesday, June 17

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9:00 Mr. Pope, First Boston Corporation
9:20 Mr. Garner, Vice President, Guaranty Trust
9:40 C. J. Devine, President, C. J. Devine and Co.
10:00 Mr. Mills and Mr. Repp, Discount Corporation
10:20 Mr. B. J. Levy, Solomon Brothers and Hutzler

June 17, 1942
10:44 a.m.

HMJr: Hello.

Operator: Sproul and Rouse.

HMJr: Hello.

Allan Sproul: Hello. Good morning.

HMJr: Good morning. How are you?

S: Fine.

HMJr: What's it look like to you this morning?

S: Well, it looks the same to me as it did yesterday.

HMJr: Well.....

S: I think the five-eighths of February first or fifteenth, with reference to the first on dating, is the first choice.

HMJr: For - you mean the first or fifteenth?

S: Either the first or the fifteenth, with the preference as to dating for the first.

HMJr: For the first.

S: Yeah.

HMJr: What do you base your preference on?

S: Well, that's on the - a more technical question that Mr. Rouse can answer better than I.

HMJr: All right.

Robert Rouse: Dan said yesterday that his idea was to - looking forward roughly to four issues, and having them November 1, February 1, May 1, and August 1, which make good sense to me and the - I think the market would rather like it, too.

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HMJr: Well, Dan just gets these ideas, you know.

R: (Laughs) But.....

HMJr: Dan says he dreams them.

R:as far as pricing is concerned, the first or the fifteenth doesn't make any difference.

HMJr: Yeah. It doesn't?

R: No. The market will take it well either way.

HMJr: Well, let me ask Dan why he felt that way yesterday.
(Talks aside to Mr. Bell)

Well, it's just Dan's orderly mind. He likes to always have it on the same date, you see.

R: (Laughs) His judgment's pretty good on that, I think.

HMJr: Yeah. You don't think that even February 15 would be too sweet?

R: I do not, no.

S: Nor do I.

HMJr: I see.

S: Either way, it looks like the value would be between three and four cents, that is, a little over a thirty-second.

HMJr: Yeah. Well, now, let me ask you this. This question now with me has great importance. Let's say we make it either February first or fifteenth, which doesn't make a hell of a lot of difference. Do you feel with the bill rate posted at three-eighths and now we come along with this, say, this issue that in three months- I mean, again we ought to be able to do the same thing at the same rate. I mean, will this stabilize the thing, that's what I'm getting at.

S: Well, I think this fits in with your - with the bill rate at three eighths, yes. Now.....

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- HMJr: You see - go ahead.
- S: Now, whether it's stabilized or not depends on what your future policy is with respect to rates.
- HMJr: Well, my men tell me that since we've talked and you stabilized at three-eighths, all the short-term stuff has gone up about an eighth in yield.
- S: Uh huh.
- HMJr: Now, between now and the next three months I don't want it to go up another eighth if I can help it.
- S: Well, I don't think the fixing of a five-eighths rate on this issue would cause that.
- HMJr: I mean the people wouldn't feel that this is a creeping rate in the certificates and we can expect to maybe get another eighth out of the Treasury three months from now.
- S: Well, I can't say that they wouldn't - wouldn't be some expectation of that, but I don't think this indicates that.....
- HMJr: Well, Allan, with you on the Open Market Committee, could I ask you - will you try to stabilize it for me now at this rate if I do this.
- S: If that's what you want, yes. My own view is, and I think you may know, that somewhat higher rates at short term would be preferable from the standpoint of breadth of the market; but if you want it stabilized here, we would try to do it, that's unquestioned.
- HMJr: Well, what I'd like to say, for instance, today, "Yes, I would like to have it done unless there's some new situation arises which I don't see at the present; and if something new comes up, why I'd like to sit down and talk to you about it."
- S: Well, that's what I would contemplate. We'd be discussing it with your people right along, and this - that question would be one of the things

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we'd be discussing; but until we come to some other understanding, that we would keep the rates as far as we can on this basis.

HMJr: Unless something new arises, and then I'm open to a discussion.

S: Yes.

HMJr: That's fair, isn't it?

S: Yes.

HMJr: I say that's fair, isn't it?

S: Yes.

HMJr: What?

S: Yes.

HMJr: Well, I'll.....

S: There's another item on it, Mr. Secretary. Taking the one half per cent certificates now outstanding - we're watching those rather closely with a view that when they become ninety day paper, that while the three-eighths won't publicly apply to them, we expect them to sell at about three eighths at ninety days.

HMJr: Yeah. Yeah. Well, that's all right. Well, I haven't talked to Eccles yet. I'll talk to him, and then either Dan or I'll call you back again.

S: All right.

HMJr: It will be within the next ten minutes.

S: Fine.

HMJr: That is, provided that Mr. Eccles will be through in ten minutes.

S: (Laughs)

R: Well, I think he's up on the Hill. I'm not sure.

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HMJr: Well, then I'll have to talk to whoever the second man is there. I don't know who it is.

S: Yeah.

HMJr: But between now and eleven you'll hear from us.

S: All right, fine.

HMJr: If you don't mind standing by.

S: Right. We'll be here.

HMJr: I thank you.

June 17, 1942
10:51 a.m.

HMJr: Hello.

Operator: Chairman Eccles is on the Hill. I have Miss Egbert, his secretary.

HMJr: Hello.

Miss Egbert: ~~Yes~~ Yes, sir.

HMJr: Miss Egbert.

E: Yes, sir.

HMJr: They say Mr. Eccles is on the Hill?

E: Yes. They started the hearings this morning on the banking amendment.

HMJr: Oh, yes. Well, now, who would - who can I talk to about this financing, because I've got to make up my mind in the next ten minutes.

E: Uh huh. Well, now, I - let me find out and have them call you back. I think it will be either Governor Evans or Governor Szymczak.

HMJr: Well, one or the other?

E: Yes.

HMJr: Will you do it right away, please.

E: All right, sir. I'll be glad to.

HMJr: Thank you.

June 17, 1942
10:56 a.m.

HMJr: Hello.

Operator: Mr. Szymczak calling you, Federal Reserve.

HMJr: Hello. Hello.

Mr. M. S. Szymczak: Hello, Mr. Secretary. Marriner's up on the Hill. This is Matt Szymczak.

HMJr: How are you?

S: All right.

HMJr: What was the last opinion of the Board as to what we should do on this certificate?

S: Five-eighths of one per cent, February 1.

HMJr: That's the last, huh?

S: That's right.

HMJr: I see. You haven't changed?

S: Not at all. In fact, I talked to Dave Kennedy this morning, and Allen Pope was here - Colonel Pope - and he just came over after he had had his talk with you.....

HMJr: Yeah.

S:and, of course, he's a little different. He's a little off on it. But we still, with all of our pencils and what-not, still think five-eighths of one per cent, February first, would take and be consistent with what certificates were gotten out the last time.

HMJr: Well - because the last part of the statement I don't think is quite.....

S: Well.....

HMJr:correct. I mean, because this is about an eighth more expensive to us.

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S: Well, that's right, but that was at six months, and this is more than six months.....

HMJr: Well.....

S:and short-term rates have firmed just a little since then.

HMJr: Now, the thing that I want to know from the Board, if I go along on this, do you think you fellows can hold the line at this point, that I won't have to pay another eighth in three months from now.

S: Well, that, of course, we're committed to so far as we're concerned in our open market operations.

HMJr: But I mean, that was on the bills.

S: That's right.

HMJr: But if - it's interesting to look at what's happened. Of course, our boys, you remember, wanted it at a quarter.

S: That's right.

HMJr: You fellows put it at three-eighths, and the whole short-term market has firmed up about an eighth.

S: That's right.

HMJr: Now, the thing - the only thing that's worrying me is if you fellows can hold the line where it is.

S: Yeah.

HMJr: Can you?

S: Well, I think we can. Of course, there's some talk, and that's what Marriner wanted to say to you yesterday and never did get around to it. There's some talk between Sproul and Marriner on the short-term rate. They wanted to talk to

- 3 -

you about that - the firming of the short-term rate - and I think, however, we can hold it at this point.

HMJr: Well, my God, you got eight hundred million bids on your bills. I don't know what more you want.

S: That's right.

HMJr: But from my - as I say, I don't want to go into this unless I feel that the Board's back of me on this.

S: All right.

HMJr: I mean as to rates.

S: That's right. The five-eighths of one per cent, you mean, on this particular certificate.

HMJr: Well, and at that level.

S: At that level.

HMJr: The whole short-term rate, I mean, you know.

S: Where it is at the present time.

HMJr: That's right.

S: Okay.

HMJr: Unless something unforeseen occurs, and then I'll sit down with you.

S: Okay. I'll talk to them again. In case there's a difference, we'll get in touch with you. When are you making your announcement?

HMJr: Well, we want to do it - well, we want to settle it now.

S: That's right.

HMJr: But I mean can we consider it settled between you and me?

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S: Yes, you can, and if there is any difference, I'll call you. So far as I'm concerned and the other Board members that were with you yesterday, that is so.

HMJr: Well.....

S: In case there's any difference, I'll call you.

HMJr: When?

S: Well, right away.

HMJr: All right.

S: You're going to make your statement this morning.

HMJr: Well, not a statement, but we've got to get the machinery going.

S: I see. Okay, I'll call you back in five minutes in case there's any difference.

HMJr: In five minutes.

S: Right.

HMJr: Attaboy.

S: Okay.

June 17, 1942
11:12 a.m.

HMJr: Yes.

Operator: All right.

HMJr: All right.

Operator: Go ahead.

HMJr: Hello.

Mr. M. S.
Szymczak: Hello, Mr. Secretary.

HMJr: Talking.

S: This is Matt Szymczak. It's as I told you.
There's no difference.

HMJr: All right.

S: I talked to Allen, and we're committed to this,
and we'll stand back of you a hundred per cent.
In case there's any difference later on, we'll
get together again.

HMJr: That's all I wanted to know.

S: That's right. We're a hundred per cent.

HMJr: Thank you.

S: Okay.

HMJr: Good-bye.

S: Good-bye.

June 17, 1942
11:13 a.m.

Operator: Operator.
HMJr: Mr. Bell.
Operator: Right. I think he's down in Kilby's office.
I'll try to get him.
HMJr: Get him.
Operator: Right.

June 17, 1942
11:14 a.m.

HMJr: Hello.
Operator: Mr. Bell.
Daniel
Bell: Yes.
HMJr: Dan.
B: Yes.
HMJr: Szymczak called me. He said he's back of us
a hundred per cent.
B: Swell.
HMJr: So will you let Sproul and Rouse know?
B: Yeah.
HMJr: They're waiting there, you know.
B: I'll call them right away.
HMJr: If you please.
B: Will you be ready pretty soon to sign some
telegrams?
HMJr: Well, I won't be ready for another hour. I'm

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going to rest a little bit. I'm very tired.

B: Could I let these go?

HMJr: Yes. Don't bother. You sign them.

B: All right. Then I'll get you to sign the circulars later on.

HMJr: You sign them.

B: Thank you.

June 17, 1942

Lord Halifax and Captain Oliver Lyttleton for lunch and I asked them who they were going to make head of the British Purchasing Mission. So they said they thought they were going to name Bob Brand. So I said, well, I wasn't so enthusiastic about that. Halifax said, "I have known him since 1903." Lyttleton said, "I have known him all my life, a man of sterling character," and so forth and so on.

So I said, "What are you going to do about Jean Monnet?" I said, "I am going to tell you about Jean Monnet" and I proceeded to tell about Jean Monnet and Murname. Lyttleton seemed very much disturbed. He said, "When I was in business I used Monnet myself." He said, "Monnet was always on the outer fringes of a lot of deals and when I found the Germans were getting into England in the metal business I wanted to buy up some of their shares." (I think he said through Switzerland, Metalgesellschaft.) He said, "I used Monnet to buy up these German shares." So I said, "Well, you know he gets all of his money from his firm and his firm up to very recently has been doing business with Germany and he gets no salary from the British." Well, that seemed to shock Halifax and he said, "I can't understand that." So I said, "Would you be interested in the reason Monnet gave for not wanting to receive a salary from the British?" and I told him that Monnet said that after the war he did not want anybody in France to criticize him for having accepted money from the British, and I said "That's kind of a hard reason to explain."

Well, I went on and told him the whole story about Monnet and how worried I was about him and, as far as I was concerned, if I had anything to do with it I would not have him around. Lyttleton seemed to get more and more bothered and asked me about Brand

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and I said, "Would you do one thing for me?" (This was after one hour's conversation.) I said, "Will you speak to Hopkins before you leave?" And then, to my amazement, he said, "Hopkins has told me how you feel about Brand. I know that. He says you are suspicious of him," and so forth and so on. "But," he says, "the embarrassing thing is," he says, "I am the same kind of fellow as Brand is. There is no difference between us. I am in the same situation Brand is." Which was certainly frank!

And Halifax spoke up and said, "Well, I think the first thing to find out is Brand still a member of Lazard Freres? Supposing we got him to resign, would you feel any differently?" I said, "I would only feel differently if you said he had severed connections, but if you forced him out I wouldn't, but if you say you know him I am not going to make an issue of it. All I say is if I were still handling British purchases I would not want to do business with him on account of his connections and these Lazard Freres people are very close and played around with the second man to Purvis (Bloch-Laine)." I said I could not think of the man's name, but Bloch-Laine, they all used to go to Frank Altschul's and they all knew what was going on. They were all very intimate.

Well, I evidently gave Lyttleton a very unpleasant hour. So he said it would be so embarrassing; might hurt their feelings. I said, "Well, as far as I am concerned, I am only interested in beating Mr. Hitler and I don't care who's feelings I hurt."

Then I said, "If you want to see my record on Monnet and Murname I would be glad to show it to Stopford." He said, "Could he have it and show it?" I said, "I have a lot of stuff that is confidential. I am going to let him read it. What he does with it, how he memorizes it or how he gets it, I don't want to know, just the way he gives me a lot of stuff that I don't know."

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According to Kuhn, Lyttleton is head of the tin trust in England and evidently a big business man and when I started talking about Brand, that the old connections are more important than the war effort.

I told them that Monnet was appointed through a letter of Mr. Churchill's here and that he was appointed head of the Allied Purchasing Commission in London through the offices of Ambassador Bullitt and I also told them that I warned Purvis when he came over here; that Purvis sort of shunned him for six months and at the end of six months he could not find anything against him.

Halifax said, "We have talked about this and it is Sir Frederick Phillips who has been most disturbed about it."

June 17, 1942
2:47 p.m.

HMJr: Madden.

John
Madden: Yes, sir. How are you, Mr. Secretary?

HMJr: Fine. I wanted to ask you how things were going.

M: I'm sorry, sir, I can't hear you.

HMJr: How are things going?

M: Things are going very satisfactorily, Mr. Secretary. We're naturally just in our first forty-eight hours. There's a certain amount of confusion to actually getting out the accurate accounting of what we have, so we're in the process of doing that very energetically now, and I think from now on we'll be able to move much more smoothly from a machinery standpoint. But the whole attitude is fine, and the returns coming in are most encouraging.

HMJr: They are? Tell me this, are your people selling - I mean do they - any F and G Bonds?

M: Well, what happens on the F and G's, Mr. Secretary, is this. We are only taking pledges, but we are going into districts where we have been receiving quite a number of people pledging up for in excess of \$5,000, which automatically puts them in the F and G class.

HMJr: I see.

M: We are laying those pledges aside, and will accumulate them. After the drive is over, we shall separate all of those pledges and turn them over to your F and G Committee, which is in the process of organization right now in town here, and I understand prepared to move.

HMJr: Oh, Mr. Madden, we can't afford to wait for that.

M: I agree with you, because right now with this

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avalanche of publicity and promotion that we have, the town is red hot, and that Committee should be moving very energetically, following right on our heels or with us.

HMJr: No, but I mean, we can't wait - I mean, where the pledge is for over five thousand, they ought to be turned over immediately to somebody. I've got - I have Ted Gamble here, and Coyne.....

M: Uh huh.

HMJr:in the office with me.

M: I understand, Mr. Secretary.

HMJr: And I'm going to tell them - I don't know - do you just put them, so to speak, in a drawer?

M: I beg your pardon?

HMJr: Do you put them in a drawer and lay them.....

M: No, not at all. You see we only have two days' returns coming in now, and we're separating them immediately, so we'll have a running day-by-day numbers of pledges of that character.

HMJr: But who picks up the ones that are over five thousand?

M: We do right here.

HMJr: And who follows them up?

M: Well, we will turn them over immediately to the F and G Committee.

HMJr: Yeah. Well, couldn't that be done daily?

M: We could do it daily, most certainly, Mr. Secretary. We'll simply separate them from our day's work, and lay them right aside.

HMJr: And then shove those over on the F and G Committee, and then we can hold them responsible.

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M: We can do that immediately, day by day, Mr. Secretary.

HMJr: Well, I wish you would.

M: Well, you may feel sure it'll be done just that way.

HMJr: Now, let me ask you this. On the pledges for the E Bonds, how rapidly are those followed up to be turned into sales?

M: Well, of course, you don't have any regular follow-up system to consummate the pledge, because they indicate that all of those pledges are going to be paid either weekly or monthly out of income.

HMJr: Yeah.

M: And where they designate a bank, we have the bank immediately send a card suggesting they drop in to consummate their pledge. Where they do not do that and it's on a payroll deduction plan they prefer, we send that pledge to their employer.

HMJr: I see.

M: Where they do not do that, and it's just left an open agency, we must depend on their character to follow through in their own way.

HMJr: Is this follow-up on the pledge - are you satisfied with the - who's responsibility is that?

M: Well, we have it now organized so that each one of the important banks around town have a batch of the postal card idea that I worked out some weeks ago.

HMJr: Yeah.

M: And as soon as these carbon copies come in of the pledges, we send them to the banks designated and within a day or two they immediately receive

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their first card suggesting that they come in and arrange for any details in connection with the fulfilment of their pledge. The machinery immediately sets in motion.

- HMJr: Well, has it been going long enough to know whether it really is - the banks or whoever's job it is to follow up, are they following up?
- M: Oh, yes. I can tell you, Mr. Secretary, that we've been perfectly amazed and encouraged by the large number of banks being designated. First we thought there might be some resistance, you know, because a great many of these people, particularly the poorer people, aren't used to dealing with the banks; but we find a great many of the people designating a bank, because I've been sending out special bulletins suggesting that they do designate banks.
- HMJr: Yeah.
- M: Because that makes a definite way of consummating a pledge.
- HMJr: Yeah.
- M: Gives a little more teeth than we ordinarily would have. And the plan is about ready now to start functioning. In other words, we needed about forty-eight hours to begin to unravel this thing and get the pledges and place them in the hands of the banks designated, which we will do and follow through with the card system, almost starting within a day.
- HMJr: Yeah.
- M: That's being followed carefully. The banks have been informed. They have cards, they're all printed, they're ready to go. That's in the works, Mr. Secretary, and will function.
- HMJr: I see. Now, as to the proportion, has it been going long enough for you to tell whether you will get the amount of money that we expect to get from New York out of this thing?

- 5 -

- M: Well, Mr. Secretary, of course, money-wise, it's going to be extremely difficult to tell, because the house-to-house canvass is only one phase of it.
- HMJr: Yeah.
- M: The combination as I see it, looking at it very analytically and cold-bloodedly will be the combination of the three. Our big money will come from number one, our payroll deduction plan; number two, from our F and G Bonds. Now, I've always maintained that that payroll deduction plan is a potential gold mine in an increase of either fifty to seventy-five per cent.....
- HMJr: Yeah.
- M:because most people, when they joined up on that plan, took the minimum rather than the maximum of what they could do.
- HMJr: Yeah.
- M: Now, right there is a terrific income that I don't think as yet has been harnessed.
- HMJr: Yeah.
- M: Number two, and this, of course, is in somebody else's territory - meaning the F and G Committee - I feel that with your lawyers' group, with your commercial banking group, and with your investment banking group properly organized and harnessed, you have a terrific potentiality. That's all part of this plan. What we're doing now here in this house-to-house canvass is actually setting the stage saturating the public with a receptive attitude, and we should immediately follow through in both of the other avenues while the thing is red hot.
- HMJr: Well, as far as your publicity goes, I've been reading the New York papers, I think it's wonderful.
- M: I'm glad you like it, Mr. Secretary.

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HMJr: And I congratulate you. I think it's the best publicity we've had yet.

M: Well, that's fine.

HMJr: But I've just been worried as to the details. After all, if - from my standpoint, it's the sales that count.

M: Exactly so. I'm very conscious of the fact that we're after dollars.

HMJr: Yeah.

M: Very conscious of that.

HMJr: Well, I'm going to talk this over a little bit with my people here, and I may send one or two of them up there to get a little bit closer to this situation.

M: Well, Ted mentioned something about the possibility of coming up, and I hope he does, because I can give him a little more intimate picture and I think it will be gratifying to you.

HMJr: Well, I'm.....

M: But there are certain things that need to be done to follow through, particularly from the payroll deduction end of it and the F and G end, while the stage is all set.

HMJr: Well, I'm going to urge him to go up.

M: I should recommend that strongly, Mr. Secretary.

HMJr: All right. Well, thank you, and as I say, from what I get from the newspapers, you seem to be doing a very fine job.

M: Well, thank you so very much, and feel sure that every stone will be turned to make sure we get every dollar.

HMJr: Right.

M: Thank you, sir.

HMJr: Thank you.

June 17, 1942
2:56 p.m.

HMJr: Hello.

Harriet Elliott: Hello, this is Miss Elliott.

HMJr: How are you?

E: Very well, thank you.

HMJr: This is Mr. Morgenthau.

E: Yes, Mr. Secretary.

HMJr: Miss Elliott, Mr. Odegard left town last night, and he asked me whether I wouldn't call you, and I wanted to talk to you anyway. And, that is about your coming up here to help us out on this

E: Yes.

HMJr: War Bond Drive. And, he had a talk yesterday with Dr. Graham.

E: Yes?

HMJr: And, while I'm getting this second hand, I got this feeling that if you really wanted to come - hello?

E: Yes.

HMJr: it was entirely agreeable to Dr. Graham.

E: Yes.

HMJr: Now, so it sort of puts the burden on you. Hello?

E: Yes.

HMJr: But he said - I gathered that if you would ask Dr. Graham for permission to come, it would be granted, and I for myself from the little contact that I had with you when you were up here, I'm extremely anxious to have you come.

E: Well, I appreciate that very much, Mr. Secretary. The - I don't know whether Mr. Odegard told you about the letter I wrote to him, or not?

- 2 -

HMJr: He ah - yes, he did.

E: I sent a copy of that letter to Mrs. Morgenthau, because I knew she had discussed this with him.

HMJr: She's out of town.

E: Oh yes.

HMJr: But she's going to be in town here Friday.

E: Yes.

HMJr: In this letter, I mean, is it - is the matter closed I mean, about your coming?

E: Well, no - not - certainly not after what Dr. Graham has said. Oh, when I came back from Washington Friday, I talked on Saturday to the Comptroller of the University

HMJr: Yes.

E: who does a great deal of Mr. Graham's work ...

HMJr: Yes.

E: and to Dean Jackson, the head of this College here and our own Comptroller, and they felt that I shouldn't go into something for an indefinite period of time

HMJr: Yeah.

E: that, it probably was unwise for me to do that.

HMJr: Yeah.

E: Well, I felt that to go up there and start this, and get an organization going, and so on, and then turn it over to someone else wasn't fair - to the work?

HMJr: Well, now why don't you do this? If there's a chance of getting you, you see - hello?

E: Yes.

HMJr: I'd like to have you come up Friday - hello?

E: Yes.

- 3 -

HMJr: And Mrs. Morgenthau's going to be here Friday

E: Yes.

HMJr: and Odegard will be here Friday....

E: Yes.

HMJr: and I thought we might all get together on it.

E: Well, I'll be very - it isn't - I want to do Mr. Secretary, anything on earth that I can

HMJr: Yes.

E: but, that was my feeling about it, that if it were an indefinite - if I could just cut loose here, and put somebody else in this office, and go into this for the duration, and put the thing through. And yet, the officials here on the campus felt that I shouldn't do that.

HMJr: Yeah.

E: That is, go into it for the duration.

HMJr: Well, Miss Elliott, could you - could you come up Friday, and come in and see us on Friday morning, and have a talk with us?

E: Yes, I could.

HMJr: Could you come in and then if you'd ask for Odegard in the first instance, and then Mrs. Morgenthau will be here too, and we could all sit down and talk it over.

E: All right, I'll do that.

HMJr: Will you do that?

E: Yes.

HMJr: That'll be fine.

E: All right, then about ten o'clock Friday morning?

HMJr: I'll tell - I'll leave word for Odegard ten o'clock Friday morning.

E: All right, I'll do that.

- 4 -

HMJr: Right.
E: Thank you.
HMJr: Thank you.

3rd floor meeting with pay 6/17/42
to present check to buy a bomber

61171 FL
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MEMORANDUM for SECRETARY OF THE TREASURY MORGENTHAU:

Mr. A. F. Whitney is President of the Brotherhood of Railroad Trainmen, with headquarters at Cleveland, Ohio.

The Brotherhood of Railroad Trainmen comprises nearly 180,000 members, and is an international organization representing men in yard and train service in the United States and Canada.

The organization consists of nearly 1000 local lodges, representing trainmen on every division of every railroad in the United States and Canada.

The check represents money voluntarily contributed by the members of the Brotherhood of Railroad Trainmen. They would like to have it used toward the purchase of a bomber, which they hope will blast Tokio or Berlin, or "sprinkle iron daisies" on the man that everybody hates.

You will be interested to know that the Brotherhood of Railroad Trainmen has already invested more than \$17,000,000 in Government securities, and that a Million Dollars, which ordinarily is used to defray the expenses of the international Convention, will be used to purchase War Bonds.

The international Convention, scheduled to take place in 1943, has been called off by a vote of the membership that will exceed 90%, and the 1000 railroad men, who ordinarily would attend the international Convention as delegates, will remain on the job because of the war.

As you know, the railroads are doing a superb job, and railroad workers are at work day and night, Sundays and holidays included, acting as the vital connecting link in the transportation of troops, ammunition and supplies from our industrial arsenals to the battlefronts throughout the world.

Walter J. Munro

Washington, D. C.
June 15, 1942

Brotherhood of Railroad Trainmen
Cleveland, Ohio

FOR RELEASE
3:00 P.M., Wednesday, June 17, 1942

TRAINMEN PRESENT WARPLANE
TO U. S. GOVERNMENT

Morgenthau Receives \$71,862.25 Check
From Whitney, B.R.T. President

WASHINGTON, D.C.—A. F. Whitney, President of the Brotherhood of Railroad Trainmen, today presented Secretary of the Treasury Henry Morgenthau, Jr., with a check in the amount of \$71,862.25, for the purchase of a warplane to be known as the "Iron Eagle".

The money is a contribution from the members of the Brotherhood, its Ladies Auxiliary, and friends of both organizations.

In presenting the check, Mr. Whitney said:

"This contribution is voluntarily and enthusiastically given to our country as a token of our deep feelings of loyalty to the cause for which the United Nations are now at war."

Accompanying the B.R.T. leader to the office of the Secretary of the Treasury were B. F. Eidson, of Lodge 779, Indianapolis, Ind.; Frank Wimp, of Lodge 564, Hoisington, Kans.; and W. F. Bertelsen, of Lodge 936, Bismarck, N.D., whose lodges made the highest average contributions per member—\$8.33, \$5.85, and \$5.45, respectively.

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June 17, 1942
5:00 p.m.

Fiorello
LaGuardia: Hello.

HMJr: Yes, hello.

L: Hello.

HMJr: Henry Morgenthau, Jr.

L: Hello, Henry.

HMJr: Yes.

L: How are you?

HMJr: I'm alive and kicking.

L: I saw your father today. He and I were enter-
taining royalty.

HMJr: Good.

L: Yeah, but now, look. Hell has broken loose
down here and I'm breaking it.

HMJr: Yeah.

L: Your people just flouted the law, and although
I had written that I had no authority to violate
the law, they dropped leaflets on this town
yesterday.

HMJr: Yeah.

L: And by gosh you can't have a department of the
Federal Government doing that. Now, I took it
up with the Army and took it up with the Navy.
Everything that they said that they got per-
mission they didn't, because the Army can't give
anyone permission to violate a State law; and
notwithstanding that they were told in writing,
they went ahead and did it. Now, I have to - I
have the disagreeable duty of arresting an Army
Captain. Can't you make your people behave?

HMJr: My people?

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L: Yeah.

HMJr: Why are they my people?

L: Treasury.

HMJr: Well, I mean, how do we get into it?

L: Well, your publicity man conceived this idea. I sent you a copy of his letter and explained that we just - I had no authority to give anybody permission to violate the law.

HMJr: Yeah.

L: And notwithstanding, they went ahead and did it. It was a bond thing.

HMJr: Yeah. And you're going to arrest the fellow?

L: Why, I'm going to arrest the Army officer, sure. I have to. I've got to maintain law and order in this town.

HMJr: Oh, for heaven's sake.

L: But, look, Henry. How can we tell who's dropping stuff? Are we going to go up there and find out first? The Army's going to surrender him.

HMJr: Oh, you can't do that.

L: Well, I can.

HMJr: Well, I mean, you.....

L: I've got to. I took an oath of office to enforce the law.

HMJr: Well.....

L: That's a hell of a thing to have done here. And they were told in writing that no one had authority to grant any permission to violate that law.

HMJr: Now, listen, what are you calling me up for?

- 3 -

L: Because they're your people.

HMJr: Why are they my people?

L: Get after them.

HMJr: What?

L: They're your people. This is going to be a long war. I want you to tell them that they've got to obey the law in New York.

HMJr: What kind of a statute is this?

L: What?

HMJr: What kind of a statute is this?

L: It's a local law, forbidding the dropping of leaflets over the city. It's a prison - and a fine. I'll send you a copy if you want.

HMJr: Well, now you're a good lawyer, how can you get - how can I get you to tell me to get around it?

L: Nobody could get around it.

HMJr: Well, I mean, they've done it. Now what can we do to - this poor fellow got his orders. Why must he be.....

L: He didn't get his orders from the Army, Henry.

HMJr: What?

L: He didn't get his orders from the Army, because the Army's quite put out about it.

HMJr: Well, who did he get his orders from?

L: From some of your people here. I think Robinson.

HMJr: Robinson?

L: Yeah, you'd better fire him. I think he - and

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then in addition to that.....

HMJr: Robinson. I don't know who.....

L: No, you wouldn't know him. How could you know all these tramps you've got around here? You've got some good people, and you've got some terrible ones, but so have I.

HMJr: But, Fiorello, why make this poor fellow suffer?

L: Well, because, gee whiz, after being told that it couldn't be done.....

HMJr: Well.....

L:they not only do it, but they run out to the press and give a release.

HMJr: What?

L: That they did it.

HMJr: Well, now, listen, let's argue a minute. There must be some way around it.

L: Well, I don't know.

HMJr: I'm not an attorney, but good God, don't let's let - you've been in the Army, and this fellow most likely thought he was doing me or somebody or his country a service. Now it's done, and most likely he's a damned good aviator, isn't he?

L: I don't know. I suppose he is.

HMJr: Oh, well, gosh. What was he - flying that Messerschmitt or something?

L: Yes.

HMJr: And you're going to arrest that fellow?

L: Sure.

HMJr: Oh, don't do that, Fiorello. Aw, don't do that.

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L: Well, what else can I do, Henry.

HMJr: Well, let's take a look at it.

L: All right. Take a look at it.

HMJr: Will you?

L: You take a look at it for twenty-four hours, and a statement ought to be made that this was an inadvertence and not intentional.

HMJr: Well, let us take the blame down here.

L: Well, somebody's got to take the blame, because I can't - I - listen, any time we see anybody dropping things from the air, the Army agrees with me, we've got to shoot at them; and we can't start any of that kind of monkey business. This may seem awfully strange to you, but every month we get a request from the Red Cross, from the Salvation Army, from Pepsi-Cola, from Coca-Cola, to do this, and do it for charity, and we have to protect this thing.

HMJr: Well, that - I - your position is correct.

L: All right.

HMJr: Now, but let's see if we can't wiggle out of it some way.

L: All right. You're pretty good at wiggling; but don't ask Biddle, because he's no good at wiggling.

HMJr: No, I'm not going to ask Biddle.

L: (Laughs)

HMJr: No, don't worry.

L: All right. Let me know.

HMJr: You don't know the Captain's name?

L: No. The Captain just did as he was requested, as I get it. I think Patterson knows all about it.

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HMJr: Bob Patterson knows all about it?
L: Not Bob - your Patterson, Richard.
HMJr: Richard Patterson.
L: Yeah. Or.....
HMJr: What?
L: Pope knows about it.
HMJr: But you don't know the Captain's - you haven't got somebody in your office that could tell me his name? I can hold on a minute.
L: No. I should know. I was talking to the Interceptor Command - is it Sweeney? I wouldn't remember, Henry.
HMJr: It's somebody from the Army.
L: What's that?
HMJr: Well, give me time to turn around on it.
L: Okay. Okay.
HMJr: Thank you.
L: Thanks.

June 17, 1942
5:10 p.m.

WAR BONDS

Present:

Mr. Kuhn
Mr. Foley
Mr. Gamble
Mrs. Klotz

H.M.JR: I finally said to Fiorello, "You can't do it." He said, "Yes, I can do it." Then he says, "O.K., you can have twenty-four hours on it." I have got to try to wiggle my way out of it. He says, "Don't go to the Attorney General."

MR. KUHN: On what?

H.M.JR: He is going to arrest this captain to make an example of him. It is a jail offense. I am going to forced savings. (Laughter)

MRS. KLOTZ: Don't say that on the record.

MR. KUHN: Who arrested him, Mr. Secretary?

H.M.JR: Fiorello said he was going to arrest him today, and he now gives Ed Foley and me twenty-four hours to get around it. We will have to say it is my fault or Dick Patterson's fault, or somebody's fault.

Of course he is right. He has violated a statute. He has got to defend the law. This was done over his protest.

MR. KUHN: He protested to us while you were away. I sent the protest to Patterson. I said, "Here is what the Mayor says. Please pass this on", and so on. Patterson wrote back a very cocky letter and said, "We

- 2 -

have already gone over the Mayor's head to the Army authorities, who are directed to do this, and they are doing it tomorrow. Fiorello must have had a bad breakfast when he wrote you that letter."

MRS. KLOTZ: So they knew about it?

H.M.JR: His record is clear. His tone of voice was nice with me. He was putting me on notice.

MR. KUHN: And I sent an acknowledgment to the Mayor, in your behalf, saying that you were obliged to him for having told you about it.

H.M.JR: I asked somebody - I came back from somewhere and saw, "Henry Morgenthau announces flight over New York of Messerschmitt." I said, "What about this thing?" It never was explained to me how it was done.

MR. GAMBLE: You have a memorandum from me on it.

H.M.JR: I will tell you - do you know who is the best fellow to handle this? Eddie Greenbaum for the Army because he is very close to the Mayor. Eddie was the go-between, you remember, in giving him that Federal building, and Eddie didn't take any fee, or wouldn't take any fee. Don't you think so?

MR. FOLEY: I don't know what it is, Mr. Secretary.

H.M.JR: Somebody - don't you get the New York paper - dropped a lot of Treasury leaflets over New York and broke a municipal statute, and now the poor captain who did this thing, flew this Messerschmitt plane--

MR. FOLEY: I saw the picture of the captain and the Messerschmitt plane.

H.M.JR: The Mayor said he is going to arrest him.

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MRS. KLOTZ: And Dick Patterson arranged this?

H.M.JR: He said, "That schlemiel Dick Patterson." He says, "You have got some lousy people and some good people, like I have." You don't know what "schlemiel" means, do you?

MR. GAMBLE: Yes.

H.M.JR: Some good and some bad. Oh, what a life! Do you know what put me in a good humor? This fellow trying to get me to sign a letter because the fellow slips and breaks his ankle - the Secretary of the Treasury should write him a letter.

MR. KUHN: That is right, an acrobat at Forbes Field in Pittsburgh.

MR. FOLEY: Ringing doorbells? (Laughter)

MR. KUHN: No, he appeared in this war heroes show, and they had a crowd of thirty thousand there. The poor fellow who donated his services slipped and broke his shoulder. He is laid up in the hospital for six weeks.

MRS. KLOTZ: The least he can do is send a letter. I agree with you definitely.

H.M.JR: These acrobats!

(Correspondence in the LaGuardia matter handed to the Secretary.)

H.M.JR: I can't let this poor captain go to jail.

MRS. KLOTZ: I think right now I would sort of enjoy it myself. (Laughter)

- 4 -

H.M.JR: He wanted somebody to make a martyr of. I will give this to my counsel.

MRS. KLOTZ: We are in trouble.

H.M.JR: Well, here is the letter of the Mayor turning them down.

MR. KUHN: Sure, and then Patterson has written a follow-up letter.

H.M.JR: Ed, do you think we should do it from here or just put the responsibility on Dick Patterson? Why should I do it?

MR. FOLEY: Well, if you leave the responsibility on Dick Patterson that may be a little rough on the captain, because if the Mayor thinks Dick is schlemiel, and probably does--

H.M.JR: The way he writes--

MR. KUHN: Well, the local administrators are--

H.M.JR: He is, and I picked him, too. I think the first effort should be made by Mr. Dick Patterson.

MR. KUHN: The local administrators do have the right now under Stimson's ruling to approach the local Army commanders for whatever they need, but they--

H.M.JR: They can't waive aside a municipal statute.

MR. FOLEY: Probably not. I mean, the statute is probably one of the regulations of the Civil Aeronautics Authority.

H.M.JR: They got the permission from Civil Aeronautics.

MRS. KLOTZ: Maybe Dick Patterson has the answer.

- 5 -

H.M.JR: Shall I call up Dick and find out?

MR. FOLEY: Yes, it won't do any harm. Get all the facts.

MRS. KLOTZ: He said he was leaving every single day at four-thirty and I was to be very tough on him to see that he gets out at four-thirty. I think I am falling down.

MR. KUHN: What is the Secretary going to do when we go to forced savings? What is going to fill his day?

MRS. KLOTZ: It is going to be wonderful.

MR. FOLEY: He will bother somebody else, don't worry, Ferdie. (Laughter)

H.M.JR: I don't have any time to bother anybody else.

MR. FOLEY: He has been neglecting me lately.

Well, let's find out. I think the first thing we want to do is to find out what this waiver constitutes that Dick claims he got and what ordinance or statute or regulation La Guardia claims was violated when they flew at some low height and dropped these leaflets.

H.M.JR: Have you got anybody we brought out of New York that knows New York at all?

MR. FOLEY: Yes, we have got a few.

H.M.JR: Besides yourself?

MR. FOLEY: Sure.

H.M.JR: Who?

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MR. FOLEY: Got a whole building full of them.

H.M.JR: What is what's-his-name doing these days? McConnell?

MR. FOLEY: Oh, Joe O'Connell.

H.M.JR: He came out of New York?

MR. FOLEY: Sure, he is a New Yorker, a New York lawyer. He is back there.

H.M.JR: Wouldn't he be a good man if we have to send somebody up to New York?

MR. FOLEY: Yes, he will be all right. A lot of my fellows knew him from the PWA days; he had a lot of contacts. Some know him too well.

H.M.JR: Wouldn't Joe be as good as any?

MR. FOLEY: Joe could handle this as well as anybody if it is necessary for somebody to go to New York. He is here today.

MR. KUHN: Was the Mayor sore?

H.M.JR: He was sore, but he was very nice with me.

MR. KUHN: He knew it wasn't any neglect on our part?

H.M.JR: He says, "I know you don't know about it, but you can't let your fellows bust the law." He is right if he is right, if you know what I mean.

MR. FOLEY: Sure, let's find out what he is talking about. You know he goes off half-cocked on a lot of things. He may be sore because he said this is ridiculous and wouldn't let them do it, and then they go ahead and do it.

- 7 -

MR. KUHN: Who would have done this job? Who is the head of publicity?

MR. GAMBLE: Peter Finney would probably have been in on this. Robinson was handling it directly for the pledge campaign.

MR. FOLEY: Why don't we get Robinson? I should think he would be the best to talk to, wherever he is.

MR. GAMBLE: Of course there is a good story in this. I think the Mayor--

H.M.JR: A bad story for the Mayor to arrest a captain.

MR. FOLEY: No, no, this is bad publicity.

MR. GAMBLE: I mean, I am thinking of the Mayor. I think our case should be that our people are wrong and probably should be disciplined for it, but in doing it he is going to get us in trouble with the Army and we don't like to see it. I think the Mayor was jockeyed into a bad spot.

H.M.JR: Well, if somebody up there will take the blame - he wants to say, "I am Mayor. You can't do that." These people have told us they were going over his head. Dick Patterson may have met him and kidded him and the Mayor said, "You can't", and he went ahead and did it.

MR. FOLEY: Sure. "Do you think you are Mayor of New York and the Army is running this town?" - personal peeve.

Why don't we get the whole story for you, Mr. Secretary, and then I will call you and we can decide what is the best thing to do.

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H.M.JR: Can I turn it over to you?

MR. FOLEY: Yes, and I will see what is involved here in the way of violation of the law.

(The Secretary held a telephone conversation with Mr. Nevil Ford, as follows:

June 17, 1942
5:24 p.m.

Nevil Ford: This is Nevil Ford speaking.

HMJr: All right. Mr. Ford, Mayor LaGuardia just called me up to inform me that he's going to arrest this Captain of the Army who flew those leaflets over New York.

F: Yes.

HMJr: Do you know anything about it?

F: Yes, I do, sir. Lester Stone, who's his secretary, as you know, perhaps.....

HMJr: Stone?

F:was up here about a half an hour ago, and Pope, Patterson and I were together discussing a lot of things.

HMJr: Yeah.

F: He said the Mayor was in a rage in his office, and that he was going to have this Army fellow arrested, and that he wanted to have whoever was concerned with it in Defense Savings immediately discharged and was generally raving. That's about the only way I can put it.

HMJr: Yeah.

F: Bayard explained as best he could to Stone what the circumstances were, and Stone went in and tried to explain it to the Mayor and came back ten minutes later and said, "I can't get anywhere with him. I think the best thing to do is for you to come down here, but don't tell the Mayor I suggested it. I don't want to get mixed up in this."

HMJr: Who should go down?

F: Pope and Patterson.

HMJr: Yeah.

- 2 -

F: So they're down there now. They left here about twenty minutes ago.....

HMJr: Oh.

F:and trying to explain it all. The Mayor is apparently completely unreasonable about it, and they're going to try and explain it as best they can. I don't know the circumstances. As far as we can ~~trace~~ trace them - and this is surmise somewhat, on Pope's part - the only thing we could think of that might have occurred, that somebody from the First Interceptor Squadron, I think it is, has charge of this, isn't it, or from LaGuardia Field might have called up the Pledge Campaign Headquarters and asked if all arrangements had been made with the City necessary for these people to fly over, and somebody must have said yes, because they've done it. Now, we're trying to trace that down.

HMJr: Well, of course, the Mayor wrote a letter where he turned you down.

F: That's correct.

HMJr: And then Dick Patterson wrote a letter and said, "Well, we'll just get it done anyway."

F: Well, I didn't realize that.

HMJr: Yeah, I have a letter here.

F: Uh huh.

HMJr: I have a letter here which Patterson wrote to Kuhn, in which he says, "We went over the Mayor's head....."

F: Uh huh.

HMJr:and the Army's doing it anyway."

F: Uh huh. Well, I didn't realize that, Mr. Morgenthau."

HMJr: Well, when Patterson gets back....."

- 3 -

F: Yeah.

HMJr:please tell him to call Mr. Edward Foley, Jr.

F: Edward Foley, Jr.

HMJr: My General Counsel.

F: Yeah.

HMJr: He's got all the correspondence.

F: Yeah.

HMJr: And the Mayor called me, and I got the Mayor to say he'd postpone doing anything for twenty-four hours.

F: I see.

HMJr: Until we had a chance to look into it.

F: Yeah.

HMJr: But we just cannot let him arrest this Army Captain.

F: Oh, of course, we can't. No, it would be terrible.

HMJr: And maybe somebody there shot off his mouth and said, "Well, we just went over the Mayor's head."

F: I don't think anybody has, though, of course, I don't know.

HMJr: Well, when Patterson gets back, let him call up Foley and.....

F: Where can he reach him, Mr. Morgenthau?

HMJr: Right here at the Treasury.

F: At the Treasury. Right.

HMJr: Yeah.

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F: Right.

HMJr: Yeah.

F: Mr. Morgenthau, this morning Pope told me, or Madden told me, that when you were talking with him, you were asking what was going on in the F and G Bond unit.

HMJr: Yeah.

F: If you want to know the story, I can give it to you. I've been on it all day.

HMJr: All right. Go ahead.

F: Well, as you know, we organized the unit here about a month ago.

HMJr: Yeah.

F: Now, we've got some two hundred and eight men out in - this is New York County alone I'm talking about - and we have other units through the state working on this thing.

HMJr: How many in New York County?

F: Two hundred and eight.

HMJr: Yeah.

F: And there are also some senior partners in some of the firms that are giving part time to it, like Walter Saks, for example. I'm not counting him in that.

HMJr: Yeah.

F: Yeah. Well, I had a meeting with them downtown this morning, at which I made clear to them, and I've told Allan Sproul all about this, what the responsibilities of the War Savings Staff are on F and G Bonds, and what the responsibilities of the Federal Reserve Banks are, and Victory Committee, and how they're going to help us on our G Bond work. I think I clarified all their minds

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on that, because there was some confusion. I then told them exactly what the problem was. I said, "You fellows are in this just as much as Nevil Ford or Bayard Pope or Dick Patterson are. You're members of the War Savings Staff. You're the heads of these units and these are your responsibilities. These are about twenty men - they're all seniors who are head of these various teams that are working. And I told them exactly what the quota was, how we'd arrived at it, and all of that; what the F and G Bond section of it was, and I said, on June 15, the figures we have here, half the month had gone by and we'd sold one-third of the quota.

HMJr: Yeah.

F: Now what are we going to do about it? I won't bore you with all the discussion. Out of it came a number of very constructive suggestions. We're meeting on Monday at their suggestion not only with these team captains, but they want to get the whole crew together, and I've arranged to get a room at the Bankers' Club and have them all there.

HMJr: Well, when are they going to begin to take orders?

F: They've been taking orders for the last two weeks, sir.

HMJr: Yeah.

F: But what they're finding is that - this is what we know, you know - that there are a backlog of orders here that we'll get on July 1. Most of the corporations we've seen are holding off until then for two reasons, largely. Firstly, many of them have bought their limit and say they will buy their limit again. Others say that until the tax bill is definitely determined, they just don't feel that they can buy. They want to buy, but they want to know where they stand before they can go to whatever extent they're going; so I think that when the tax bill is settled, as far as certainly New York City goes here, we'll get a considerable measure of corporate

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buying, provided they have anything left out of the tax bill.

HMJr: Well, you're going to have to wait a couple of months then.

F: Well, I'm afraid we may, on some of them, but we're doing our best to break them down and get them to at least buy part now.

HMJr: Well, I would say that was a most discouraging report.

F: (Laughs) Well, I don't feel discouraged about it at all. These fellows are making progress and we're getting - we've got - they have in their hands now lists of some fifteen thousand people or so that they're following up and calling on, and they are getting results.

HMJr: Well, the thing that.....

F: When I was talking to Tom, I suggested to him - I said, "There are two methods of doing this. We can do this the way we're trying to do it and have been, on an orderly manner, with assignments made to people to avoid overlapping and that sort of thing; or we could put on a prairie fire, as they did on the open market issue, call on that crowd for you, and just get everybody calling up right and left on the telephone." They agreed that would sell more bonds next week, but over a long-range period, it would do you more harm than good.

HMJr: Well.....

F: That was their feeling about it.

HMJr: Okay. So then you leave word that when Patterson gets back, he call up Mr. Foley.

F: Yeah, I will, Mr. Morgenthau.

HMJr: Thank you.

F: Right, sir. Good-bye.

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MR. GAMBLE: The point he was raising is that I asked him to send you a list of the people who had told them they would buy bonds on the first of July but who have the fifty thousand dollars' worth already.

H.M.JR: You two men (Kuhn and Gamble) can forget about this until Foley has this call. If they are down there the chances are it will most likely be settled.

June 17, 1942
5:39 p.m.

HMJr: Hello.

Operator: Colonel Greenbaum.

HMJr: Hello.

Edward S.
Greenbaum: Hello, Henry.

HMJr: How are you?

G: Okay. How's yourself?

HMJr: Pretty good. Eddie, your friend Fiorello just called me up.

G: Yeah.

HMJr: He's going to arrest the Captain of the Interceptor Squadron who flew over New York yesterday and dropped some Treasury leaflets.

G: Yeah.

HMJr: Well, it turns out that he wrote us a letter not to do it, to Dick Patterson in New York and they went ahead and did it anyway.

G: Yeah.

HMJr: Now, I told the Mayor, "You can't do this" - he said, "What do you mean I can't do this?" - so I said, "Well, you shouldn't do it." Well, it ended up by saying he'd give us twenty-four hours. See?

G: To do what?

HMJr: Well, to look into it.

G: Yeah.

HMJr: Now, we're looking into it. Foley's handling it for me, and I understand that Dick Patterson is now on his way down to see the Mayor, you see?

G: Yes.

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HMJr: But I thought that all these things take so long that you might want to start something from your end, and to find out by what authority General Drum did do it.

G: Well, it sounds as if by your authority.

HMJr: We have no authority. I've got no authority.

G: Well, then why does he get after you instead of after us?

HMJr: So that we won't do it again, and that I should fire the man in War Savings Bonds who urged him to do it.

G: Yeah. Well, this is somebody from the Interceptor?

HMJr: Yeah, it's some Captain. Now, if you think you'd rather leave it go

G: No, I can start moving on it, because if he's going wild.

HMJr: I just thought - Ed Foley's going to hear from Dick Patterson tonight.

G: Yeah.

HMJr: And if he hears that the Mayor's all right, I'll tell Ed to let you know.

G: Yes.

HMJr: But on the thing that he's going to go through with it, well, we've just got to stop him from arresting this Captain and making this poor Captain a goat.

G: Yeah.

HMJr: What?

G: Yes, I think so, too.

HMJr: And I just thought - all these things take so long, you know.

G: Yeah. So we'll get it moving right away and find out just on what authority Drum did act, if he did.

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HMJr: That's it.

G: Yes.

HMJr: And then the Mayor kind of calmed down. I think he wants some kind of an apology or something, you see. Well, if that's all he wants, I'm perfectly willing to.....

G: Are you in on a meeting with him here Friday with Herbert Lehman?

HMJr: I didn't know what it was about, so I'm sending John Sullivan.

G: Business for New York, and all that.

HMJr: Oh, is that what it is?

G: Yeah.

HMJr: Well, I haven't.....

G: I think it's a good thing to stay out of.

HMJr: I haven't got time for such meetings.

G: Yeah.

HMJr: But don't you think it's good to save a little time?

G: Yes. I'll start it here right away.

HMJr: Because it gets down to what statute it is, and I mean, if he's going to be bull-headed about it.

G: Yes. So we might as well be prepared and see what's what on it.

HMJr: That's right.

G: Okay, Henry.

HMJr: And then I'll tell Ed if he hears anything.

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tonight to let you know.

G: Okay.

HMJr: Thank you.

G: Henry.

HMJr: Yes.

G: Where are you? At the Treasury?

HMJr: Yeah.

G: If you want to stop in on the way home, we can give you some cocktails. Dotsy's having a birthday before the blackout. We tried to get Ellie and you last night, but Ellie's out of town. On the other hand, if you're tired and want to lie down, I'll excuse you.

HMJr: Is it Dotsy's birthday?

G: Yeah. But it's the end of a busy day, and you don't have to drop in.

HMJr: Gee. What time is she going to have this?

G: Around six o'clock, and some of our people are just dropping in before supper. Not for supper, because there's no blackout facilities.

HMJr: (Laughs)

G: (Laughs)

HMJr: Well, let me see how I get along.

G: Okay.

HMJr: Will you?

G: Swell.

HMJr: Thanks.

June 17, 1942

MEMORANDUM FOR THE SECRETARY'S DIARY

The Secretary told Ted Gamble, Ferdie Kuhn, and Ed Foley that Mayor LaGuardia called him, much upset, because War Savings Bonds leaflets had been dropped from a plane over New York City after he had refused to grant permission for the distribution of the leaflets. The Secretary said the Mayor was quite irate and was insisting that someone in the New York Division of the War Savings Bonds staff be disciplined. He spoke particularly of the pilot and said he was going to have him arrested. The Secretary argued with Mayor LaGuardia and asked the Mayor to give him twenty-four hours before the Mayor took any action.

Ed Foley went back to his office; called Dick Patterson on the telephone and learned that he and Mr. Pope had already gone to the Mayor. When they returned from Mayor LaGuardia's office they called Mr. Foley and told him that the Mayor was somewhat chastened by their visit and promised to drop the matter if some statement were issued by the New York War Bond staff to the effect that the matter was not to be considered as a precedent. The proposed statement which Mr. Patterson read to Mr. Foley is as follows:

"The dropping of leaflets on part of New York City is regretted by me and the entire committee. This was due in all likelihood to some one of the many enthusiastic members of the drive not familiar with the law prohibiting the dropping of leaflets on the city. We have explained this to the Mayor. Of course this will not be repeated and

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we want to make clear as the Mayor stated that it does not establish a precedent."

Mr. Foley told Patterson that he would speak to the Secretary and call him back. Mr. Foley telephoned the Secretary at his home and obtained approval to the proposed statement. Mr. Foley then telephoned Patterson and Patterson promised to have the statement mimeographed and distributed.

June 17, 1942.

Conference in Mr. White's office
June 17, 1942
4:15 P.M.

Present: Mr. White
Mr. Bewley
Mr. Hicks

Mr. Bewley called upon Mr. White to inform him of London's reply to Mr. Bewley's cablegram on R.K.O.'s request for the release of its funds blocked in Britain. Mr. Bewley read from the cable that he had received from London. This cable said that the film agreement had been made at the request of the United States Government and that the British Government did not feel that it should change that agreement without being so requested by the United States. However, the British Government was prepared to consider sympathetically an approach from R.K.O.'s London representative if the British Government could represent its action as being taken at the request of the United States and if the British Government could be given some assurance that granting the request of R.K.O. would not be taken as a precedent by the rest of the movie industry.

Mr. White said that he did not believe the Treasury would be willing to request the British Government to release R.K.O. funds. He stated that that was a matter between the British Treasury and R.K.O. Presentations had been made to the U. S. Treasury by R.K.O. that their financial situation was ~~not~~ very serious and the Treasury had made a sufficient examination of R.K.O. to assure itself that that was the case and that they therefore had asked the British Government to give R.K.O.'s case careful and sympathetic consideration. But, Mr. White said, he presumed that the British Treasury would go into the matter and satisfy itself as to the financial condition of R.K.O. Mr. White also said that a decision to release all or part of R.K.O.'s blocked funds would not, it seems, be inconsistent with the agreement which the British Government had made with the entire film industry. Mr. White told Mr. Bewley that the film industry had made representations to the Treasury with respect to their blocked funds and that the Treasury had taken the position that that was not a matter which could be appropriately be taken up by the Treasury Department and that the State Department had taken care of the negotiations in the film industry contracts of the British Government and that they were the appropriate Department to consider any modification of that arrangement.

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The R.K.O. case, however, was the case of a company in serious financial difficulties, and while its public relations character might give it some special attention, its case was considered by the Treasury because of its financial position. But, Mr. White went on, he would wish it to be clearly understood that the Treasury was not requesting the British Treasury to unblock the funds of R.K.O. That was a decision for the British Treasury to make. The United States Treasury was merely asking that they go into the matter with R.K.O. and hoped that they would give the case sympathetic consideration. Mr. Bewley said that he would inform London of the Treasury's position.

Mr. White replied that when the motion picture representative came to the Treasury it was said that the industry would not object to R.K.O. being given special consideration if the funds of the entire industry could not be unblocked. Mr. White at that time asked Mr. Schaefer to obtain from Mr. Hays a letter putting that assurance in writing. This letter has not yet been received. Mr. White said that he thought the British Government ought to continue its negotiations in the R.K.O. case, but asked that if the decision was to be favorable, before payment was to be consummated that he would appreciate it if Mr. Bewley would first inform Mr. White so that we would have an opportunity to ask them to delay if necessary until we got the promised letter. However, Mr. White also said that the letter was a matter between R.K.O. and the United States Treasury and that the British Treasury might wish to receive assurances on its own account from R.K.O. and that that would be a matter which naturally they would take up with R.K.O. themselves if they wished to secure such assurances.

Mr. Hicks asked Mr. Bewley whether the commitment reduction on the Savage and Remington Arms contracts shown in the June B.P.M. statement was in addition to that shown in the January statement. Mr. Bewley agreed to inquire.

J.E.Hicks

Calendar of Direct and Guaranteed Bonds and Notes 1/

June 1, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues 2/			
		Direct	Guaran- teed	First callable		Final maturities	
				Direct	Guaran- teed	Direct	Guaran- teed
1942-Jan.							
Feb.							
Mar.							
Apr.							
May							
June							
July							
July							
Aug.							
Sept.15	Note 2% -----	342					
Oct.15	RFC 7/8% -----		320(T)				
Nov. 1	Certificates 1/2% -----	1,507(T)					
Dec.15	Note 1-3/4% -----	232					
	Total	2,081	320				
1943-Jan.							
Feb.							
Mar.15	Note 3/4% -----	66(T)					
Apr.							
May 1	CCC 3/4% -----		289				
June15	Note 1-1/8% -----	629					
June15	Bond 3-3/8% (1943-47) -----			454			
July15	RFC 1-1/8% -----		324(T)				
Aug.							
Sept.15	Note 1% -----	279					
Oct.15	Bond 3-1/4% (1943-45) -----			1,401			
Nov.							
Dec.15	Note 1-1/8% -----	421					
	Total	1,395	613	1,855			
1944-Jan.							
Feb. 1	USHA 1-3/8% -----		114				
Mar.15	Note 1% -----	515					
Mar.15	FFMC 3-1/4% (1944-64) -----				95		
Apr.15	Bond 3-1/4% (1944-46) -----			1,519			
Apr.15	RFC 1% -----		571(T)				
May 1	HOLC 3% (1944-52) -----				779		
May 15	FFMC 3% (1944-49) -----				835		
June15	Note 3/4% -----	416					
July							
Aug.							
Sept.15	Note 1% -----	283					
Sept.15	Note 3/4% -----	635(T)					
Oct.							
Nov.							
Dec.15	Bond 4% (1944-54) -----			1,037			
	Total	1,849	685	2,556	1,709		
1945-Jan.							
Feb.15	CCC 1-1/8% -----		412(T)				
Mar.15	Note 3/4% -----	718					
Apr.							
May							
June 1	HOLC 1-1/2% (1945-47) -----				755		
July							
Aug.							
Sept.15	Bond 2-3/4% (1945-47) -----			1,214			
Oct.15	Bond 3-1/4% (1943-45) -----					1,401	
Nov.							
Dec.15	Bond 2-1/2% -----	541					
Dec.15	Note 3/4% -----	531(T)					
	Total	1,790	412	1,214	755	1,401	

T Taxable issue.

1/ Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders. Includes Certificates of indebtedness.

2/ Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds and Notes 1/

June 1, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues 2/			
		Direct	Guaranteed	First callable		Final maturities	
				Direct	Guaranteed	Direct	Guaranteed
1946-Jan. 1	Conversion 3% ———	16					
Feb.							
Mar. 15	Note 1% ———	503(T)					
Mar. 15	Bond 3-3/4% (1946-56)			489			
Apr. 15	Bond 3-1/4% (1944-46)					1,519	
May							
June 15	Bond 3% (1946-48)			1,036			
June 15	Bond 3-1/8% (1946-49)			819			
July							
Aug.							
Sept.							
Oct.							
Nov.							
Dec. 15	Note 1-1/2% ———	1,119(T)					
	Total	1,638		2,344		1,519	
1947-Jan. 1	Conversion 3% ———	13					
Feb.							
Mar.							
Apr.							
May							
June 1	HOLD 1-1/2% (1945-47)						755
June 15	Bond 3-3/8% (1943-47)					454	
July							
Aug.							
Sept. 15	Bond 2-3/4% (1945-47)						1,214
Oct. 15	Bond 4-1/4% (1947-52)			759			
Nov.							
Dec. 15	Bond 2% ———	701					
	Total	714		759		1,668	755
1948-Jan.							
Feb.							
Mar. 15	Bond 2% (1948-50)			1,115(T)			
Mar. 15	Bond 2-3/4% (1948-51)			1,223			
Apr.							
May							
June 15	Bond 3% (1946-48)						1,036
July							
Aug.							
Sept. 15	Bond 2-1/2% ———	451					
Oct.							
Nov.							
Dec. 15	Bond 2% (1948-50)			571			
	Total	451		2,909		1,036	
1949-Jan.							
Feb.							
Mar.							
Apr.							
May 15	FFMO 3% (1944-49)						835
June 15	Bond 3-1/8% (1946-49)					819	
June 15	Bond 2% (1949-51)			1,014(T)			
July							
Aug.							
Sept. 15	Bond 2% (1949-51)			1,292(T)			
Oct.							
Nov.							
Dec. 15	Bond 3-1/8% (1949-52)			491			
Dec. 15	Bond 2-1/2% (1949-53)			1,786			
	Total			4,583		819	835

T Taxable issue.

1/ Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders. Includes Certificates of indebtedness.

2/ Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds and Notes ^{1/}

June 1, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues ^{2/}			
		Direct	Guaranteed	First callable		Final maturities	
				Direct	Guaranteed	Direct	Guaranteed
1950-Jan. Feb. Mar.15 Apr. May June July Aug. Sept.15 Oct. Nov. Dec.15	Bond 2% (1948-50)					1,115(T)	
	Bond 2-1/2% (1950-52)			1,186			
	Bond 2% (1948-50)					571	
	Total			1,186		1,686	
1951-Jan. Feb. Mar.15 Apr. May June15 June15 July Aug. Sept.15 Sept.15 Oct. Nov. Dec.15 Dec.15	Bond 2-3/4% (1948-51)					1,223	
	Bond 2% (1949-51)					1,014(T)	
	Bond 2-3/4% (1951-54)			1,627			
	Bond 3% (1951-55)			755			
	Bond 2% (1949-51)					1,292(T)	
	Bond 2-1/4% (1951-53)			1,118			
	Bond 2% (1951-55)			510(T)			
	Total			4,010		3,529	
1952-Jan. Feb. Mar.15 Apr. May 1 June15 July Aug. Sept.15 Oct.15 Nov. Dec.15	Bond 2-1/2% (1952-54)			1,024(T)			
	HOLD 3% (1944-52)						779
	Bond 2-1/4% (1952-55)			1,501(T)			
	Bond 2-1/2% (1950-52)					1,186	
	Bond 4-1/4% (1947-52)					759	
	Bond 3-1/8% (1949-52)					491	
	Total			2,525		2,436	779
1953-Jan. Feb. Mar. Apr. May June15 July Aug. Sept. Oct. Nov. Dec.15 Dec.15	Bond 2% (1953-55)			725			
	Bond 2-1/2% (1949-53)					1,786	
	Bond 2-1/4% (1951-53)					1,118	
	Total			725		2,904	

^T Taxable issue.^{1/} Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders. Includes Certificates of indebtedness.^{2/} Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds and Notes 1/

June 1, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues 2/			
				First callable		Final maturities	
		Direct	Guaran- teed	Direct	Guaran- teed	Direct	Guaran- teed
1954-Jan. Feb. Mar.15 Apr. May June15 June15 July Aug. Sept. Oct. Nov. Dec.15	Bond 2-1/2% (1952-54)					1,024(T)	
	Bond 2-3/4% (1951-54)					1,627	
	Bond 2-1/4% (1954-56)			681			
	Bond 4% (1944-54)					1,037	
	Total			681		3,688	
1955-Jan. Feb. Mar.15 Apr. May June15 June15 July Aug. Sept.15 Oct. Nov. Dec.15	Bond 2-7/8% (1955-60)			2,611			
	Bond 2% (1953-55)					725	
	Bond 2-1/4% (1952-55)					1,501(T)	
	Bond 3% (1951-55)					755	
	Bond 2% (1951-55)					510(T)	
	Total			2,611		3,491	
1956-Jan. Feb. Mar.15 Mar.15 Apr. May June15 July Aug. Sept.15 Oct. Nov. Dec.	Bond 3-3/4% (1946-56)					489	
	Bond 2-1/2% (1956-58)			1,449(T)			
	Bond 2-1/4% (1954-56)					681	
	Bond 2-3/4% (1956-59)			982			
	Total			2,431		1,170	
1957-Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. Dec.							
	Total						

- 1/ Taxable issue. Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders. Includes Certificates of indebtedness.
- 2/ Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds and Notes 1/

June 1, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues 2/			
		Direct	Guaran- teed	First callable		Final maturities	
				Direct	Guaran- teed	Direct	Guaran- teed
1958-Jan. Feb. Mar.15 Apr. May June15 July Aug. Sept. Oct. Nov. Dec.	Bond 2-1/2% (1956-58)						1,449(T)
	Bond 2-3/4% (1958-63)			919			
	Total			919			1,449
1959-Jan. Feb. Mar. Apr. May June July Aug. Sept.15 Oct. Nov. Dec.	Bond 2-3/4% (1956-59)						982
	Total						982
1960-Jan. Feb. Mar.15 Apr. May June July Aug. Sept. Oct. Nov. Dec.15	Bond 2-7/8% (1955-60)						2,611
	Bond 2-3/4% (1960-65)			1,485			
	Total			1,485			2,611
1961-Jan. Feb. Mar. Apr. May June 1 July Aug. Sept. Oct. Nov. Dec.	Panama 3% _____		50				
	Total		50				

T Taxable issue.

1/ Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders. Includes Certificates of indebtedness.

2/ Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds and Notes 1/

June 1, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues 2/			
				First callable		Final maturities	
		Direct	Guaranteed	Direct	Guaranteed	Direct	Guaranteed
1962-Jan. Feb. Mar. Apr. May June 15 July Aug. Sept. Oct. Nov. Dec.	Bond 2-1/2% (1962-67)			882(T)			
	Total			882			
1963-Jan. Feb. Mar. Apr. May June 15 July Aug. Sept. Oct. Nov. Dec.	Bond 2-3/4% (1958-63)					919	
	Total					919	
1964-Jan. Feb. Mar. 15 Apr. May June July Aug. Sept. Oct. Nov. Dec.	FFMC 3-1/4% (1944-64)						95
	Total						95
1965-Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. Dec. 15	Bond 2-3/4% (1960-65)					1,485	
	Total					1,485	

T Taxable issue.

1/ Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders. Includes Certificates of indebtedness.

2/ Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds and Notes ^{1/}

June 1, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues ^{2/}			
				First callable		Final maturities	
		Direct	Guaran- teed	Direct	Guaran- teed	Direct	Guaran- teed
1966-Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. Dec.							
	Total						
1967-Jan. Feb. Mar. Apr. May June 15 July Aug. Sept. 15 Oct. Nov. Dec.							
	Bond 2-1/2% (1962-67)					882(T)	
	Bond 2-1/2% (1967-72)			2,716(T)			
	Total			2,716			
*	*	*	*	*	*	*	*
1972-Sept. 15	Bond 2-1/2% (1967-72)					2,716(T)	

^T Taxable issue.^{1/} Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders. Includes Certificates of indebtedness.^{2/} Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

STATEMENT SHOWING MAJOR MATURITIES OF DIRECT
AND INDIRECT SECURITIES OF THE UNITED STATES
BY QUARTERS

(In millions of dollars)

	MARCH	JUNE	SEPTEMBER	DECEMBER	TOTAL
1942	---	---	2% TN \$ 342 7/8% RFO 520 (10/15) 1/2% GI 1,507 (11/1) \$2,169	1-3/4% TN \$ 232 \$ 232	\$ 2,401
1943	3/4% TN \$ 66 3/4% CCC 289 (5/1) \$ 355	1-1/8% TN \$ 629 3-3/8% TB 454 (1947) 1-1/8% RFO 324 (7/15) \$1,407	1% TN 279 3-1/4% TB 1,401 (10/15/45) \$1,680	1-1/8% TN \$ 421 1-3/8% USRA 114 (2/1/44) \$ 535	3,977
1944	3-1/4% FFMO \$ 95 (1964) 1% TN 515 1% RFO 571 (4/15) 3-1/4% TB 1,519 (4/15/46) 3% HOLC 779 (5/1/52) 3% FFMO 835 (5/15/49) \$4,314	3/4% TN \$ 416 \$ 416	1% TN \$ 283 3/4% TN 635 \$ 918	4% TB \$1,037 (1954) 1-1/8% CCC 412 (2/15/45) \$1,449	7,097
1945	3/4% TN \$ 718 \$ 718	1-1/2% HOLC \$ 755 (1947) \$ 755	2-3/4% TB \$1,214 (1947) \$1,214	2-1/2% TB \$ 541 3/4% TN 531 \$1,072	3,759
1946	1% TN \$ 503 3-3/4% TB 489 \$ 992	3-1/8% TB \$ 819 (1949) 3% TB 1,036 (1948) \$1,855	---	1-1/2% TN \$1,119 \$1,119	3,966
1947	---	---	4-1/4% TB \$ 759 (10/15/52)	2% TB \$ 701	1,460
1948	2-3/4% TB \$1,223 (1951) 2% TB 1,115 (1950) \$2,338	---	2-1/2% TB \$ 451 \$ 451	2% TB \$ 571 (1950) \$ 571	3,360
1949	---	2% TB \$1,014 (1951) \$1,014	2% TB \$1,292 (1951) \$1,292	1-1/8% TB \$ 491 (1952) 2-1/2% TB 1,786 (1953) \$2,277	4,583
1950	---	---	2-1/2% TB \$1,186 (1952)	---	1,186
1951	---	2-3/4% TB \$1,627 (1954) \$1,627	3% TB \$ 755 (1955) \$ 755	2-1/4% TB \$1,118 (1953) 2% TB 510 (1955) \$1,628	4,010
1952	2-1/2% TB \$1,024 (1954)	2-1/4% TB \$1,501 (1955)	---	---	2,525
1953	---	2% TB \$ 725 (1955)	---	---	725
1954	---	2-1/4% TB \$ 681 (1956)	---	---	681
1955	2-7/8% TB \$2,611 (1960)	---	---	---	2,611
1956	2-1/2% TB \$1,449 (1958)	---	2-3/4% TB \$ 982 (1959)	---	2,431
1957	---	---	---	---	-
1958	---	2-3/4% TB \$ 919 (1963)	---	---	919
1959	---	---	---	---	-
1960	---	---	---	2-3/4% TB \$1,485 (1965)	1,485
1961	---	---	---	---	-
1962	---	2-1/2% TB \$ 682 (1967)	---	---	682
1963	---	---	---	---	-
1964	---	---	---	---	-
1965	---	---	---	---	-
1966	---	---	---	---	-
1967	---	---	2-1/2% TB \$2,716 (1972)	---	2,716

UNITED STATES SAVINGS BONDS - TOTAL

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 as percent of May
		June	May	April	June as	
June 1942						
1	\$ 29,539	\$ 29,539	\$ 19,981	\$ 24,980		147.8%
2	15,903	45,442	39,430	45,933		115.2
3	21,604	67,046	72,048	64,147		93.1
4	31,162	98,208	88,605	82,937		110.8
5	34,132	132,341	122,575	111,289		108.0
6	21,744	154,085	157,866	129,786		97.6
8	38,574	192,659	181,431	149,409		106.2
9	13,863	206,523	201,464	168,289		102.5
10	30,029	236,552	232,801	185,904		101.6
11	23,220	259,772	246,756	196,667		105.3
12	21,952	281,724	271,525	229,895		103.8
13	21,439	303,163	296,152	242,969		102.4
15	31,235	334,298	317,861	257,280		105.2
16	11,099	345,497	337,371	279,933		102.4

June 17, 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.

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 as percent of May
		June	May	April	June as	
June 1942						
1	\$ 19,834	\$ 19,834	\$ 12,679	\$ 12,993		156.4%
2	8,068	27,841	24,263	24,256		114.7
3	12,970	40,811	46,532	35,050		87.7
4	17,388	58,199	55,460	47,119		104.9
5	24,789	82,988	73,824	65,115		112.4
6	15,209	98,197	97,049	73,795		101.2
8	27,048	125,245	114,218	85,714		109.7
9	8,912	134,157	128,670	97,925		104.3
10	20,085	154,242	151,956	108,707		101.5
11	15,678	169,920	161,346	116,081		105.3
12	16,550	186,470	177,133	138,272		105.3
13	15,230	201,700	194,047	146,937		103.9
15	23,984	225,684	208,939	154,623		108.0
16	7,535	233,218	223,242	168,103		104.5

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

June 17, 1942.

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

UNITED STATES SAVINGS BONDS - 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 as percent of May
		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
3	8,634	26,235	25,516	29,097		102.8
4	13,774	40,009	33,145	35,818		120.7
5	9,344	49,353	48,751	46,174		101.2
6	6,535	55,888	60,817	55,991		91.9
8	11,526	67,414	67,213	63,695		100.3
9	4,952	72,366	72,794	70,364		99.4
10	9,945	82,310	80,845	77,197		101.8
11	7,542	89,852	85,410	80,586		105.2
12	5,402	95,254	94,391	91,623		100.9
13	6,210	101,464	102,106	96,031		99.4
15	7,251	108,715	108,923	102,657		99.8
16	3,564	112,279	114,129	111,829		98.4

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

June 17, 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.

Sales of United States Savings Bonds
From June 1 through June 16, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

Date	Series E				Series F and G				Total			
	Actual Sales		Quota,	Sales	Actual Sales		Quota,	Sales	Actual Sales		Quota,	Sales
	Daily	to June 1	June 1	to Date	Daily	to June 1	June 1	to Date	Daily	to June 1	June 1	to Date
	to Date	Date	as % of		to Date	Date*	as % of		to Date	Date	as % of	
			Quota				Quota				Quota	
1	\$ 19.8	\$ 19.8	\$ 21.7	91.2%	\$ 9.7	\$ 9.7	\$ 14.0	69.3%	\$ 29.5	\$ 29.5	\$ 35.7	82.6%
2	8.0	27.8	32.0	86.9	7.9	17.6	23.0	76.5	15.9	45.4	55.0	82.5
3	13.0	40.8	46.4	87.9	8.6	26.2	37.9	69.1	21.6	67.0	84.3	79.5
4	17.4	58.2	63.6	91.5	13.8	40.0	51.0	78.4	31.2	98.2	114.6	85.7
5	24.8	83.0	79.6	104.3	9.3	49.4	61.7	80.1	34.1	132.3	141.3	93.6
6	15.2	98.2	93.7	104.8	6.5	55.9	69.4	80.5	21.7	154.1	163.1	94.5
8	27.0	125.2	120.0	104.3	11.5	67.4	82.2	82.0	38.6	192.7	202.2	95.3
9	8.9	134.2	132.4	101.4	5.0	72.4	89.2	81.2	13.9	206.5	221.6	93.2
10	20.1	154.2	149.6	103.1	9.9	82.3	99.6	82.6	30.0	236.6	249.2	94.9
11	15.7	169.9	170.0	99.9	7.5	89.9	108.4	82.9	23.2	259.8	278.4	93.3
12	16.5	186.5	189.0	98.7	5.4	95.3	115.4	82.6	22.0	281.7	304.4	92.5
13	15.2	201.7	205.6	98.1	6.2	101.5	120.8	84.0	21.4	303.2	326.4	92.9
15	24.0	225.7	236.5	95.4	7.3	108.7	130.9	83.0	31.2	334.4	367.4	91.0
16	7.5	233.2	251.1	92.9	3.6	112.3	137.3	81.8	11.1	345.5	388.4	89.0
17			271.3				147.8				419.1	452.2
18			295.2				157.0				482.0	507.5
19			317.4				164.6				507.5	
20			336.9				170.6				554.9	
22			373.0				181.9				579.2	
23			390.0				189.2				614.8	
24			413.5				201.3				653.1	
25			441.1				212.0				687.8	
26			466.8				221.0				717.2	
27			489.2				228.0				772.0	
29			530.6				241.4				800.0	
30			550.0				250.0					

June 17, 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 both the daily trend during the week and the monthly trend during the month.

JUN 17 1942

My dear Mr. Bovard:

Knowing that you have been detached from active newspaper work for some time, it has occurred to me that you might be interested in doing some work for the Government. We have a big job on our hands in the promotion of the sale of War Savings Bonds and it is my belief that you could help us materially.

Would you care to come to Washington to discuss the matter with me?

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. O. K. Bovard,
Ballas & Conway Roads,
Clayton, Missouri.

HEG:pm

H.M.C.
Copies to Thompson

ASSISTANT SECRETARY OF THE TREASURY

June 16, 1942.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

I talked to Pete Brandt of the St. Louis Post-Dispatch. He says that Bovard is in good health and would probably welcome a chance to do some worthwhile war work. He thinks Bovard would be ideal for the sort of work I outlined, that is the supervision of promotional copy. Bovard, he says, has a great flair for typography and lay-outs and likewise a great contempt for the advertising profession. He also said that he thinks Bovard would be much more likely to come if you were to sign the letter. Hence, I prepared it for your signature.

mg

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 17, 1942

TO THE SECRETARY
FROM TED R. GAMBLE

This press release is from the National Industrial Conference Board. This Board operates as a research foundation for a small group of large manufacturers, including those whose names are mentioned in the story.

The study was undoubtedly inspired by the work the National Association of Manufacturers is doing with their members. All of them are members of the NAM.

I have sent to New York for a complete report, just in case it includes other pertinent information that you might be interested in.

NOVEL PLANS USED FOR WAR BOND SALE

Conference Board Describes Methods Devised to Obtain Employee Support

INFLATION SEEN LESSENERD

Voluntary Savings Viewed as Lessening Impact of Post-War Slump

Sale of war bonds through payroll deductions has now become the most important medium for encouraging employe thrift in American industry as a result of vigorous promotion campaigns by many companies with the United States Treasury, according to a study just completed by the Conference Board. If American workers voluntarily save substantial amounts of their present high incomes, says the board, the threat of inflation may be appreciably lessened and the dimensions of the post-war output readjustment problem can be considerably reduced.

Describing the campaigns being conducted by a number of companies, the board says: "As part of

the campaign, many companies have set quotas to be reached in a specified time, and progress is displayed prominently throughout the organization. In the Botany Worsted Mills, large red, white and blue posters, showing the sales to date in the form of a thermometer, are placed on the bulletin boards in all departments.

"The RCA Manufacturing Company displays on the front of a building two four-story thermometers which record in percentages the progress of employes participating and the dollar volume of quota reached. The Marshall-Weils Company in Duluth, Minn., has a mural which originally showed hordes of black Japanese planes over Pearl Harbor. For each \$500 worth of bonds purchased or pledged, a Japanese plane is taken out of the sky and replaced by a white American plane.

"Inter-department contests have also been instituted by a number of companies to stimulate bond sales. The Edison Industries use large colored posters which show the progress of each department, by number of airplanes; another company pictures tanks in much the same manner.

"Congoleum-Nairn, Inc., in an unusual inter-department contest, achieved 100 per cent participation of all sections. At the plant's main entrance, circular indicators, one for each department, were set in a 'V' formation. At the point of the 'V' was an indicator summarizing progress throughout the

plant. As each department increased its bond subscriptions, the indicator advanced. When a department reached 100 per cent participation, the insignia 'V' was painted on its indicator.

"Sonoco Products Company conducted a contest for the best essay of not more than fifty words on 'Why We Should Buy United States Defense Bonds,' with ten prizes ranging from \$5 in Defense Savings Stamps to a \$100 Defense Savings Bond.

"In many industrial establishments, the credit union is cooperating with the management and with labor organizations in achieving 100 per cent participation in the payroll-allotment plan for the sale of war bonds. Only a few companies offered a monetary incentive to employes either to buy or hold their present Government bonds. The General Time Instruments Corporation is paying 10 per cent of the cost of the bonds remaining in the custody of the company to maturity. If the bonds are withdrawn before maturity, it pays 1 per cent for each full year in custody. Tide Water Associated Oil Company gave each employe a \$100 Defense Bond Album with the first \$1 stamp affixed, at the beginning of its campaign."

June 17,
1942.

Ted Gamble

Secretary Morgenthau

I wish you would explain to me what these Army planes are doing in connection with our War Bond Drive over New York. Second, and most important, couldn't we get this group of planes which flew over New York yesterday - the German planes and the English planes - to use them over a coal mining town. I wish you would look into it today and give me a report some time this afternoon.

*See Gamble memo
of 6/17/42-*

~~MM~~ 76 ✓

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 17, 1942

TO THE SECRETARY
FROM TED R. GAMBLE

The tour of planes you requested information on is called AIR CAVALCADE, and is an activity of our Special Events Department, which has been worked out in connection with the Army Air Force. The planes in the Cavalcade are Messerschmitt 109-E, Hurricane, Spitfire, P-40, P-39, L-1-A converted O-49, with multiplace glider in tow and transports to carry personnel other than pilots.

Lieutenant Rankin Roberts, Public Relations Division, Headquarters Army Air Forces, and Gerald Flood, promotion man from our office are assigned to the tour. An advance man from the Special Activities Department of the War Savings Staff visits each of the cities include in the tour ten days prior to the date of appearance to make all local tie-ups.

The cities have the option of requiring a 50¢ purchase of a War Savings Stamp for admission to the municipal airports where the planes are placed on display.

The Army does some recruiting work in connection with the appearance of these flyers and planes, but in all instances the War Bond Program is tied into their activities.

-2-

Wheeling, West Virginia, is one of the towns originally scheduled to be included in the tour, but inasmuch as many of these planes have a high landing speed, it was not possible to use the local airport. This would be true of most of the small communities.

Following your suggestion, we are trying to work out a special flight from Pittsburgh, Superior and Louisville over mining towns in these areas. Also, we have made a request of the Army for the use of these same planes and flyers following this tour for special activities from some central base in the coal mining regions.

LIST OF CITIES TO BE VISITED BY
AIR CAVALCADE

New York

Hartford

Providence

Albany

Washington

Pittsburgh

Cincinnati

Indianapolis

Louisville

St. Louis

Kansas City

Omaha

Minneapolis)

St. Paul)

Duluth)

Superior)

Milwaukee

Chicago

June 17, 1942

TO: MR. GAMBLE
FROM: THE SECRETARY

On page 47 of the most recent edition of "The Minute Man" there is a small picture of the duo-motion billboard in Louisville, Kentucky. I would like to have a larger picture.

6/22/42 -
Mr. Gamble
gave this to Hoge -

TREASURY DEPARTMENT

80

INTER OFFICE COMMUNICATION

DATE JUN 17 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Issuing agents for war savings bonds qualifying during the weeks ended June 6 and June 13.

Attached to this memorandum are 4 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) There were 132 corporations qualifying as issuing agents during the week ended June 6 and 115 qualified during the week ended June 13, bringing the total number of corporations qualified to date to 2,134 (Table 1). In the aggregate these companies employed 5.7 million workers, or nearly 28 percent of the total number of persons employed 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 1,398 at the end of last week, or 29 percent of the total number of companies of this size with payroll savings plans. The Federal Reserve Banks of Richmond and Minneapolis are still behind the other banks in qualifying larger corporations as issuing agents (Table 3).
- (3) Among the larger corporations which qualified as issuing agents during the past two weeks were the Aluminum Company of America, the California Shipbuilding Corporation, the Federal Shipbuilding and Dry Dock Company and the Packard Motor Car Company (Table 4).

Table 1

Corporations with Payroll Plans Appointed as Issuing Agents
May 16, 1942 to date

Federal Reserve District	May 16	May 23	May 30	June 6	June 13
Boston.....	11	5	10	11	11
New York.....	26	26	24	26	20 -
Philadelphia.....	9	7	8	9	8
Cleveland.....	18	11	6	8	8
Richmond.....	6	3	7	6	6
Atlanta.....	25	8	6	3	4
Chicago.....	16	23	26	19	13
St. Louis.....	14	20	13	9	8
Minneapolis.....	2	2	1	1	1
Kansas City.....	4	2	4	3	1
Dallas.....	2	1	-	1	-
San Francisco.....	<u>16</u>	<u>21</u>	<u>29</u>	<u>36</u>	<u>35</u>
Total.....	<u>149</u>	<u>129</u>	<u>134</u>	<u>132</u>	<u>115</u>

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

June 16, 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 corpora- tions act- ing as issuing agents	Number of employees in corpora- tions act- ing as issuing agents	Number of employees in all corpora- tions with payroll plans in the country	Percent of employees in corpora- tions act- ing 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
June 6.....	2,019	5,558,534	20,700,000	26.9
June 13.....	2,134	5,725,107	20,700,000	27.7

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

June 16, 1942

* Not available.

Table 3 83

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		Percent appointed as issuing agents	
		Week Ended		Week Ended	
		June 6	June 13	June 6	June 13
Boston.....	475	105	112	22	24
New York.....	902	267	280	30	31
Philadelphia.....	427	171	177	40	41
Cleveland.....	592	116	123	20	21
Richmond.....	446	56	56	13	13
Atlanta.....	228	60	62	26	27
Chicago.....	868	317	323	37	37
St. Louis.....	152	62	68	41	45
Minneapolis.....	101	14	15	14	15
Kansas City.....	147	33	33	22	22
Dallas.....	72	20	20	28	28
San Francisco.....	<u>368</u>	<u>108</u>	<u>129</u>	<u>29</u>	<u>35</u>
Total.....	<u>4,778</u>	<u>1,329</u>	<u>1,398</u>	<u>28</u>	<u>29</u>

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

June 16, 1942.

Table 4
Companies Qualifying as Issuing Agents
June 6 and June 13, 1942

Week ended June 6		Week ended June 13	
Company	Number of Employees	Company	Number of Employees
1. Companies with 5,000 or more employees:		1. Companies with 5,000 or more employees:	
Aluminum Company of America, Pittsburgh, Pa.....	61,500	California Shipbuilding Corp., Wilmington, Calif.....	30,666
Federal Shipbuilding & Dry Dock Co., Kearny, N. J.....	21,123	Packard Motor Car Co., Detroit, Mich..	20,165
Hoover Company, North Canton, Ohio....	11,303	Swift & Company, National Stock Yards, Illinois.....	11,006
Monsanto Chemical Co., St. Louis, Mo..	7,354	Nash-Kelvinator Corp., Detroit, Mich..	<u>5,000</u>
Kahn & Feldman, Inc., New York, N. Y..	7,310	Subtotal - Companies with 5,000 or more employees.....	66,837
National Malleable & Steel Castings Co., Cleveland, Ohio.....	7,000	2. All other companies.....	<u>99,736</u>
Avondale Mills, Alexander City, Ala...	6,990	3. Total all companies qualifying.....	<u>166,573</u>
McLellan Stores Co., New York, N. Y...	6,540		
American Hardware Corp., New Britain, Conn.....	5,887		
Oliver Iron Mining Co., Duluth, Minn..	5,866		
Combustion Engineering Co., Inc., New York, N. Y.....	5,612		
Hygrade Sylvania Corp., Salem, Mass...	<u>5,200</u>		
Subtotal - Companies with 5,000 or more employees.....	151,685		
2. All other companies.....	<u>120,447</u>		
3. Total all companies qualifying.....	<u>272,132</u>		

WENDELL L. WILLKIE
15 BROAD STREET
NEW YORK

June 17, 1942

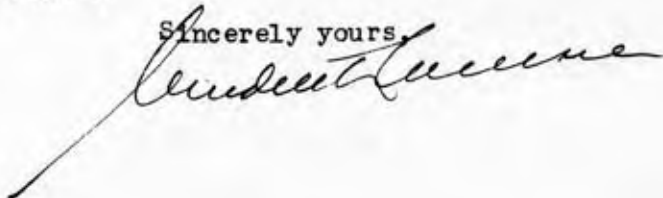
My dear Mr. Morgenthau:

Thank you very much for your gracious note of the 13th. I appreciate it very much.

I was very happy to do all I could in connection with the parade for the heroes. They are a fine group of lads.

Good luck to you in your bond sale program.

Sincerely yours,



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

June 13, 1942

Dear Mr. Willkie:

Upon returning to Washington after an absence of a few days, I hear glowing reports of the part you played in the welcome to the war heroes on Monday.

Your talk at Madison Square Garden, as I read about it in the newspaper, struck exactly the right note for the occasion. You seem to have made a lasting impression upon the boys themselves, and you contributed immensely to the success of New York's welcome.

For all that you did to honor our visitors, I am most grateful to you.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Wendell Willkie,
1010 Fifth Avenue,
New York City.

FK/cgk

*N.M.C.
Copies to Thompson*

MEMORANDUM

To: Secretary Morgenthau
From: Mr. Paul

June 17, 1942

I attach hereto a proposed letter to be sent to Judge Healey of the Ways and Means Committee. The Judge asked me yesterday for this letter in order that he may square himself with the Judges in his District who are pressing him to take the Oath of Office. The Judge wants to stay on through the bill and thinks that some letter from you will do the trick.

RST

Attachment

JUN 17 1942

Dear Judge Healey:

Mr. Paul has advised me that you have made tentative plans to take your Oath of Office in the Federal District Court in Massachusetts on July 3rd. I would like to urge upon you that you postpone this step in order that you may complete your valuable work on the Ways and Means Committee in connection with the tax bill. I understand that you have deferred taking your oath for a period of almost six months in order to serve with the Committee. Now that you have waited for so long a period, it would seem particularly unfortunate if you are forced to leave at the most critical juncture when only a few days' consideration of the tax bill remain.

I hope you will find it convenient to remain in Washington until the tax bill is passed by the House. I need not tell you how appreciative I am of the splendid support you have given the Treasury proposals.

Sincerely yours,

(Signed) E. Morgenthau, Jr.

Secretary of the Treasury

Honorable Arthur D. Healey
House of Representatives

*N.M.C.
Copies to Thompson*

by Messenger *Mailed 10:45
6/18/42*

REP:mmb

June 17, 1942.

Dear Eleanor:

I received your note of June 12th, concerning the possible use of space in the Belasco Theater for a Theater Wing Canteen. While this location houses many of the active files of the Disbursing Office and its use for the purpose suggested would entail some inconvenience, nevertheless it can be done and arrangements will be made for the removal of these files. My Administrative Assistant, Mr. Thompson, will be glad to cooperate fully with those interested in this project in making this space available at the earliest possible moment.

affectionately,
Sincerely,

(Signed) *W. M. C.*

Mrs. Franklin D. Roosevelt,

The White House.

W. M. C.

C. C. Thompson

S. S. Agent 5:20

CSB:WNT:cf

THE WHITE HOUSE
WASHINGTON

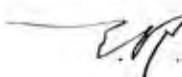
June 12, 1942

Dear Henry:

I understand that the people interested in starting a Theatre Wing Canteen in Washington have talked to Mr. Reynolds in your department about the possibility of their being given some space in the Belsaco Theatre. I am told that the Treasury Department uses this building for storage space.

Will you be good enough to let me know if there is a chance that this Canteen can have space? The location is excellent and they are keen to get started.

Affectionately,



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

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 17, 1942

TO Secretary Morgenthau
FROM Mr. Thompson

With reference to Mrs. Roosevelt's request that the Belasco Theater space be made available for a Theater Wing Canteen, this can be arranged, although at some inconvenience to our Disbursing Office, which is now using these quarters as an active file room for cancelled checks.

To make this space available it will be necessary to remove the files from the first, second, and third balconies, orchestra and stage levels, to 1510 H Street, about a city block from the Disbursing Office.

The Disbursing Office took over the Belasco Theater space about two years ago, at which time its identity as a theater was somewhat disfigured through the removal of all of the seats, building a platform over the stage and slope in the orchestra location, the removal of theater boxes, and the erection of much partition work. It could without considerable expense be restored to its original atmosphere.

It appears that Melvyn Douglas has been energetically in back of this proposal, he having contacted Mr. Reynolds of the Public Buildings Administration in the matter. Mr. Reynolds reported back to Mr. Douglas that the location in question was not available for the purpose as it was occupied by Treasury files.

Th

June 17, 1942

My dear Mr. President:

I thought you would be interested in the very unusual discovery we have just made through Foreign Funds Control, namely, we have uncovered over \$10,000,000 belonging to Henry M. Blackmer of the famous Teapot Dome oil scandal.

I am attaching hereto a memorandum giving you more details about it.

Yours sincerely,

(Signed) H. Morgenthau, JR.

The President,

The White House.

H. M. C.
S. S. Agent 5:20

JUN 11 1942

Secretary Morgenthau

E. H. Foley, Jr.

The Foreign Funds Control has recently uncovered assets in various New York banks amounting to \$9,639,000 in securities, and \$263,000 in cash accounts, all owned by Henry M. Blackmer.

You will recall, in connection with the Teapot Dome Oil scandal, that Henry M. Blackmer was believed to be primarily responsible for conceiving operations whereby large sums of money were obtained by fraudulent oil transactions. Around 1923, when an investigation of these operations was instituted, Blackmer fled to France and has not since returned. He is now in Switzerland.

During the next few years his passport was revoked, he was indicted on various counts, including income tax evasion and perjury in connection with his income tax return, and President Coolidge issued a warrant for his arrest on perjury charges. Attempts were made to extradite Blackmer from France and his case was finally heard by the French Ministry of Justice, which declared it could find no basis for surrendering him to the United States. In 1928 the French Government flatly refused to allow extradition. At various times between 1927 and 1932 fines for contempt of court, totally about \$520,000, were levied against his American assets. In May 1942, civil proceedings were compromised by Internal Revenue upon the payment of \$3,600,000, but at least two sets of indictments for tax evasion and perjury are still outstanding and he is regarded as a fugitive from justice.

There are attached for your signature a memorandum to the Commissioner of Internal Revenue, and letters to the Secretary of Interior and the Attorney General, with respect to this matter.

(Initialed) E. H. F., Jr.

MLH:JWP:cwh 6-9-42

JUN 17 1942

Commissioner Helvering
The Secretary

You may be interested in the following
information.

The Foreign Funds Control has recently
discovered that Henry M. Blackmer, who was involved in
the Teapot Dome affair, has assets in various New York
banks amounting to \$263,000 in bank accounts and
\$9,639,000 in securities.

I assume that you will carefully canvass
any outstanding claims which the Bureau of Internal
Revenue has against Blackmer.

Any further information which you may desire
with respect to this matter may be obtained by consulting
with Mr. Pehle.

(Signed) B. Morgenthau, Jr.

H. M. C.
Copies to Thompson
By Messenger *Memo 10:45*

MLH:cwh 6-9-42

reply please
to: (15870)

JUN 17 1942

My dear Mr. Secretary:

You may be interested in the following information.

The Foreign Funds Control has recently discovered that Henry M. Blackmer, who was involved in the Teapot Dome affair, has assets in various New York banks amounting to \$263,000 in bank accounts and \$9,639,000 in securities.

Any further information with respect to this matter which is desired by representatives of your Department may be obtained by consulting with J. W. Pehle, Assistant to the Secretary.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of Interior.

*N. M. C.
Copies to Thompson*

reply please
refer to: (15871)

JUN 17 1942

My dear Mr. Attorney General:

You may be interested in the following information.

The Foreign Funds Control has recently discovered that Henry M. Blackmer, who was involved in the Teapot Dome affair, has assets in various New York banks amounting to \$263,000 in bank accounts and \$9,639,000 in securities.

Any further information with respect to this matter which is desired by representatives of your Department may be obtained by consulting with J. W. Pehle, Assistant to the Secretary.

Sincerely,

(Signed) E. Morgenthau, Jr.

The Honorable,

The Attorney General of the United States.

N. M. C.
Copies to Thompson
By Messenger *Manned 10:45*

JUN 17 1942

Dear Bill,

I wish to congratulate you on your new job as Director of Strategic Services which brings you in intimate contact with the planning of our war strategy.

It is my hope that the responsibilities of the Office of Strategic Services will not make it impossible for you to continue the services you have been rendering to the Treasury. I am particularly desirous to keep on receiving the British Political Warfare Executive analyses and directives, the British Home Intelligence reports, and your economic studies of foreign developments. Your new work, probably, will result in other material which I would find of interest.

Your kindness has been appreciated and I trust I will be able to count on your cordial cooperation in the future.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Colonel William J. Donovan,
Director of Strategic Services,
Office of Strategic Services,
Old National Institute of Health Building,
25th and K Streets, N. W.,
Washington, D. C.

cc - M. M. C.
Copies to Thompson

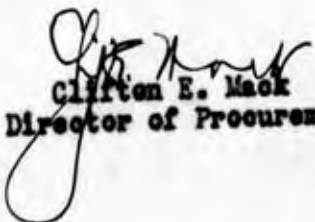
June 17, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended June 13, 1942.

A conference was held yesterday afternoon with the members of the General Staff relative to the list of items which the Russians request shipped during the month of July, also the shipping to be made available.

The detailed lists will be furnished to us this afternoon and immediate check will then be made to determine the extent to which the items requested by the Russians can be made available from existing stocks and the extent to which purchases will be necessary.


Clifton E. Mack
Director of Procurement

LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF JUNE 13, 1942
 (In Millions of Dollars)

	Total	U. K.	Russia	China	Administrative Expenses	Undistributed & Miscellaneous
Allocations	\$1700.6 (1700.5)	\$714.6 (711.8)	\$288.6 (283.6)	\$ 56.7 (56.7)	\$ 1.6 (1.6)	\$641.1 (646.8)
Purchase Authoriza- tions (Requisitions)	\$1026.8 (1023.4)	\$670.2 (675.4)	\$304.5 (295.7)	\$ 45.6 (45.7)	-	\$ 6.5 (6.6)
Requisitions Cleared for Purchase	\$ 981.7 (974.0)	\$659.8 (658.4)	\$270.1 (263.5)	\$ 45.6 (45.6)	-	\$ 6.2 (6.5)
Obligations (Pur- chases)	\$ 943.7 (932.7)	\$649.0 (640.6)	\$250.8 (243.4)	\$ 39.1 (39.1)	\$ 1.2 (1.2)	\$ 3.6 (3.4)
*Deliveries to For- sign Governments at U. S. Ports	\$ 411.6 (402.8)	\$329.8 (321.5)	\$ 60.9 (60.4)	\$ 19.2 (19.2)	-	\$ 1.7 (1.7)

*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of June 6, 1942.

EXPLANATION OF CHANGES

The decline of the United Kingdom Purchase Authorizations is caused by the cancellation of Requisition No. 11618, covering tires, tubes and flaps, in the amount of \$11,000,000 as against the total requisitions submitted for clearance, resulting in a net decrease of \$5,164,596.69.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

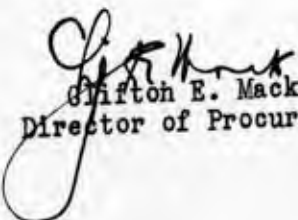
June 17, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended June 13, 1942.

A conference was held yesterday afternoon with the members of the General Staff relative to the list of items which the Russians request shipped during the month of July, also the shipping to be made available.

The detailed lists will be furnished to us this afternoon and immediate check will then be made to determine the extent to which the items requested by the Russians can be made available from existing stocks and the extent to which purchases will be necessary.


Gifford E. Mack
Director of Procurement



LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
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 AS OF JUNE 13, 1942
 (In Millions of Dollars)

	Total	U. K.	Russia	China	Administrative Expenses	Undistributed & Miscellaneous
Allocations	\$1700.6 (1700.5)	\$714.6 (711.8)	\$286.6 (283.6)	\$ 56.7 (56.7)	\$ 1.6 (1.6)	\$641.1 (646.8)
Purchase Authoriza- tions (Requisitions)	\$1026.8 (1023.4)	\$670.2 (675.4)	\$304.5 (295.7)	\$ 45.6 (45.7)	-	\$ 6.5 (6.6)
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Obligations (Pur- chases)	\$ 943.7 (932.7)	\$649.0 (640.6)	\$250.8 (248.4)	\$ 39.1 (39.1)	\$ 1.2 (1.2)	\$ 3.6 (3.4)
*Deliveries to For- eign Governments at U. S. Ports	\$ 411.6 (402.8)	\$329.8 (321.5)	\$ 60.9 (60.4)	\$ 19.2 (19.2)	-	\$ 1.7 (1.7)

*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

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Treasury Department **104**
Division of Monetary Research

○ Date...June...17.....19 42

To: Secretary Morgenthau

From: Mr. White

You may be interested in
glancing at the summary of
the appended tables on "United
States Foreign Trade".



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 17, 1942

TO Mr. White

FROM Miss Kistler

Subject: United States Foreign Trade Trends

The attached series of tables show the following interesting trends in our foreign trade since the passage of the Lend-Lease Act in March 1941:

1. Lend-Lease exports more than doubled during the first four months of 1942 and now constitute over one-half of our total export trade (i.e. \$400 million out of \$700 million in April).

In April Lend-Lease exports to British Areas totalled \$230 million; to Russia - \$160 million; to China and other countries - \$17 millions.

2. Almost two-thirds, or \$1.1 billion, of Lend-Lease exports through April 1942 consisted of agricultural and industrial goods. Of this total, \$860 million was shipped to the United Kingdom and \$150 million to Russia.

But direct military supplies and equipment represent an increasing proportion of our Lend-Lease exports. They amounted to \$185 million in April out of a total of \$400 million.

3. Contrary to British forecasts made several times during recent months, there has been no appreciable falling off in United States imports from British Empire and Sterling Area countries so far this year, with the exception, of course, of British Malaya. Imports from other countries, however, are one-sixth lower and account for the bulk of the 10 percent decline in our total imports from the 1941 level, to an average of \$250 million per month.

TABLE I

U. S. Exports of Lend-Lease Goods and of other Merchandise,
March 1941 through April 1942
(Millions of dollars)

	Lend-Lease Exports	All other Exports	Total Exports
1941 - March through December	760	3,757	4,517
Monthly average	76	376	452
1942 - January	173	257	430
February	194	243	437
March	310	254	564
April	403	293	696
Total - March 1941 - April 1942	1,840	4,804	6,644

TABLE II

Lend-Lease Exports to Principal Areas, March 1941
through April 1942
(Millions of dollars)

	British Countries ^{1/}	U.S.S.R.	China	All Other	Total
1941 - Total	712	23	20	5	760
1942 - January	140	15	10	8	173
February	123	55	6	10	194
March	206	94	9	1	310
April	227	159	12	5	403
Total - through April 1942	1,408	346	57	29	1,840

^{1/} These figures cover lend-lease exports which are presumably made on British account. They include shipments to British Empire and other Sterling Area countries, Iran and Eastern Italian Africa.

TABLE III

Lend-Lease Exports by Principal Categories,
1941 and January through April 1942
(Millions of dollars)

	<u>1941</u>	<u>1942</u>			
		<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>
Ordnance and Ordnance Stores	79	18	21	37	52
Aircraft and aero material	26	21	45	56	52
Tanks and other vehicles	79	22	31	50	74
Vessels and other watercraft	8	2	3	5	4
Miscellaneous military equipment	5	2	1	2	3
Agricultural	348	59	39	68	93
Industrial and other commodities	<u>215</u>	<u>49</u>	<u>54</u>	<u>92</u>	<u>125</u>
Total	760	173	194	310	403

TABLE IV

U. S. Exports of Lend-Lease Goods by
Principal Areas through April 1942

(Millions of dollars)

	Military Goods	Agricultural and Industrial Goods	Total
British Empire:			
United Kingdom	158	859	1,017
British India and Ceylon	40	13	53
British Malaya	7	2	9
Australia	30	22	52
New Zealand	13	3	16
Union of South Africa	*	1	1
Other British Empire, excluding Canada and Newfoundland	<u>9</u>	<u>7</u>	<u>16</u>
Total	258	907	1,165
Other Sterling Area:			
Egypt	131	53	184
Other Sterling Area countries	<u>9</u>	<u>4</u>	<u>13</u>
Total-Sterling Area	397	964	1,361
Canada and Newfoundland	<u>26</u>	<u>10</u>	<u>36</u>
Total British Empire and other Sterling Area	423	974	1,397
Other countries receiving Lend-Lease Exports, presumably on British a/c ^{1/}	6	3	9
All other countries receiving Lend-Lease Exports:			
U.S.S.R.	195	152	347
China	47	10	57
Non-British Latin America	4	*	4
Dutch West Indies and D. Guiana	*	2	2
Turkey	*	2	2
All other	<u>22</u>	<u>1</u>	<u>23</u>
Total - Lend-Lease Exports	697	1,144	1,841

* Less than \$500,000.

^{1/} Iran and Eastern Italian Africa.

TABLE V

U. S. Exports of Lend-Lease Goods and of other merchandise, by Principal Countries and Areas,
1941 and January through April 1942
(Millions of dollars)

	1941		Jan.-April 1942		April 1942	
	Lend-Lease Exports	All other Exports	Lend-Lease Exports	All other Exports	Lend-Lease Exports	All other Exports
British Empire:						
United Kingdom	571	1,066	446	200	128	57
British India and Ceylon	9	91	44	41	21	12
Australia	13	78	39	30	15	8
New Zealand	2	29	15	4	6	1
Union of South Africa	*	187	1	18	*	2
Other British Empire, excluding Canada and Newfoundland	13	150	12	29	2	9
TOTAL	608	1,601	557	322	172	89
Other Sterling Area:						
Egypt	89	160	95	85	36	10
Other sterling area countries	1	29	12	20	5	11
TOTAL Sterling Area	698	1,790	664	427	213	110
Canada and Newfoundland	12	1,000	24	367	10	101
TOTAL British Empire and other Sterling Area	710	2,790	688	794	223	211
Other countries receiving Lend-Lease Exports, presumably on British a/c ^{1/}	2	7	7	2	4	1
All other countries receiving Lend-Lease Exports						
U.S.S.R.	23	84	323	40	159	10
China	20	73	37	5	12	1
Non-British Latin America	*	474	6	143	4	35
All other	5	144	20	29	1	1
TOTAL All countries receiving L.L. Exports	760	3,572	1,081	1,013	403	259
All other countries	—	814	—	168	—	34
GRAND TOTAL — All Countries	760	4,386	1,081	1,181	403	293

* Less than \$500,000.

^{1/} on and Eastern Italian Africa.

TABLE VI

U. S. Imports by Principal Areas,
1941 through April, 1942

(millions of dollars)

<u>Countries</u>	<u>1941</u>	<u>Jan.1942</u>	<u>Feb.1942</u>	<u>Mar.1942</u>	<u>Apr.1942</u>
British Empire:					
United Kingdom	136	7	12	12	12
Br. India & Ceylon	168	18	13	18	15
British Malaya	344	12	15	11	7
Australia	139	10	13	19	14
New Zealand	15	2	2	1	2
Union of South Africa	66	6	7	16	9
Other Br. Empire exclud- ing Canada & Newfoundland	55	5	3	4	5
Total	923	60	65	81	64
Other Sterling Area:					
Egypt	12	2	1	*	*
Other Sterling Area	52	5	4	6	4
Total Sterling Area	987	67	70	87	68
Canada and Newfoundland	569	51	48	59	53
Total British Empire & other Sterling Area	1,556	118	118	146	121
All other countries	1,789	136	136	126	113
Total - Imports	3,345	254	254	272	234

* Less than one million.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE June 17, 1942

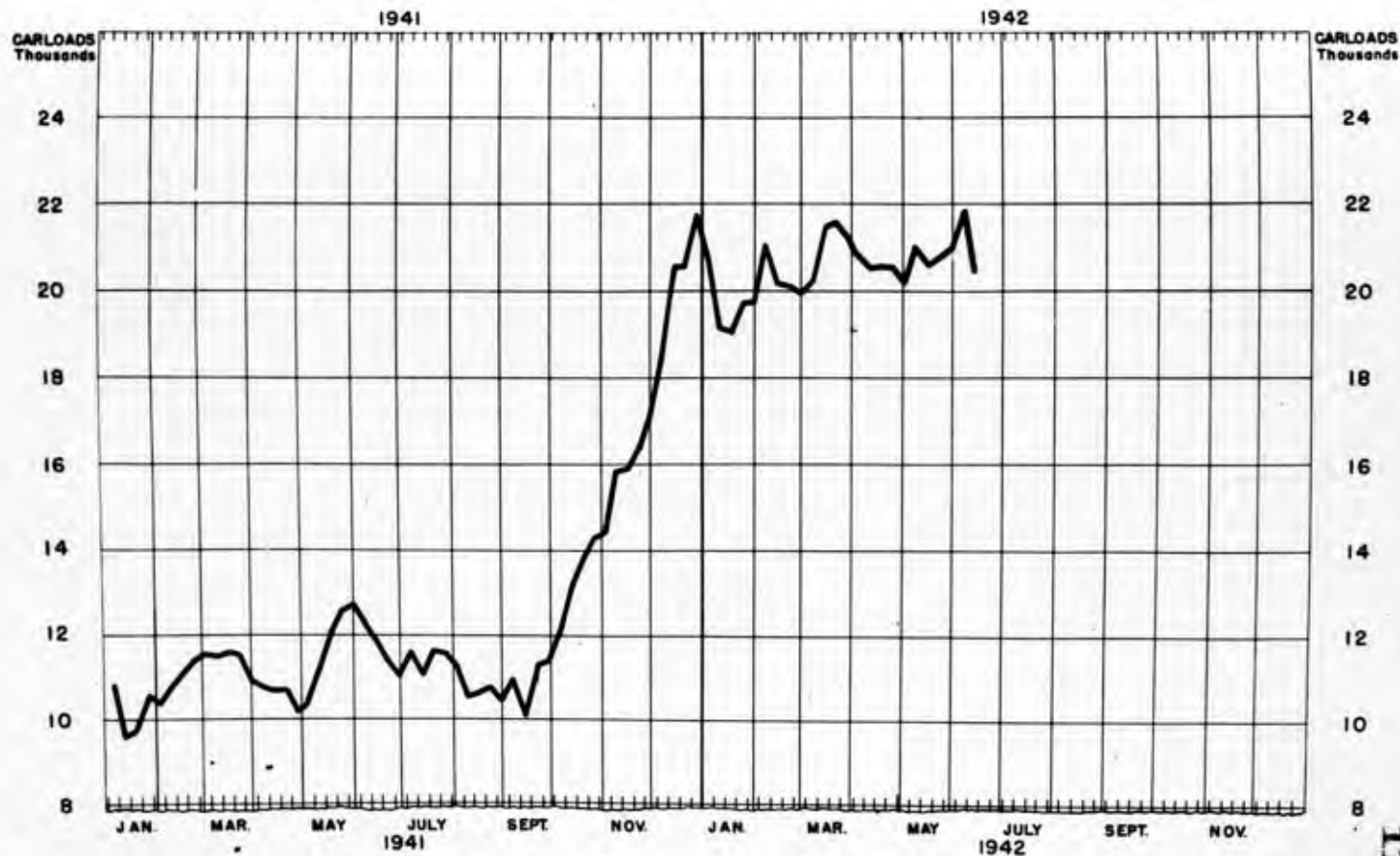
TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Export Freight Situation

Lighterage freight in storage and on hand for unloading in New York harbor at the end of last week decreased by 1,405 cars to 20,448 cars. (See Chart 1.) At the end of the week 13,563 cars of rail storage space were occupied, and there was additional storage space available for 6,174 cars.

Exports from New York last week increased by 185 cars to 7,481 cars. (See Chart 2, upper section.)

However, receipts for export at New York showed a large decline of 1,855 cars to 6,216 cars. Receipts for export at 9 North Atlantic ports also decreased, dropping from 3,379 cars to 2,798 cars. Receipts for export at 6 Pacific ports declined from 3,126 to 2,803 cars. (See Chart 2, lower section.)

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



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

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

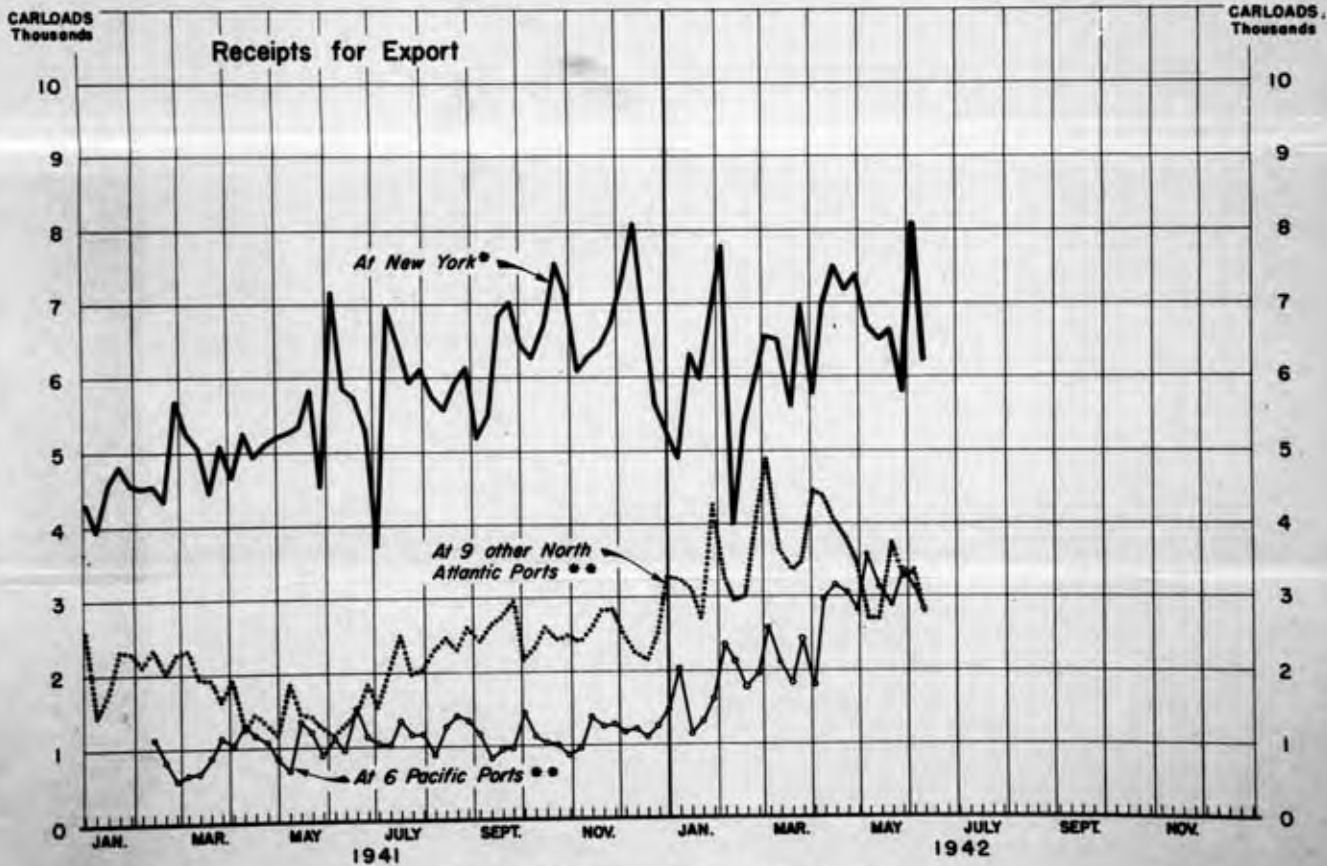
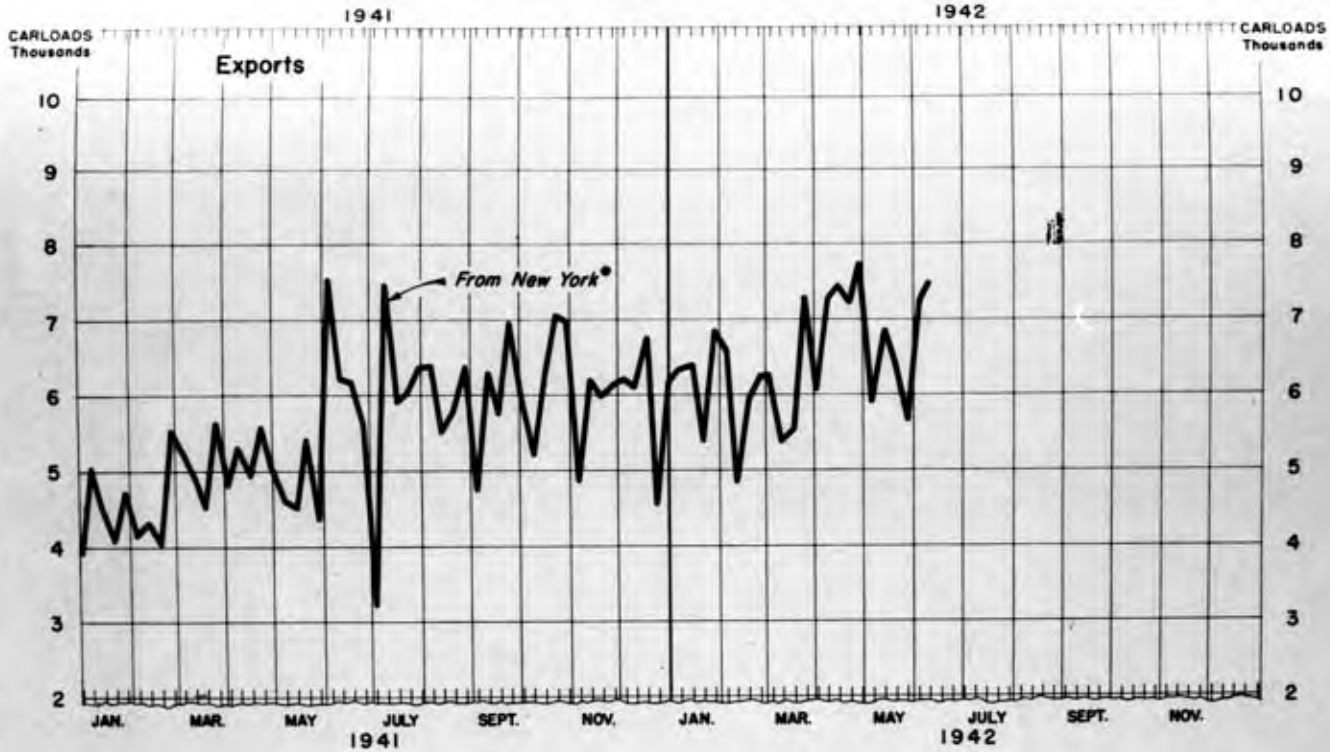
112

Chart I

C-303-D

Regraded Unclassified

EXPORT FREIGHT MOVEMENT



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

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JUN 17 1942

My dear Mr. Secretary:

There is enclosed a memorandum prepared by a Treasury employee which contains a suggestion for conserving shipping space in the Pacific area through a program of making Hawaii more nearly self-sufficient in foodstuffs.

I have not looked into the matter, and am passing it on to you for whatever study you may think justified.

Sincerely yours,

(Signed) E. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

Harold L. Ickes,

Secretary of the Interior.

Enclosure

*N.M.C.
Copies to Stanton*

DAS:rl 6/17/42

Return to Receipt Office

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 30, 1942

TO Secretary Morgenthau
 FROM Mr. White *JDW*
 Subject: Saving Shipping to Hawaii

Mr. Snider of this Division has recently returned from Hawaii, where he spent six months doing work for Foreign Funds Control. He reports the following situation which you may wish to direct to the attention of the Secretary of the Interior:

Approximately 400 million ton-miles of shipping are being used up annually to transport foodstuffs to Hawaii which Hawaii could produce locally.

Even though the Islands' economy is basically agricultural, it produces only one-third of its food requirements, 95 percent of the arable land being devoted to the production of sugar cane and pineapples. Most of the land now used for vegetable production is unsuitable for sugar cane or pineapples. The following table shows the dependency of the Islands on outside supplies of foodstuffs:

<u>Commodity</u>	<u>Percentage of Consumption Imported</u>
Meat and meat products	59%
Dairy products	72%
Poultry and game	81%
Fish products	70%
Eggs	60%
Vegetables	54%
Fruits	70%
Oils and fats	100%

It has been unofficially estimated that as little as 3,000 acres, or one percent of the land presently devoted to pineapples and sugar cane, could produce all the vegetables required by the Islands. If self-sufficiency were attained in all cases where it is easily possible to do so, as much as 100,000 tons of shipping to Hawaii a year could be saved for more urgent uses.

Since nearly all of the productive land in the Islands is in the control of five large companies--the so-called "Big Five"--which find it more profitable to produce sugar cane and pineapples than vegetables, no effective measures have yet been taken to make Hawaii self-sufficient in foodstuffs.

C
O
P
Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Madrid, Spain

DATE: June 17, 1942, 8 p.m.

NO. : 741

I have been informed by the Foreign Exchange Institute of the conclusion of negotiations with Switzerland which involve another payment in United States dollars for services of transport. The new arrangement which again involves \$10,000,000 closely follows that of last October. The details concerning the form of payment under the new agreement have not yet been determined. In the opinion of the Institute it may not be necessary or desirable to accept part payment in gold although under the previous agreement the Institute accepted \$4,000,000 in gold and the balance in credits opened in the United States. This message was repeated to Bern by courier.

HAYES

Copy:bj:6-23-42

COPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPT. L No. 205

Information received up to 7 A.M., 17th June, 1942.

1. NAVAL

16th. One of H.M. destroyers shot down a Junker 88, attacking a convoy in the BRISTOL CHANNEL. One of H.M. Cruisers returning to ALEXANDRIA sunk by U-boat, 23 officers and 226 ratings rescued. One of H.M. drifters sunk off MALTA on 16th.

NOTE: All information concerning our casualties in connection with convoy movements in MEDITERRANEAN mentioned in OPT. L No. 203 should be regarded as particularly secret.

2. MILITARY

LIBYA. During 15th the withdrawal of our forward troops continued and by evening the majority of infantry from the GAZALA-MTEKFEL position had reached frontier area on general line SOLLUM-MADDALENA *2T*. EL MRASSAS (20 miles east of GAZALA) was captured by the enemy and subsequently recaptured by us. In these operations we lost 6 tanks but captured some prisoners. The enemy suffered heavily in 3 attacks in the EL ADEM area, all of which were beaten off. During night 15/16 strong enemy patrols approached our position east of EL ADEM and by 10 P.M. on 16th an engagement between armoured units was taking place south of SIDI REZEGH.

3. AIR OPERATIONS

WESTERN FRONT. 16th. Spitfires carried out 10 small offensive operations. 1 Spitfire missing.

16/17. Aircraft despatched - ESSEN 106, sea mining LORIENT 12. Leaflets (LE MANS and SEINE VALLEY) 9, aerodrome patrols 6. 8 aircraft missing.

Weather over ESSEN area was variable and it is probable that majority of aircraft attacked BONN and other built up areas.

MEDITERRANEAN. During 14th and 15th 9 torpedo carrying aircraft attacked enemy naval forces claiming 3 hits. About 225 fighter protection sorties were flown. 12 enemy aircraft were destroyed. 4 probably destroyed and 11 damaged. 4 of our aircraft missing, 2 pilots safe. U.S. Liberators claim several hits with bombs on 2 Italian battleships and one ME. 110. A Wellington also claims 1 hit with torpedo on 1 of the battleships.

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MALTA. Between 3.40 P.M. 15th and 7.25 A.M. 16th about 50 aircraft operated. Spitfires destroyed 3 and damaged 4 enemy aircraft. 2 Spitfires lost, pilots safe.

LIBYA. On 15th and 16th our aircraft destroyed 10 enemy tanks and damaged several others. Fighters intercepted Italian torpedo bombers, destroying 5 and damaging others. 7 of our aircraft missing, 3 pilots safe.

4. T.L.C. ON NORWEGIAN COAST

17 T.L.C. previously seen at TRONDHEIM have moved northwards and it appears that they are making their way up the Norwegian Coast, presumably round to KIRKENES and PETSAMO.

5. U-BOATS

6 500-ton U-boats were seen at BERGEN on 9th June, the highest number yet observed.

* As received *

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 17, 1942

TO Secretary Morgenthau
FROM Mr. Kamarck
Subject: Survey of Military Situation (based on U.S. Military Intelligence Information)

Russo-German Front

Although heavy fighting continues along the front, no general offensive has as yet started.

Colonel Kramer, Chief of the Central European Section, M.I.D., is of the opinion that the Germans will do well if they reach the Volga this year. He believes that in any case, there will be a Russian front not only through 1942, but throughout 1943. (Colonel Kramer can not be accused of being unduly optimistic about the Russian Army. It was his opinion last fall that the Russian campaign had gone strictly according to the plans of the German General Staff. He also thought that the winter would help the Germans much more than it would the Russians).

Far East

The Chinese have reported to our Military Intelligence that the Japanese are rapidly pouring troops into Manchuria and that an attack on Siberia appears imminent. In addition to the already large garrison there, 18 more divisions are stated to have landed in Manchuria.

While our Military Intelligence does not take the Chinese reports at face value, it is the estimate of Colonel Bratton, head of the Foreign Intelligence Service, that the Japanese now have sufficient forces in Manchuria to be able to attack at any time. The Japanese may be waiting to make a coordinated attack with the Germans in Europe.

The Japanese are building up their strength in the Aleutians at Kiska and Attu Islands. There are believed to be several aircraft carriers in this vicinity as well as a task force operating in the Bering Sea. The probable objective is Dutch Harbor.

Libya

The armored forces of both sides are rapidly vanishing in the attrition of the battle. Both sides have been reduced to a fourth or fifth of their original tank strength. About 100 tanks are now in operation on each side.

In the opinion of our military observers, the Germans have had the edge in the fighting. German generalship appears to have been superior. The German 88 mm. anti-aircraft-anti-tank gun has been very effective. The cooperation between air and ground forces on the British side leaves much to be desired. The British have had air superiority, but the German air force, operating closely in cooperation with its ground forces, probably has contributed more towards victory than the R.A.F. has.

American Air Attack on Romania

The air attack on Romania, which was revealed by the landing of several American bombers in Turkey, started from an airdrome in the Nile Delta. Fourteen American B-24's participated in the flight. The airdrome to which the bombers were returning is in Iraq near Mosul. The target was the Ploesti oil installations and other military targets in Romania. The operation was partly motivated by a desire to demonstrate to the Romanians that an American declaration of war is more than a paper resolution.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, June 18, 1942.
6/17/42

Press Service
No. 32-11

Secretary of the Treasury Morgenthau today announced the offering, through the Federal Reserve Banks, for cash subscription at par and accrued interest, of \$1,500,000,000, or thereabouts, of 5/8 percent Treasury Certificates of Indebtedness of Series A-1943. In order to insure more extensive participation on the part of banks, corporations, and others interested in a type of security carrying maturities somewhat longer than Treasury bills, the subscription books will remain open two days, and subscriptions up to \$25,000 will be allotted in full. There will be no restrictions as to the basis for subscribing to this issue.

The certificates will be dated June 25, 1942, will be payable on February 1, 1943, and will bear interest at the rate of five-eighths of one percent per annum, payable at the maturity of the certificates. They will be issued in bearer form only, with one interest coupon attached, in denominations of \$1,000, \$5,000, \$10,000 and \$100,000.

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

Subscriptions will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions for the certificates from banks and trust companies for their own account will be received without deposit, but subscriptions from all others must be accompanied by payment of 5 percent of the amount of certificates applied for.

The basis of allotment of subscriptions over \$25,000 will be publicly announced, and payment for any certificates allotted must be made or completed on or before June 25, 1942, or on later allotment. These certificates will be redeemed in cash at maturity and will carry no exchange privileges.

The text of the official circular follows:

UNITED STATES OF AMERICA

5/8 PERCENT TREASURY CERTIFICATES OF INDEBTEDNESS OF SERIES A-1943

Dated and bearing interest from June 25, 1942

Due February 1, 1943

1942
Department Circular No. 688

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, June 18, 1943.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF CERTIFICATES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for 5/8 percent certificates of indebtedness of the United States, designated Treasury Certificates of Indebtedness of Series A-1943. The amount of the offering is \$1,500,000,000, or thereabouts.

II. DESCRIPTION OF CERTIFICATES

1. The certificates will be dated June 25, 1942, and will bear interest from that date at the rate of 5/8 percent per annum, payable on an annual basis at the maturity of the certificates. They will mature February 1, 1943, and will not be subject to call for redemption prior to maturity.

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

3. The certificates will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes and will not bear the circulation privilege.

4. Bearer certificates with one coupon attached will be issued in denominations of \$1,000, \$5,000, \$10,000, and \$100,000. The certificates will not be issued in registered form.

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

III. SUBSCRIPTION AND ALLOTMENT

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

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allotted thereon, prior to the closing of the subscription books. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions from banks and trust companies for their own account will be received without deposit. Subscriptions from all others must be accompanied by payment of 5 percent of the amount of certificates applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of certificates applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, subscriptions for amounts up to and including \$25,000 will be allotted in full. The basis of the allotment on all other subscriptions will be publicly announced, and allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for certificates allotted hereunder must be made or completed on or before June 25, 1942, or on later allotment. In every case where payment is not so completed, the payment with application up to 5 percent of the amount of certificates applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for certificates allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

V. GENERAL PROVISIONS

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

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

June 18, 1942

11:00 a.m.

Conference in Mr. Bell's office

INVESTMENT TRUST SECURITIES

Present: Secretary Morgenthau
Mr. Eccles
Mr. Buffington
Mr. Purcell
Mr. Currie
Mr. Clayton
Mr. McCormick
Judge Healy

MR. BELL: The Secretary has not returned from the Hill. I thought we might come in here and spend a few minutes discussing Mr. Purcell's problem before he got back.

Before we start on your problem, Ganson, tell us about this recent request you made of the corporations for information as to the cash balances, which seems to be coming from every quarter to us and disturbing a great number of people.

MR. PURCELL: In connection with our savings study, we wanted to make the information as current as possible. In order to determine the estimated individual cash position, you have to subtract from the total figures that we have the corporate cash position, which is just one figure from the books or check book, whatever it may be, which they can give us within a day or so after the end of the quarter.

That helps us to speed up the figures by about three weeks, I think.

MR. BELL: They think there is some ulterior motive behind that request, and everybody that comes in asks us about it.

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MR. PURCELL: I know Controllers Institute wrote us and said they assumed that we had been asked to do this by the Treasury in order to obtain some figures for tax purposes. (Laughter)

MR. BELL: We were innocent. What is this savings study you are making? I hadn't heard about that.

MR. PURCELL: Well, once every quarter we issue the figures on the volume of components of savings during the quarter. It comes out now about--

MR. BELL: Is that the national savings? You take individuals too?

MR. PURCELL: That is right. We don't go into the corporate field. It is individuals. Haven't you seen it?

MR. ECCLES: Why would you need the corporate balances on that?

MR. PURCELL: Because the figures we get are total. They include corporate and individual. Now, the only way that we can arrive at the estimated total for individuals' savings is to subtract from that the total corporate figures. We have gotten it before, but we have gotten it from filings.

MR. ECCLES: You are speaking of what you call the national individual savings, not as represented by savings accounts - you are speaking of savings in the--

MR. PURCELL: No, no, the components of savings.

MR. ECCLES: Are these the figures such as the TNEC used, you remember, in discussing before the committee the total volume of savings estimated on certain national income and the source of savings?

MR. CURRIE: They were percentages at that time, Marriner. There are two different statistical approaches to this thing; the one we used at the Board was the

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indirect approach dealing with all-over figures, and then the SEC at the same time developed a direct approach, actual measurement of the savings. They came pretty close.

MR. ECCLES: You handled the one down at the Board when you were down there. You handled the indirect study on the savings, and this is the direct study, and it was a combination of these?

MR. CURRIE: It has gone on ever since then, '37?

MR. ECCLES: Of course, those savings are pretty valuable. I mean, it is statistical information as to the total volume of the national income that goes to savings, because that part is available for new investment. The way the savings drop as the national income drops and the way they go up in proportion to the national income, and then the groups, the savings of certain groups, as I recall those studies, showed that fifty percent of the lowest income group saved nothing, that during certain periods they actually had spent more than they earned because they didn't even pay their debts.

MR. CURRIE: We didn't do that particular part of the work. This was done by the National Resources Planning Board.

MR. ECCLES: Yours is a part of that?

MR. PURCELL: It developed out of that.

MR. ECCLES: What I was going to ask then, why at this time - this is a new request that you made of corporations?

MR. PURCELL: That is right, in order to expedite the obtaining of the release of the figures.

MR. ECCLES: You got it before--

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MR. PURCELL: From various filings with us, and I think with the Reserve Board.

MR. ECCLES: But you just got it there?

MR. PURCELL: After those filings came in, which held us up from three weeks to a month.

MR. ECCLES: I heard a lot of criticism, not criticism so much as--

MR. BELL: ... fear.

MR. ECCLES: Yes, the question of suspicion or fear and wondering if the Government was going to force them to take their funds and invest them in Government Bonds, that is the one I have heard. They were afraid they were going to tell them what to do with these balances that they had.

MR. PURCELL: We can give them all the assurance now that the only purpose of this is to satisfy the curiosity of a statistician in Washington. (Laughter)

MR. BELL: Have you done anything to allay this fear or suspicion? What have you done?

MR. PURCELL: I said previously the Controllers Institute wrote us and asked us, put it in that fashion, assuming that the Treasury had asked us to do it for some Treasury purpose. We wrote the Controllers Institute, and they published it in their house organ, whatever it is, a letter explaining exactly what the purpose was, and that it was inaccurate to state the we had gotten this on behalf of the Treasury, that we obtained these figures for the use of all departments interested in the value of components of national savings at this time.

The study goes back three or four years. The techniques, to begin with, weren't any too good. The figures weren't very reliable, but we improved our

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techniques to the point where the estimates that we get now haven't much variant from an actual figure.

MR. ECCLES: You make this request of every corporation?

MR. PURCELL: I think so, yes, from every sizable corporation. Of course, we don't go into the very small ones.

MR. CURRIE: My expert tells me, Ganson, that this last study of yours is subject to misinterpretation. He doesn't think you made allowance for seasonal drop in national income and seasonal increase in tax payments.

MR. PURCELL: Would you get him to drop us a note?

MR. CURRIE: That might account for a difference of almost two billion dollars. The figures are right, but the interpretation is another thing.

MR. ECCLES: Who was that?

MR. CURRIE: My assistant, Salant.

MR. PURCELL: Would you get him to drop us a note on that? I would appreciate it very much.

MR. BELL: Apparently that letter to the Controllers Institute didn't get wide publicity, because we had this question brought up yesterday, or the day before, by two different people, that this had caused some uncertainty in the minds of corporate officials.

MR. ECCLES: Why wouldn't it be a good thing for the Commission to just make a statement that there has been some question about this, and misunderstanding, and in order that there be no misunderstanding on the part of corporations to just state what the facts are?

MR. PURCELL: I was just turning over in my mind the possibility of sending a letter to the same people, the corporations that we have already sent it to.

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MR. ECCLES: That would do it.

MR. PURCELL: Before doing that, I would like to check the original letter we sent out, because I rather think we stated the reasons in there.

MR. BELL: When does your next request go out?

MR. PURCELL: Well, the request is a continuing one. We don't write each time. We asked them in our first letter to report at the end of each quarter.

MR. BELL: They make this report without further communication?

MR. PURCELL: That is right.

MR. BELL: I don't know as it is necessary at this point to stir it up again. Maybe it will naturally die down.

MR. PURCELL: Those things usually do unless there is some real basis for misinterpretation.

MR. BELL: Allan Sproul and Williams both called me on the same morning, I suppose maybe two or three weeks ago. I asked Al Williams to call you right there in Philadelphia. I said, "Pick up the telephone and call him," and he said that he did and you had explained it to him.

MR. ECCLES: He is president of the Philadelphia bank.

MR. BELL: President of the Federal Reserve Bank in Philadelphia.

MR. PURCELL: He probably did, I just don't remember.

MR. BELL: I thought the thing had been sufficiently answered and it would die down, but it came up again in these financing conferences we had. Somebody asked if we knew about it, and I said--

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MR. ECCLES: You mean day before yesterday?

MR. BELL: I said I had heard about it, but I thought the thing had been sufficiently explained. One fellow said he hadn't seen any explanation of it, but there was still some suspicion around about the thing.

MR. ECCLES: You see, where the difficulty is, this Victory Fund Committee has been set up in all the banks, and the idea is, of course, to get as wide as possible distribution among corporations of these Treasury securities, especially certificates and the shorter securities. So these fellows run right into it because it is those corporate balances that they are after, to get them invested, and people are connecting up the Federal Reserve and the Treasury and think they are using you to find out where these balances are so they can turn them over to our sales group to go out and get them. (Laughter)

MR. PURCELL: It might very well have happened that way.

MR. ECCLES: It isn't a bad idea. (Laughter)
I was thinking we might really--

MR. BELL: ... use them. We have overlooked a bet maybe. I think maybe it will die down.

MR. CLAYTON: I wonder why these big corporations don't voluntarily put more of their balances in these short-term Treasury certificates.

MR. BELL: I think they will.

MR. ECCLES: I think one of the reasons for it is that we haven't had the securities that meet their requirements. We just recently have been increasing the volume of bills, and we increased the rate up to three-eighths prior to that. You see, it has been down to a quarter and below, and they weren't just interested in fussing with it. Not only that, but

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they would have to put bids in, and they never knew what they could get, you see, and I think that one reason we haven't gotten a lot of those corporate funds is due to our own failure to design the financing so as to meet what they want.

MR. BELL: They did come into the certificates; they will come into this one, I think.

MR. CLAYTON: I was just wondering if it wouldn't be well to study the situation with that in view to see if it couldn't conform to a plan that would recommend itself to them.

MR. ECCLES: Well, we have certainly been having a lot of discussion on that.

MR. BELL: Let's don't get on the tap issue.
(Laughter)

MR. ECCLES: We have been having a lot of discussion on that.

MR. BELL: What have you got this morning, Ganson?

MR. PURCELL: Well, we have circulated the memorandum, possibly a follow-up memorandum as well, that we got up at Mr. Buffington's request. That was something that Mr. Buffington asked us for.

MR. BUFFINGTON: I didn't know if the Secretary would go through that. I thought if they could summarize it it would be well.

MR. BELL: Have you been over their memorandum?

MR. BUFFINGTON: The complete one, but not this summary.

MR. PURCELL: The memorandum deals with the question of continued sales of investment company securities, which you will remember was a matter which occasioned considerable interest at the meeting two or three weeks ago, and the Secretary asked us to present to the

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members of the committee a memorandum on the subject so that it might be reviewed and be made the basis of conversation at a meeting. We have given some further study to the effects of restraining or stopping sales of various types of investment company securities and stopping the continuance of collecting payments on outstanding certificates.

MR. BELL: Doing what, stopping the collection?

MR. PURCELL: Yes, that is one possibility which we have looked into, and we have been concerned somewhat with the effects of doing one or both of those things.

Mr. McCormick has given the most thought and gone into the figures considerably in the last few days, and I would like him to describe to you the general setup as it is presented in the memorandum, in just a very few words, Mac, and then, if you would, discuss the possible or probable effects of discontinuing sales or discontinuing collection of payments on outstanding certificates.

MR. McCORMICK: As indicated in the memorandum, there are about a hundred and eight investment companies now actively selling securities. There are in excess of forty that are not selling securities but are taking in money on contracts that are outstanding, that is, already previously sold. Now, the open-end companies last year sold about fifty-four million dollars of new certificates. Those companies had redemptions of about fifty million dollars last year.

There are other types of companies; in the plan companies the new sales were not very substantial, but the collection - that is, new sales of contracts were not substantial, but collections on outstanding contracts were about four million eight.

MR. PURCELL: Will you explain what you mean by plan companies?

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MR. McCORMICK: Well, a plan company generally sells a contract, and the fellow agrees to pay in, say, ten dollars a month, and with the ten dollars they buy investment trust certificates for him. In other words, he is credited with a certain number of units, and as he pays in he gets additional units based on the market value at the time he makes his monthly payment, so he gradually, over a period, acquires more and more units, but there is no contract. That is, he will get a certain number back. He just owns a certain number of units in the investment trust.

That is distinguished from companies like Investors Syndicate and United and Fidelity, where they sell you a contract specifying that at a given date you will have accumulated, say, two thousand dollars. On that contract, as you make payments, your cash surrender value increases until you reach the face amount.

MR. ECCLES: A good deal like the building and loan companies.

MR. McCORMICK: That is right, and the straight open-end investment company, they just sell you a certificate based on the market value of the underlying portfolio, and you have no contract. If you want to buy a certificate today, you buy it, and next week maybe you buy another one.

MR. ECCLES: Three types.

MR. McCORMICK: Then there is a fourth type, we are not particularly concerned with. That is the closed end. They issue certificates like a corporation, and it is just traded in. They are no longer selling additional certificates.

On the open-end company, a person who wants to redeem it can turn in his certificate to the sponsor and get back the value of the portfolio as of the date of redemption, minus, generally, a small fee, say a flat twenty-five cents or a dollar, depending on the size of the certificate.

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MR. BELL: Is this the total volume of money involved, seventy million dollars?

MR. McCORMICK: No, that is the one large one of the face-amount companies, Investors Syndicate. There are several others that we don't have the information on, but that is the largest one.

MR. BELL: How much money would you say was involved in this on an annual basis?

MR. McCORMICK: On the face-amount companies?

MR. BELL: Yes.

JUDGE HEALY: You mean, the face amount of this type of issue?

MR. BELL: New money going into this.

MR. ECCLES: No, I would say the total amount of money that is going into all types of investment trusts, new money that is going in. And I wouldn't subtract from that the money that is being paid back because even if you stopped the sale of new certificates or payments on existing certificates, it would mean, of course, a certain process of liquidation; and this is a good time to get liquidation.

MR. BELL: That is what we have advocated, haven't we?

MR. ECCLES: That is right.

MR. McCORMICK: The only figure I could give you is the total gross payments on the face-amount and plan companies, plus the amount of sales of new certificates. Now, that is assuming that you are interested in the amount being paid in each year on already outstanding contracts. Now, on the face-amount companies there is forty; on the plan, forty-five; and the figure I gave you on certificates was fifty-four. That is about a hundred million dollars a year. Last year was not a particularly good year.

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As a matter of fact, payments on Investors Syndicate alone dropped from thirty-seven to thirty-three in outstanding certificates.

MR. CLAYTON: That hundred million includes payment on the outstanding of old contracts?

MR. BELL: You don't know how much represents the new contracts entered into?

MR. McCORMICK: No, the figures we have are not very complete. On Investors Syndicate I can give you the figure there because there was a shift from an old company to a new company a year ago - five million dollars paid in on new contracts, Investors Syndicate.

MR. BELL: And what percentage would you say the Investors Syndicate represents?

MR. McCORMICK: Probably half of face-amount companies.

MR. BELL: There isn't a big volume of new money involved, is there?

MR. BUFFINGTON: Dan, I don't think - Mr. McCormick knows more about it - I don't think that is entirely the test. I think you will find usually in a rising market you have these instruments all set up; they go wild. In other words, the little fellow doesn't buy in this kind of market. Where he sees debits and activities increase, that is where he wants to take a ride. I would think the danger in this thing is the instruments that are set up; the minute you get an improvement in your market it improves that volume two or three times.

MR. McCORMICK: They not only go after the new money, but try to get people to convert their Government Bonds.

MR. ECCLES: That is the trouble; that is what happened before.

MR. McCORMICK: They are right now.

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MR. ECCLES: The danger is getting after these people who buy Defense Savings Bonds - they get them to cash in, induce them to cash in. They say, "Now you have met this problem of pay-roll deduction and, after all, all you get out of these bonds is so much, and here is a much better investment." By gosh, they will induce them to cash in. I mean, that is one of the dangers; these salesmen get a commission, and any darned way they can get money diverted into these certificates they are going to do it.

MR. BELL: Do you see any evidence of that now?

MR. PURCELL: Yes, we have.

MR. McCORMICK: We have had some letters. Shall we mention any of those?

MR. PURCELL: What they are, generally, are letters complaining - not complaining, but sometimes just asking our opinion as to whether this salesman is right. "He came to me and said I ought to get out of my Government Bonds, now that I have done my job there, and get into this field."

MR. BUFFINGTON: "The market is just right for it, too." In other words--

MR. BELL: Now they are getting in on the bottom, and so on.

MR. BUFFINGTON: You will find, too, that the investment trust buys and sells on a round-lot basis and charges these fellows, do they not, on an odd-lot basis, so that in addition to making their commission they make the differential on the odd lot and the round lot.

MR. ECCLES: Which is a factor.

MR. BUFFINGTON: I think it is a terrible thing.

MR. BELL: How could you stop it or decrease it?

MR. PURCELL: That is what I would like McCormick to talk about, a little about the possible effects, and Judge Healy has some very definite ideas on how to go about this, or the effects if you go about it, which I would like you to hear him on, too.

MR. McCORMICK: In the first place, the closed-end trusts, there is nothing you can do about them, and they are not selling so you are not concerned with them. The second ones are the open-end management. If you told them they could not sell, of course it wouldn't affect--

MR. ECCLES: By the closed-end trusts you mean those that are not selling, that all they are doing now is they are in the process of liquidating?

MR. McCORMICK: Generally the closed-end is incorporated, has a certain capitalization in traded securities, like U.S. Steel.

JUDGE HEALY: In process of liquidation.

MR. ECCLES: Those concerns are not particularly - we don't need to be concerned with those at all.

MR. McCORMICK: No. Then the open-end management company - if we stop sales there, it wouldn't affect the fellow that was already in because he already has a certificate, only to the extent that by shutting him off you might create a psychological situation where there would be a rush to dump securities on the market, with a consequent depression of the underlying value of the portfolio. The third type--

MR. ECCLES: Let me ask you this. That would not likely be true unless they had some very large - certain substantial blocks of certain securities. They are not so big, are they, the holders of securities?

JUDGE HEALY: They have got about five hundred seventy million dollars, these open-end companies, and they have to

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keep themselves completely liquid because of the redemption right that the security holder has. The result is that they are all in about the same type of security. They are all in the blue chips.

Now, theoretically what happens is that the man with the certificate comes in and theoretically the company sells enough of the portfolio to pay him off. Since there is a constant selling campaign going on they actually don't go through that process - pay out the amount of the cash they take in. When that cash stops coming in if the demand for redemptions is continued, as McCormick shows us here, about fifty million dollars in redemptions last year - if that should increase, for any reason, you get a whole lot of people dumping about the same class of security on the market.

MR. ECCLES: Is that fifty million of redemptions in excess of--

MR. PURCELL: No, four million in excess of sales.

MR. ECCLES: So that that practically balanced out, and this had no effect on the market, either to stimulate it or to suppress it, whereas if you stop sales then of course you would have in effect a substantial sale of blue-chip securities on the market in order to meet the redemptions.

MR. PURCELL: You would eat up your cash position first, and at that point you would start selling. Now, if there were what Mac referred to as a run-up, it is conceivable that a lot of people would be getting in there to get ahead of the next fellow rather than, as is the case today, just get the money to pay his taxes.

JUDGE HEALY: Maybe.

MR. ECCLES: If it took fifty million to meet that situation it would - your contention is that the redemptions would be very much heavier if action was taken in order to stop it?

MR. PURCELL: It is a possibility if there were a psychological effect which created a run.

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MR. ECCLES: Wouldn't there be, don't you think?

MR. BELL: Do you have some way of meeting that, I mean, doing it in a gradual way so as not to create that effect?

JUDGE HEALY: The people in charge of some of these companies are principally interested in that phase. You see, from the point of view of a man who is distributing securities he has a constant supply. He hasn't got to worry about competitive bidding in going in to get the supply of securities to sell. He always has it because that redemption is going on. I very strongly suspect, although I don't know of course, that once the profits that enter into distribution come to an end the interest of the managers in these open-end trusts is going to diminish materially.

In other words, I have some doubt whether you will get as good quality in management of the portfolio under those conditions.

MR. PURCELL: You asked, Dan, whether there was any method of meeting it.

JUDGE HEALY: There is one provision in this act, in our investment company act, that got into the act in this way. Some of these companies which gave the right of redemption had sort of foxed the people that asked for redemptions from time to time by demanding a notice of thirty to sixty days, in one case even a year. So we got the provision in here that was designed to prevent that type of exemption unless certain conditions existed or unless the Commission enacted some rules along that line. That was intended not to compel the extension of redemptions but to permit the extension of redemptions under certain circumstances.

MR. ECCLES: Do you have that--

JUDGE HEALY: I think if you gave the statute very literal construction that the Commission would not be able to compel extensions of the period for redemptions.

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If you got some cooperation from the companies then you could work it out between the companies and the Commission so that your redemption period could be extended.

MR. ECCLES: Notice of redemption.

JUDGE HEALY: What hardship that would work on the people who want to redeem them, I can't say.

MR. PURCELL: The law requires that redemptions be made within seven days after the demand.

MR. ECCLES: Isn't this true, if you should stop the sale of this type of investment trust or certificate that the management would have a very limited source of revenue? I mean, on what basis could they continue in business? They would soon dry up, because the redemptions would reduce the volume to such a point that they would have to liquidate - request a liquidation of the whole thing sooner or later.

MR. McCORMICK: Either that or mergers.

MR. BELL: What would be the harm if you said, "Your new business can't be any greater than your redemptions?"

MR. PURCELL: Well, I have been worried about that. The suggestion was made that you gauge the size and effect of this business on the net difference between sales and redemptions, namely, last year, fifty-four over fifty, or four million.

On the other hand, I don't think that you can say with any positiveness that the withdrawal is going to go any great extent where you want it to go, into Government securities. Therefore, some part of that redemption figure, how great we cannot tell, must be going into places where you don't want it to go where it is defeating your Treasury Bond program. Now, nobody can say what that is; but to use the net figure alone I think would not be sound.

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MR. BUFFINGTON: These redemption figures you are using are 1941?

MR. McCORMICK: That is right. They are not all calendar year. It is the end of the last fiscal year.

MR. ECCLES: But a pure liquidation of these companies would not be of any particular assistance to the economy because, after all, if they are going to have to sell the securities they hold, to pay them out somebody has got to have the money to buy the securities; and those that buy the securities can't buy Governments, so, I mean, it is a transfer of investment, and that doesn't serve any purpose in this picture. It seems to me the purpose you want to serve--

(Secretary Morgenthau entered the conference.)

MR. BELL: I asked Mr. Purcell to submit a memorandum on the investment trust securities, the certificates, and he has done that and we were just discussing it. While there isn't apparently a great volume of money involved in this, there is the danger that these companies which have a lot of salesmen will urge people who hold Savings Bonds, after they have invested in them and done their patriotic duty, to get out of Savings Bonds and go into these investment trust certificates. They have had some indication that there is a trend now in that direction, and we were just discussing as to what should be done to stop it and what will become of the companies if we did stop it.

MR. ECCLES: I was saying that in the particular type of company we were discussing, these management companies, they buy stocks, these blue-chip stocks, primarily, and hold them and issue certificates to the investors; but the liquidation of those companies would not be of any particular assistance because the money that the certificate holders got when the stocks were sold would be off-set by the people who used their money to buy the stocks. It is merely a transfer of ownership and would create no more money for the purchase of Governments; but it does seem to me that in connection with the further expansion it would

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be desirable, but even at that, as long as they are confining their purchase to what we call blue-chip securities, the sellers of those blue-chip securities will get the money, of course, that is being used to purchase them, so it becomes a transfer there.

I would think this sort of - if the management is at all competent and efficient, this thing would be the most desirable type of trust, possibly, if they are doing a good job and they are confining their purchases to listed blue-chip securities.

The other types, such as the Investors Syndicate, and that type of thing, it seems to me to be the least desirable and the ones that can really do the greatest danger because they have salesmen out getting substantial commissions, and I think the real danger is--

MR. PURCELL: The others have salesmen out, too.

MR. ECCLES: Do they pay as big commissions?

MR. McCORMICK: I think they come very near. Of course the contract they sell is smaller, or the certificates; it is a piecemeal proposition. Keystone Custodian Funds, which sells ten types of funds, for example, says to the fellow, "How about buying a bond?" He says, "Bonds are no good now." "How about our low-class preferred?" "They are no good, either." "How about the high-class common?" They have got ten different types so the fellow can't deny unless he says he doesn't want to buy anything. They have about three hundred salesmen.

I have the figures on their sales. They are now in the process of registering three funds with the SEC, additional shares. The K-1 fund is the low-type preferred stock, which in November 1940 was selling at the rate of two thousand six hundred certificates a month, and in May they sold fourteen thousand, at a gradual increase. Their low-class common went from an average of sixty shares a month, certificates, to four hundred and ten in April. The high-class common stock went from four hundred and three certificates in November 1940 to over four thousand

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in April this year.

MR. BELL: Ten times in each case.

MR. McCORMICK: They are one of the most active in the field now, the Keystone--

MR. CLAYTON: What I can't understand - just as you argue, Marriner, it seems to me that when you put out those certificates it doesn't mean that the market, the securities market, is absorbing any fresh capital, isn't that right?

MR. ECCLES: That is right.

MR. CLAYTON: As long as that is true, how does that operation interfere. Would it necessarily interfere with the sale of Government Bonds?

MR. PURCELL: Well, it just seems to me, on an arithmetical basis, without any regard to the consequences, if these companies were not selling to that extent there would be money available which could actually go into bonds. Whether War Bonds or not there is no telling, but there will be that much money available for War Bonds.

MR. CLAYTON: But if I put a hundred dollars into one of these certificates and the company buys American Telephone stock with it, you or somebody else have to sell the telephone stock.

MR. PURCELL: That is right.

MR. CLAYTON: It looks to me like it is a swapping of money between individuals.

MR. McCORMICK: But there is also the offsetting of the deflationary effect on the market so that actually it wouldn't be an exchange if the market value was knocked down by reason of the liquidation.

MR. BELL: It wouldn't hurt unless you allowed the A.T. & T. to put out additional stock and sell for cash.

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There is where you get your new funds; but there would be some leakage.

MR. PURCELL: I think your principal problem is in the face-amount certificate.

H.M.JR: Could I get in on this. It is like lifting a bucket of water out of the ocean - I mean, pour it out of the Atlantic and pour it back into the Pacific and the level of the ocean won't change.

You have in the first instance three hundred salesmen out soliciting people with small funds to invest in this kind of investment. Those three hundred salesmen might be soliciting those same people to buy a hundred-dollar bond in the first instance. I mean, that is the thing that bothers me.

In the first instance - it isn't so much, but I mean if these men were ringing doorbells for us more or less exclusively - but the three hundred men ringing for them - and I think they have a damned sight better investment in War Bonds.

MR. ECCLES: Of course these fellows wouldn't be ringing doorbells for you because they get - this is their source of income, based on the commission they get.

H.M.JR: But it is savings in the first instance which is going into this kind of certificate.

MR. CLAYTON: I think there is--

MR. PURCELL: That doorbell ringer wouldn't be competing with whoever your doorbell ringer was.

MR. ECCLES: The fellow that sells A.T. & T, though, or any other blue-chip security has got the funds to do something with, of course. I think it may be correct that the purchasers would possibly be potential buyers of Governments, whereas the sellers of these securities would not be using the funds in the sale of these securities

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to buy Governments, but would like to be using the funds to be paying their taxes or doing something else with them.

MR. CLAYTON: I think that is the point in it. I think that has some merit.

H.M.JR: I don't quite get what Mr. Clayton says.

MR. CLAYTON: Mr. Secretary, that the people who are putting this money into these certificates are much more likely to be customers of yours in buying War Bonds than the fellows that will get the money that sell the stocks to the companies that issue the certificates. That is the point.

MR. BELL: He may get some, but there is a big leakage.

H.M.JR: That is the point I made.

MR. CLAYTON: I think it is a good point.

MR. PURCELL: Mac, do you want to describe the effects--

MR. McCORMICK: I think this Investors Syndicate, which is the plan company where they sell you a contract and the cash surrender value increases - they take a substantial part of your early payments, and consequently takes a long time - as a matter of fact, the new fifteen-year contract, you don't break even until you have reached the tenth year, so once you have signed those contracts you have a tendency to stay with them as long as you can.

Now, to indicate the extent of that, they have two thousand one hundred and fifty members in their selling organization. They are located in forty-two States and the District of Columbia, and on January 1, '41, the company had four hundred and seventeen thousand six hundred sixteen contracts in force with a face amount in excess of a billion dollars, and they were held by three hundred and fifty thousand different individuals.

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Now, when a fellow is stuck with one of those contracts it is not likely that he can take any money out to buy Government bonds. Now, on the effects--

H.M.JR: We might learn how they do it, to help on the New York pledge campaign. What kind of a contract is it? (Laughter)

MR. BELL: If we get them tied up for ten years we would be all right.

MR. PURCELL: Put a lot of small type in it.

H.M.JR: That is just one company?

MR. McCORMICK: Investors Syndicate.

MR. BUFFINGTON: Theirs is a commitment, not a pledge, and they act better under a commitment because they want to see how the--

MR. McCORMICK: You can't get out of it.

MR. BELL: Is that the Milwaukee?

MR. McCORMICK: Minneapolis.

JUDGE HEALY: The buyer isn't bound to make those payments; he is more or less locked in there.

H.M.JR: I think we are just as much behind the times on this thing as we were in converting the automobile industry over into making tanks and airplanes if we continue to let this thing go on.

MR. CURRIE: And in any true conception of mobilization for war, this is a non-essential and useless activity.

MR. PURCELL: Just so that you will know what the consequences of any action would be, I wish you would briefly state what the effects of stopping this would be.

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MR. McCORMICK: In order to understand what the effect on the contract order would be you have to realize there are two companies involved, Investors Syndicate, which has been in existence for about forty years, and Investors Syndicate of America, a subsidiary of Investors Syndicate. The new company was set up on January 6, 1941, in order to continue the sale of certificates because the old company had difficulty in meeting the requirements under the Investment Company Act of 1940 and also the Securities Act of 1933. The old company, therefore, is not selling new contracts. It is just taking in as to its outstanding contracts. Last year they took in thirty-three million dollars in those outstanding contracts.

Now, most of those contracts were sold with an accumulation rate of six, seven, eight percent, and the only way they can meet their maturity amount is through lapses, largely, because they just cannot earn on their investments plus the payments that are being received. They can't accumulate at that rate and make up this tremendous cut they take out at the beginning. So these companies, if you stopped collections, of course would accumulate only at the rate of four or five percent; they have got investments in FHA mortgages so they would go bankrupt. They just couldn't meet their specified interest rates in those contracts.

Now, if you told them that they had to liquidate, however, they are in position to meet their cash surrender value. As a matter of fact, though, that would be an injustice on the certificate holders for this reason, that the company accumulates a cash surrender value and has a separate reserve that it gradually builds up and tries to close that gap between cash surrender value and the maturity value.

MR. ECCLES: Like an insurance company.

MR. McCORMICK: That is right, and if it was at this time liquidated the fellows who have been running the company will probably come out of it about six

million dollars ahead.

MR. ECCLES: They would take the reserve and the certificate holder would get the cash surrender value, which would penalize them, and we would get the blame.

MR. McCORMICK: And in each of these cases except in the case where a fellow paid up the full contract and is merely letting it ride, accumulating interest specified in the contract, he would get less than he paid in, almost in every case.

MR. ECCLES: Isn't this true, that as a practical matter about all you can do is to stop further business. You can't go back and undo what has been done.

JUDGE HEALY: I think you ought to hear what he has to say about the new company.

H.M.JR: If you stopped new sales on other companies, by stopping new sales would that bankrupt them?

MR. McCORMICK: If you allow them to continue to receive payments on the old?

H.M.JR: No, getting new contracts.

MR. McCORMICK: No, they wouldn't be bankrupt. As a matter of fact, if everybody that was in the old company carried their contract through to maturity they would reach a time, even now, when they would go bankrupt. The only way they can meet those maturities is have some of those lapses go to the fellows who stay in. You wouldn't change it one bit by stopping them. That is a condition that is inherent in the setup.

H.M.JR: But I mean, if you had the legislative power to say you can't go out and solicit new contracts.

MR. PURCELL: That is what he is coming to.

JUDGE HEALY: The old company has already stopped because of the terms of the Investment Company Act.

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The new company has been formed to comply with the Act.

MR. McCORMICK: If you stopped the new company it would not bankrupt them because they are selling a contract that accumulates three and a half percent and so they would be able, if we just let them continue to receive payments on outstanding contracts, to meet their maturity if you just stopped the sale of new ones.

JUDGE HEALY: What face amount did new companies sell last year?

MR. McCORMICK: Last year, seventy million dollars, face amount, on which they received payments of five million, and the cash surrender value on those is about three million.

MR. ECCLES: That is what the SEC did, made it impossible to continue on the basis that they were going, and therefore they start a new company on a three and a half basis instead of seven or eight percent basis.

MR. PURCELL: That is what Congress did.

MR. ECCLES: What I mean, your regulations - yes, that is right.

MR. BELL: How would you stop this business, by an order of the SEC or Executive order or new legislation?

MR. PURCELL: Now, there is the problem that the Judge is very much interested in.

JUDGE HEALY: That is the thing that bothers me very much in this situation. The more I think about it the more confused I get. But you are dealing here, it seems to me, with a situation where it is pretty apparent, to me at least, that the people who are making these payments

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on these face-amount certificates are folks who ordinarily ought to be buying War Savings Stamps, and a salesman will go about, meet them at the factories and other places, and get their money for this purpose.

Now, you asked how you can stop it. Well, nobody has the least right to stop it. They are doing business - this Investors Syndicate, which is the principal company, is doing business according to a set of standards set up by Congress within the last two years. Now, I may be a little sensitive about this because for five years I have been defending a million-dollar damage case for something that we did at the SEC where the court said we acted incorrectly but within our powers. We have won it at every point, but the confounded thing is still in court. (Laughter)

Now, I get into a lot of trouble when somebody asks me to go ahead and do things or help to do things without any legal authority whatever. And I especially do when I not only haven't legal authority but I haven't any standards by which to guide myself in deciding whether I will say no to this fellow over and yes to this one over here.

Now, let's make concrete application of that to this Investors Syndicate. On Monday of this week the Circuit Court of Appeals for the Fifth Circuit held that the Fidelity Investing Association, which is set up exactly like this one and which has gotten into serious trouble under chapter ten in bankruptcy, the court held it was an insurance company. Now, the principal competitors, the principal rivals of these face-amount certificate companies, have been industrial insurance companies, and that rivalry has been very bitter at times. I seriously doubt, by the way, whether the rate of lapses in connection with these face-amount certificates is as great as it is in the case of industrial insurance.

Now, we come along and this committee says to the

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Investors Syndicate, "Boys, quit" "Well, have you any legal authority to make us quit?" "No." "What are you doing to make our competitors, the industrial insurance companies, quit?" "Nothing." "Well then, why do you ask me to stop? Why do you let them go along?"

Now, let's assume, on the other hand, that they come in and say, "No. Well, if the Government is putting pressure on us, we don't care what your legal rights are; we will do it anyhow." Then let's suppose that that works out to a point where the company was, we will say, made up of pretty decent fellows who go along with you - Ganson laughs at that "decent fellows" of mine - goes along with you and makes some losses for the certificate holders, and this other crowd over here doesn't go along with you.

Now, who is going to take the responsibility, for what otherwise may be legal, for all I know, of bringing about those results?

MR. BELL: Have you looked into the authority that Mr. Eccles is operating under to control consumer credit? haven't we something analogous here?

MR. ECCLES: You mean an executive order?

JUDGE HEALY: It seems to me that if you refer to the letter that Mr. Eccles wrote to the bank--

MR. ECCLES: No, no, it is a regulation, it is based on a presidential executive order that covers consumer credit, in terms of consumer credit. That letter was just a voluntary thing.

JUDGE HEALY: I don't know whether under any of the existing war power acts a directive from the President could cover this, or the WPB, or priorities, or what.

MR. ECCLES: I would think that an executive order would certainly meet this situation because these

executive orders are based upon the war emergency. The war powers, Trading with the Enemy Act and the War Powers Bill, two of them, have got in them about enough power to do darned near anything, and if the Federal Reserve Board could be given authority by an executive order to tell every retailer, every merchant, the credit terms upon which he can sell his merchandise, every installment seller of goods, and every cash lender - nobody has raised any question about the power, either. I mean, there is no question being raised, and they are very - we have got at the present time close to two hundred thousand registrants, and there has been pretty universal compliance, and it involves altogether over nine billion dollars of consumer credit. That is what is involved in the picture, so I think that you could get at it through certain executive orders.

MR. PURCELL: We had a pretty exhaustive study made of the legal bases, based on the various existing acts and on the executive emergency powers, and we are well satisfied that in an emergency such as this that the President has the power to issue such an executive order. I would be very glad to circulate a memorandum on that if you think it would be a good idea. What we had in mind was this: Going back as I remember, Mr. Secretary, to a meeting some time ago, you expressed the thought that it would be well to get a refusal to comply with an informal request, so as to be buttressed when you went for formal authority.

We have had - I think the Judge expressed it very well - some trouble with making a demand on these people and then having them raise hue and cry as to our authority.

What we have to suggest would be this, that if you agree, we might call these people in and tell them that, representing this informal committee, we have had some trouble with the continued sales of these types of securities in competition with the Treasury's program and ask them for their views on the subject, which would probably bring forth an expression of their unwillingness to see any restrictions put on their activities, at which point we could report back their views and their positions to the committee, which I think will probably give you what you had in mind

JUDGE HEALY: That would have the advantage, also, that the staff which has been working on these investment trust problems so long could analyze and test those statements and figures and concentrate them for the use of the Committee.

MR. ECCLES: It is all right if there are not too many of them. Of course you can't - we couldn't do that in the consumer credit because it was too extensive.

MR. BELL: Have you got a representative group?

MR. PURCELL: Yes.

JUDGE HEALY: We have an association formed and you have somebody you can go to but you haven't an association for the face-amount companies. You only have a few face-amount companies - in fact, only one that counts. This is the one that really counts.

MR. ECCLES: Your idea would be then you would get the Investors Syndicate and then the association and you would have pretty well covered the field?

JUDGE HEALY: I think so.

MR. ECCLES: Isn't this the approach to the thing? This isn't a case of judging what companies are good companies, and which aren't, which have competent management and which don't have. You are not undertaking here to reform, that you are permanently going to say that you are going to police all of the individuals and going to say where they can put their money and where they can't. It isn't that sort of a thing any more than, for instance, in undertaking, as the Federal Reserve did, to deal with consumer credit. We had companies like CIT, General Motors Acceptance, some of the Household Finance, the companies that are very excellent companies and doing very useful service in the field under normal conditions. Well, gosh, we have practically put them out of business. I mean - you see - I mean,

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their volume of business will just shrink so that they are almost out. I can't see why these companies, no matter how good they are, how useful their service has been in the past, why they serve any particularly useful purpose today when we are trying to divert all of the funds, both large and small, corporate and individual, into Government financing.

JUDGE HEALY: Isn't - you ought to say you ought to have priorities on capital the same as on copper, steel, and everything else.

MR. ECCLES: Well, it is in a sense. You should have, what we call savings capital.

JUDGE HEALY: Well, savings capital--

MR. ECCLES: That is right. Because you can get at that by stopping this sale.

JUDGE HEALY: I think it is very dangerous to wait until it is demonstrated that there is a real need because when that demonstration comes you begin to feel the pinch. It seems to me the thing that a movement of this sort can serve is to see that that place doesn't come. That is what you have to look ahead to.

MR. ECCLES: Of course you can create plenty of money. The point is to use existing money without having to create new money.

MR. BELL: Do you want SEC to say, in this group, that this is interfering with the Treasury financing or sale of Savings Bonds?

H.M.JR: No. What I think they can say is this, that they don't want to wait until the time comes that it might interfere, which is something quite different.

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MR. PURCELL: Yes, clear indication--

MR. ECCLES: Don't you think it would be bad to indicate that anything can interfere with the Treasury? I think you have got to think that, after all, the questions of Treasury financing - that nothing can interfere with it.

JUDGE HEALY: My own feeling would be to call the business in and say, "Here is this problem. We are not telling you what you must do or what you mustn't do, but we would like to discuss it with you and get your views as to whether it would be appropriate to stop the sale of this kind of security during the war period."

MR. BELL: In the interest of the all-out war program.

JUDGE HEALY: Just draw them out.

H.M.JR: Why don't you find out if any similar companies in England and Canada - what they have done, Judge Healy?

MR. McCORMICK: I think they have all been stopped.

H.M.JR: Well, if you have, and I am sure that they have, although I have no facts, you have got precedent. I am sure that the English wouldn't permit that to go on.

JUDGE HEALY: I don't think important business firms--

H.M.JR: You might as well have the facts on what they have done in Canada.

MR. PURCELL: Australia, too.

H.M.JR: If you want the stuff in England we have a very good man for the Treasury in England; you can get at him through Harry White.

MR. ECCLES: It seems to me that you have got a good precedent, too, when you point out that all these finance companies are just another form for getting funds, and these finance companies have all been - they haven't been liquidated, but the regulations are such that it has that effect, that their volume is just shrinking tremendously.

MR. BELL: They have liquidated to some extent.

MR. ECCLES: Well, we are doing it for the purpose of stopping - getting people to pay debts instead of buying goods. It is partly an anti-inflationary program.

Now, true, what you are doing here is trying to divert funds into the Government instead of diverting them somewhere else. It seems to me that it can be shown that it is just as necessary to divert savings funds into Governments as it is necessary to put pressure on people to pay their debts. It is all part of the same picture.

MR. CLAYTON: Do you have some hope you could get a voluntary agreement out of these people to discontinue?

JUDGE HEALY: I would guess that Investors Syndicate would say no, that they will continue to say no as long as industrial insurance companies can operate.

MR. PURCELL: They have been resisting telling the truth for about six or seven years. I don't see why they should give any favorable answer on that.

MR. CURRIE: Perhaps if we get a way with those we can move on the industrial insurance companies, the biggest racket in the country. They used to collect a quarter of a billion dollars from very small poor people, and still do that.

MR. McCORMICK: Very large.

MR. ECCLES: I think they have got something - I think that three quarters of a billion is largely funds that might go into Defense Savings that doesn't go there.

MR. CURRIE: Small amounts of twenty-five cents, fifty cents.

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JUDGE HEALY: Some of the insurance companies could put more money into Governments.

H.M.JR: If we keep on in such a radical manner, the first thing we know Mr. Dies will investigate us.
(Laughter)

MR. BELL: Why can't you say, in answer to that question, we are studying that?

JUDGE HEALY: We can tell them not to make too many assumptions about that.

MR. CLAYTON: What is the position of the building and loan associations in this picture? (Laughter)

MR. PURCELL: Mr. Eccles mentioned that.

MR. CLAYTON: I didn't know I was bringing up something--

MR. McCORMICK: I think probably - I haven't looked into it - we have data from the United States Building and Loan League and also from the Administration, the Federal Home Owners Bank, but I think probably we ought to have a complete report on it. I might say that the Building and Loan League indicates that most of their assets are in mortgages, and the question would be whether you want to knock off that investment in that type of asset. Of course the trouble is that most of them are members of the Federal.

MR. ECCLES: Yes, they are part of a Government setup. I think your building and loan is a little different. I do feel, however, that we might well get at that through the Home Loan Bank setup's own regulations.

MR. BELL: Don't the priorities pretty well take care of them, except for old homes?

MR. CLAYTON: The priority situation does, except for very small homes. I think for very small homes they might be able to go ahead without priorities.

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MR. McCORMICK: Five hundred, I think.

MR. BELL: I think that is the limit.

MR. ECCLES: I am not thinking of getting at it from the standpoint of lending their money, because, as you say, priorities has taken care of that the same as the savings banks, insurance companies, savings departments of commercial banks, and I don't think you can go at the building and loan companies from the standpoint of saying that these funds that you take in can't be put into home mortgages. I think that would get you into a lot of trouble.

The building and loan companies are putting a substantial amount of their funds into Government Bonds, and if they can't get mortgages there is nothing else left for them to do. They will automatically divert them into Government Bonds, because they are restricted; they can't go out and buy common stocks, they can't go out and make commercial loans. There are a lot of things they can't do; they are restricted, and they have been trying for the last two or three years to get it amended so they could.

(The Secretary left the conference.)

MR. ECCLES: We buck them constantly. We have said all that that is creating is another banking system, and we have got too many banks now, but they are restricted in their lending and activities, and in the absence of home mortgages being available because of priorities I think they are going to have surplus funds, and they are going to have to go into Government securities.

Now, the thing that has concerned me about the building and loan companies was the kind of contracts that they are putting out, which are somewhat like some of these contracts you refer to. They will sell what they call a paid-up certificate, and also an installment certificate. They advertise that you can get three percent or three and a half percent or four percent on your money, and it is guaranteed by the

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United States Government, insured by the United States Government. So you do have competition there.

The Government bond bears two and a half, long bond, whereas a lot of building and loan companies advertise higher rates than you can get on the Governments, and they get the funds on the building and loan insurance, which is a Government insurance setup. Now, right there is something that we ought to stop. We could well insist that the Home Loan Bank people insist on that sort of advertising and inducing people to put funds in here. That is unsound from the standpoint of these building and loan companies and will get them in trouble, except through the cancellation penalty. It is the same thing as this Investment Syndicate. They advertise the three or the three and a half or the four percent, because the person buying these installment certificates is unable to carry through and the loss that he takes because of his inability to mature the certificate enables them to pay maybe three and a half or four percent on those who do carry through.

MR. BELL: Penalties, forfeitures, and so on.

MR. ECCLES: That is right. That is the bad part of it, that is the right of these salesmen of these building and loan companies to go out and sell certificates just like the Investment Syndicate.

MR. BELL: That part of it is the inducement they offer.

MR. ECCLES: That takes funds from a lot of little savings around the country that goes into this channel that ought to go directly into Defense Savings Bonds.

MR. CLAYTON: How can they possibly sell a certificate of that kind now? I don't see how they can make good on it, because the opportunities that are open to them are so thin. They can't put any new money into buildings because of the priority situation, and they can't get securities, Government or any other kind, that will enable them to make good on their contract.

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MR. ECCLES: Well, of course, they have already got six and seven percent, eighty and ninety percent mortgages, and they have got a lot of FHA, four or four and a quarter.

MR. BELL: And they are out now competing for old mortgages from other institutions.

MR. PURCELL: And they are ruining this campaign.

MR. ECCLES: But the difficulty is that why they are able to do this well is they bank on a certain percentage of their certificate holders forfeiting.

MR. CLAYTON: That is bad stuff.

MR. ECCLES: Of course, but that is where they live, purely on overselling people, and of course, the cash surrender value is very small. The first year it is nothing. It practically all goes into commissions, and so on. The second year, I don't know - it is very small anyway. In other words, they have to carry through to get this sort of income. Now, the whole principle of that thing is bad.

JUDGE HEALY: That was the basis of the old face-amount certificate thing. You paid in a sum of money, and they said, "At a certain date you pay so much, and we will pay you back so much." Then they take out a sales loan, management loan, and then they try to make the rate of improvement that they promised you. They can't possibly do it. They only did it by reason of the fact that a lot of people couldn't keep up their payments.

MR. McCORMICK: As a matter of fact, Investors Syndicate used to send their salesmen instructions to over-sell them so the fellow could carry his contract a little while and would have to lose it.

MR. BELL: You are going to see what you can do on a voluntary basis? In fact, make a little more study as to what effect it is going to have if you

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virtually put these people out of business. I don't know if we have enough information on that.

JUDGE HEALY: That is part of the program to draw them out, see how good a case they can make on that, and whether our boys can break it down.

MR. BELL: You might carry that on in our contracts.

MR. ECCLES: I don't believe you are going to be able to do anything with this Investors Syndicate, this group, and let the building and loan companies operate, because there is too close an assignment, a group of salesmen selling certificates on the basis of a yield higher than the company can earn and pay, on the basis of them getting substantial commissions and leaving the companies to get by out of the forfeitures.

That goes on in these building and loan companies to a very substantial extent, and these building and loan companies are so much larger than all the rest of this put together. The building and loan companies run way up into the billions. It is a tremendously big setup, and it is a powerful political lobby. It is one of the most powerful political lobbies in Washington. A fellow by the name of Bodfish - I went up against it in the Banking Act, I went up against it in FHA. I was handling it for the Treasury in '34, and the building and loan companies fought FHA teeth and nails, because it was reducing the interest rate on mortgages and was raising the loan amount. They had a free field, because nobody else could loan eighty and ninety percent, and they were loaning eighty and ninety percent, and the average rate they were getting was around ten percent, and they fought about it, the whole FHA program, so I know what I am talking about when I tell you about the kind of a lobby - yet I don't think you can do much on this and let them get by.

MR. BELL: How about making that part of your study, Ganson, and when you come back the next time with this other information--

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MR. PURCELL: If you arrive at the conclusion that Investors Syndicate and other investment activities should be stopped and wanted to seek the authority to do it, then perhaps the committee should make representations to the controlling authority of the Federal Home Loan, or whoever it is.

MR. ECCLES: I think very definitely that we should stop the sale of building and loan certificates at this time, because they are certainly competing - just get an executive order, because they will fight you. You have got to get an executive order through quickly, that is the way you get those things, because the minute you begin to negotiate that you get licked plenty. They will stir enough Senators and enough people up on the Hill here that it will just be a problem. The building and loan companies will say, "What about the mutual savings banks and the banks?" Well, the mutual savings banks and the banks are not paying any such interest rates. They take deposits and pay a current rate, but they don't mature certificates. They don't sell on an installment certificate basis where if you cancel there is a penalty; it is entirely a different situation.

MR. BELL: You would let the building and loans go ahead and take their regular deposit in the regular way as long as they didn't sell this?

MR. ECCLES: Sure, if they want to sell a paid-up certificate, no penalty on cashing it in, let them take the deposit in the form of a certificate.

MR. MCCORMICK: Just take a deposit.

MR. ECCLES: Let them take a paid-up certificate. A paid-up certificate is quite a different thing, because a fellow takes the cash - the building and loan has the cash, and the fellow then can get his cash back under the terms of the certificate, and there isn't any penalty. The real evil, as I get it, is the--

MR. BUFFINGTON: The penalty keeps them going.

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JUDGE HEALY: Your reference to the political side of this - if we are definitely looking forward to an executive order, giving somebody authority to handle this situation to prevent this pinch, it seems to me that if you go to the investment trusts and Investors Syndicate and either make a request that they quit or explore the subject with them, drawing out their side of the case the way we have discussed it this morning, isn't that precisely what they are going to do?

MR. BELL: I wouldn't ask them to quit - just explore it as to possibilities.

MR. ECCLES: The minute you do that - here is what I am afraid of. Just the minute you begin to consider that, you will have the building and loan companies think - now, this thing is very closely related, and you will get enough publicity and opposition stirred up, likely, before you can get started.

JUDGE HEALY: When our investment bill was before the House and Senate in 1940, we discovered that the Investors Syndicate - these boys had plenty of power up there of their own without any help from building and loan or anybody else.

MR. BELL: Do you think just talking to them along the lines we have been thinking about here would make them go to Congressmen and Senators and get that stirred up there?

MR. PURCELL: Yes.

MR. ECCLES: I would think, Dan, that an executive order, which only runs for the period of the war, the emergency period, expires six months after, some point, have them all in the same order, that that would be gotten out, and then before you make regulations--

MR. BELL: Call them in.

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MR. ECCLES: We didn't call in all these people that extend credit of all types until we worked out an executive order with Henderson, because what our job - our job was to supplement the price control by reducing the demand for merchandise, but we didn't put out any regulation without calling in the various people of the trade and discussing the proposed regulations, giving them a chance to be heard and make their suggestions. They were very helpful, because, after all, there are a lot of practical aspects to every business that you might not see all of them, and at least, even if you don't accept their suggestions - and we couldn't in most instances - they feel a lot better to have had an opportunity to be heard.

MR. PURCELL: That is the policy we followed from the beginning.

MR. ECCLES: I would think you should pass the executive order and make it broad enough so that you can meet this, and prepare along with it a statement that would be in layman's language, so that the President, when he signs the order, would release that this is being done; and you get public support if that statement that he puts out would show that this was a necessary war effort, and then you begin to present--

JUDGE HEALY: The thing I hoped for here was based on the assumption that - I hadn't undertaken to verify that - there wasn't much chance of an executive order along this line. Of course, it seems to me that the most desirable thing that could possibly be done would be, if the President has the power - I know some of the lawyers think he has, most of them think he has - is to set up that kind of a power and then go at the subject of regulations in about the way you mentioned.

MR. ECCLES: I felt that the executive order proposed, and I still feel it wasn't necessary, and this is a very - this is a little different sort of thing. You were talking about capital issues. Now, this is somewhat different than the question of capital issues.

MR. PURCELL: Oh no, our executive order, Mr. Eccles, went beyond; it included capital issues, but went beyond the control of capital preservation.

MR. ECCLES: I was opposed to the executive order because I felt capital issues should not be included because, in the first place, anyone that can get priorities, they should be permitted to finance.

MR. CLAYTON: Use their capital--

MR. ECCLES: And today you don't need to control the capital issues; it seems to me that the priority thing in and of itself will pretty largely control it.

JUDGE HEALY: In some cases we can pretty well demonstrate that that wasn't entirely so. I don't know how many of them there were, but there were people who were raising money and didn't need priorities.

MR. BELL: They had their own money.

MR. ECCLES: You can stop that by going to banks.

JUDGE HEALY: What kind of an order do you envisage that would avoid that?

MR. ECCLES: I haven't thought a lot about it, except--

MR. BELL: It seems to me it is right down the consumer credit alley; it is along the same line, the same type of an executive order.

MR. ECCLES: I would think it is largely to get at the people who are selling these various types of certificates that are tapping the small savings all over the country, whether building and loan companies or any of the rest of them.

MR. PURCELL: It seems to me you want a fairly broad order to deal with all the various types of situations.

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I think, Mr. Eccles, if you reexamine the order we have worked on in the past - true, you will find it includes the control of capital issues, which I think we may want to come to and it wouldn't be bad to have the authority, but I think you will also find it has the type of authority in it that you are thinking of exactly. I may be wrong, but that is my version. Have you looked at it recently?

MR. BUFFINGTON: Not recently - it was plenty broad.

MR. BELL: Do you think this might be a good way, to have an order and then call them in, then go after your regulations under that order somewhat along the line Marriner did for the consumer credit control?

MR. CURRIE: Yes, because if you start talking about it, I am sure you will raise a hornet's nest on it. I do think that the President ought to because of the political opposition.

MR. McCORMICK: For example, if you were stopping the capital issues - the squeal from Western Congressmen on the mines, they quite obviously will squawk.

MR. ECCLES: I wouldn't cover capital issues. I think that is a separate matter. The capital issue you can get at in another way.

MR. CURRIE: The installment point - get that emphasized, and it would tie in with installment credit.

MR. ECCLES: I would leave the capital issue out. If necessary, cover that later - I wouldn't put--

MR. CURRIE: The thing ought to be broad enough to cover the building and loan.

MR. ECCLES: And also this industrial insurance.

JUDGE HEALY. You may have a little trouble in definition, because I suppose even ten shares in a

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mine is a capital issue. These certificates that these men are selling, these face-amount certificates that we have all been discussing, is a capital issue. Of course, I don't get too much scared by difficulties of definition, because we always seem to have that trouble.

MR. BELL: Well, will you take a look at it and see what you can do and discuss it?

MR. PURCELL: Sure. Perhaps we can arrange to get together with legal representatives of our various groups for discussion on the type of order.

MR. BELL: I think the Treasury and Reserve people worked on the consumer thing, and they would have that background, and they worked on the other, under the War Purchases Act, and under the Trading with the Enemy Act, both of which were very broad.

MR. ECCLES: I would like Mr. Dreibelbis to work on this thing.

JUDGE HEALY: Shall we substitute this for the time being, at least, in place of calling these fellows in?

MR. ECCLES: We are not ready to call them in.

MR. BELL: Is there anything else?

MR. PURCELL: We have got some routine here.

MR. McCORMICK: There is one we ought to clear. We were instructed to do something on the question of the Interim Finance Company which was brought up. It is a company in Chicago that lends funds to companies that get into financial difficulty. They have one branch that reorganizes, that is, works out the plan, and then this new company has been set up to give them money.

Now, it was recommended the last time that the Commission write a letter telling them to withdraw

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their proposed financing. Now, we have drafted a letter in which we say:

"The facts regarding the nature and purpose of the proposed offering to be made by the Interim Finance Corporation have been presented to the informal capital control committee, the chairman of the Board of Governors of the Federal Reserve System, the Federal Loan Administrator," and so on, "and it is the opinion of the Committee, after careful consideration of such facts that the owners of the company will not contribute significantly to the war effort, and that its financing program may interfere with the bond-selling efforts of the Treasury of the United States. I have therefore been directed by the Committee to advise you that it is their wish that the company not proceed with its plans for financing at this time."

MR. ECCLES: Which company is that?

MR. McCORMICK: Interim Finance Corporation, a new company.

MR. ECCLES: It is the one we discussed two weeks ago.

MR. BELL: You are submitting this as a draft to see whether there is any objection to it at this time?

JUDGE HEALY: I wouldn't differ very much with the opinion expressed there, but I still have some reservations about trying to impose these things on a voluntary basis, especially if there is a possibility that within a short time some order can be worked out that really puts this committee on a firm basis.

MR. BELL: Why not try this and if we don't get any place on a voluntary basis, then we may have to go to the committee. The purpose of this is to avoid setting up a formal committee that would have to issue regulations and everything.

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MR. PURCELL: What is your deadline on that?

MR. McCORMICK: That will probably become effective before the middle of next week.

MR. ECCLES: As I remember it, Mr. Jones and the Secretary were at the meeting when this was discussed, and we all agreed that this sort of thing shouldn't continue - I mean, that this was entirely a new company being set up and that we should request that they do not go out and raise money now. I would think that in view of that discussion that the only thing we could do is approve this letter.

MR. BELL: Where did you say it interferes with the Government Bonds?

MR. McCORMICK: Selling efforts. We say, "will not contribute significantly to the war effort, and that its financing program may interfere with the bond-selling efforts of the Treasury of the United States." That last part could be cut out and say, "will not contribute significantly to the war effort" period.

MR. CLAYTON: I would be in favor of that.

MR. McCORMICK: I don't like to admit that the Government--

MR. PURCELL: ... can be stymied by the Interim Finance Corporation. Either that, or you could say it takes funds away from the financing of the war.

MR. BUFFINGTON: I wouldn't do that.

MR. BELL: Even that, you don't--

MR. CLAYTON: It is too small.

MR. BUFFINGTON: It is only a million dollars.

JUDGE HEALY: I will go you one more; I wouldn't say anything. I don't think I would say anything. I think this is just peanuts in the face of the problem we are facing.

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MR. BELL: How much money is involved?

MR. BUFFINGTON: A million and one.

MR. CLAYTON: Potentially a million, but they may never sell half, may never sell a third - probably not a third of the securities.

MR. ECCLES: There is this thing you have got to think about. There is no publicity given to this informal committee. The minute you send that letter out, then there is a committee, and then you are going to have somebody making inquiries as to, well now, after all, what is this committee, is this the first action you have taken, is this the first company, and what are you going to do in the future? I mean, it does raise all those questions, doesn't it?

MR. BUFFINGTON: You missed a hundred million on American Tobacco, why get on this one for a million - that is the public's attitude.

MR. PURCELL: Legitimate criticism, I would say.

MR. CLAYTON: It is so little.

MR. ECCLES: Well, in view of the fact that since this was done we have gone quite a ways in the direction of these investment companies and building and loan - it seems to me that is much more important, and if that is going to call for, and it will if we are going to do any effective acting, some form of executive order, maybe we had better wait.

MR. BELL: What are you going to do with this, hold it up or let it go along?

MR. McCORMICK: Let it become effective. We might stall it, tell them to make some additional changes.

MR. PURCELL: Not unless you have appropriate grounds for doing it.

MR. BELL: You wouldn't want to do it here on an informal basis?

JUDGE HEALY: I would hate to see that letter on the front page of the Wall Street Journal.

MR. ECCLES: If it was a real issue - I mean this is the wrong vehicle to give this informal committee publicity.

MR. BELL: I think you are right.

MR. CLAYTON: The psychology of it would be very bad.

MR. PURCELL: Have you got anything else?

MR. McCORMICK: No.

MEMORANDUM TO CHAIRMAN PURCELL

Subject: Sales of Investment Trust Securities

There are at present in existence approximately 400 investment companies. Of these, 108 are actively engaged in the sale of certificates. In addition, there are 46 face amount and periodic payment companies which are collecting payments on outstanding contracts, although they are no longer selling new contracts. Open end management companies sold in the last fiscal year approximately \$55,000,000 of certificates. Periodic payment plan investment companies sold contracts having a face amount of \$3,700,000 in 1941. They received payments on all outstanding contracts in the amount of \$4,800,000 in 1941. The only face amount investment company which has reported to the Securities and Exchange Commission to date, Investors Syndicate and its subsidiary, Investors Syndicate of America, sold contracts with a face amount of \$70,800,000 in 1941 and received payments on all outstanding contracts in the amount of \$38,852,000 in 1941.

These investment company organizations employ several thousand salesmen who conduct thorough door-to-door campaigns. They frequently resort to extravagant and questionable methods. Their appeal is made generally to small investors of the type that the Treasury is anxious to have invest in savings bonds. While the amount of sales actually made by investment companies is now substantial, their sales may prove even a more serious obstacle to the Treasury at such time as greater confidence in the securities market returns. At that time they will be in a better position to "out-sell" the Treasury Department. It is important

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to keep in mind that these organizations will not only try to obtain the new funds received by prospective investors, but will attempt to switch them from their readily convertible savings bonds into certificates in their companies. It should be noted that while 108 investment companies are now actively selling certificates, there are about 400 investment organizations in existence, most of which could swing into sales campaigns in a relatively short time. In addition, many new companies will undoubtedly be formed as soon as the securities market improves appreciably. As an indication of the number of such organizations which is likely to be formed, attention is called to the fact that 1300 investment companies of this type were organized within the last 15 years in this country.

Edward T. McCormick
Assistant Director
Registration Division

June 15, 1942

June 18, 1942
11:20 a.m.

HMJr: Hello.

Operator: Mr. Rouse.

HMJr: Hello.

Robert Rouse: Hello.

HMJr: Morgenthau speaking.

R: Bob Rouse.

HMJr: How's the thing going?

R: I think it's going very well.

HMJr: Uh - huh.

R: Everybody seems to like it and, quite content.

HMJr: Uh - huh.

R: Of course, the subscriptions won't come in so heavily today

HMJr: Yeah.

R: they'll hold them off until tomorrow

HMJr: Yeah.

R: but, I think we'll have a good deal of interest in it.

HMJr: I see.

R: One of the banks called in a few minutes ago, and they're interested in getting - not only getting some themselves - they're interested in getting them to their customers.

HMJr: Well, that's good.

R: Which I encouraged very powerfully.

HMJr: Well, I think giving them two days will give them a chance to turn around.

R: I think it will

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HMJr: Yeah.

R: and it may be that they'll get some letters out and do some calling, and get the customers to draw on the banks

HMJr: Yeah.

R: rather than the banks get them all.

HMJr: Yeah.

R: One thing that I just had a question on - a couple of corporations had called in to a dealer and referred to the language of the - of the circular being changed from last time....

HMJr: Yeah.

R: in respect to the allotment

HMJr: Yeah.

R: and raised the question as to whether allotments on subscriptions over twenty-five thousand would be allotted on an equal percentage basis.

HMJr: Yeah.

R: That was the wording in April and that's been changed this time.

HMJr: You'd have to ask Bell. My only information was that everybody that subscribed to twenty-five thousand, would get it.

R: Good.

HMJr: But you'd - don't take my word for it - you'll have to get Bell.

R: I'll clear along the line.

HMJr: Will you?

R: Yeah.

HMJr: But that was my understanding.

R: Everybody seems very happy.

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HMJr: Good. Thank you.

R: Thank you.

June 18, 1942
2:29 p.m.

HMJr: Hello.

Operator: Mr. Tickton.

HMJr: Okay.

Operator: Go ahead.

HMJr: Hello.

Mr.
Tickton: Hello.

HMJr: Tickton.

T: Yes, sir.

HMJr: Go ahead.

T: Well, we've gone over about nineteen or twenty thousand of the pledges that they received on the first day in order to find out what they contain.

HMJr: Just a minute. Hold on the wire a minute.

(Aside to Mr. FitzGerald) Tell Gamble to hurry in here.

F: Yes, sir.

HMJr: Go ahead.

T: We went over about nineteen thousand pledges that they received the first day.

HMJr: Yeah.

T: There were very few F and G's. There were only about thirty all together.

HMJr: Yeah.

T: Those F and G pledges will be in the hands of the F and G Committee sometime today, and the F and G Committee is going to follow through on them.

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HMJr: Would they have been if I hadn't called up?

T: Well, yes. They classify F and G's separately, and they end up in a small little bundle.....

HMJr: I see.

T:and the F and G Committee gets them. They're so few, that it doesn't make very much work to turn them over to the F and G Committee.

HMJr: Yeah.

T: Mr. Madden, in saying "putting them aside" meant that they're putting them aside to give them to the F and G Committee.

HMJr: Yeah.

T: And there are very few, and they're going to follow through as they ordinarily do on F and G Bonds. Now, the pledges - none of the pledges have gotten in the hands of banks as yet.

HMJr: They have not?

T: The first ones - those that were received the first - some of the ones that were received the first day will be in the hands of the banks tomorrow.

HMJr: I see.

T: Ninety per cent of the ones that designate banks will be in the hands of the banks by the end of next week, that is, he doesn't want to swear it's going to be a hundred per cent, but he says more than ninety per cent of those that they receive will be classified by the banks and distributed.....

HMJr: Yeah.

T:to the banks by the end of next week.

HMJr: Yeah.

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T: And Mr. Madden says that if he gets between two and three million pledges, as he expects to, more than a million postal cards will be mailed out by the banks before the end of the month to the persons who have designated them saying, "We're glad to know that you designated us as your bank, and we'll do everything we can to help you."

HMJr: Yeah.

T: Now, in that nineteen thousand pledges that I went through, or took a look at, and I've got some people working on it this afternoon.....

HMJr: Yeah.

T:about thirty-five per cent of them are banks. That is, they designate banks as their place they're going to put the money in.

HMJr: Yeah.

T: About twenty-five per cent or thereabouts are post offices. About thirty per cent are payroll savings plans, that is, the canvass has found these people were already on or plan to be on a payroll savings plan.

HMJr: I didn't hear that.

T: About thirty per cent of them are payroll savings plans.

HMJr: Yes.

T: In other words, if you canvassed a man who is now working for General Motors, he said he was buying ten per cent from General Motors.

HMJr: Now, give me that percentage again.

T: Thirty per cent payroll savings plan.

HMJr: Yeah.

T: Approximately thirty-five per cent banks.

HMJr: Yeah.

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T: Approximately twenty-five per cent post offices.

HMJr: Yes.

T: And the balance are miscellaneous, as sometimes they say a department store, or some various brokerage institutions. Now, the follow-up on the banks is complete, that is, they will send - every one of the fellows who designates a bank, will get a postal card before the end of the month.

HMJr: Yeah.

T: On the payroll savings.....

HMJr: Well, now, wait a minute. What does the postal card say?

T: The postal card says that - wait a minute, I'll read it - I've got one right here.

"Dear Mr. Jones: The United States Treasury Department has notified us that you have pledged yourself to buy War Bonds or Stamps on a continuing basis. Your pledge form has been registered with us for whatever attention may be required. We are pleased to learn of this patriotic obligation which you have assumed, and if there is any further information we can furnish, or any service we can render you in fulfilling your pledge, we know you will not hesitate to call upon us. Very truly yours, Manufacturers Trust Company, Uptown Branch."

HMJr: Uh huh.

T: And at the bottom it says, "The greatest pledge of all, we mutually pledge to each other our lives, our fortunes, and our sacred honor." They make the same declaration on the front. Now, that card will go out to each person who designates a bank as the place where he's going to buy his Savings Bonds. It will go out before the end of this month. Now, thirty days from the time that that postal card goes out, a second letter goes out.

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- HMJr: Yeah.
- T: That means it will go out sometime towards the end of July.
- HMJr: Yeah.
- T: And that letter says, "Dear Mr. Jones.....
- HMJr: A little louder.
- T: "We are again writing you in connection with your pledge to buy United States War Bonds and Stamps. Since we last wrote you, you may have thought it possible to.....
- HMJr: What's that, Tickton? There's a noise outside. I can't hear.
- T: "We are again writing you in connection with your pledge to buy United States War Bonds and Stamps. Since we last wrote you, you may have thought it possible to increase your pledge, or, perhaps, some other method of payment would best meet your budget situation. May we repeat, that if there is any way in which we can be of help to you with information or advice, please feel that we are anxious to be of service without obligation. Very truly yours," and the name of the bank. And that goes out the end of July.
- Now, at the end of August, another letter goes out, and it says, "Dear Mr. Jones: In order to be sure that we are all rendering the maximum support to our Government in the War Bond pledge campaign, we are seeking ways and means in which we might either simplify or make more effective the procedure of purchase and payment. We would indeed be pleased to hear from you if you have any suggestions in this matter. We would again like to mention that if there is any way in which we can be of help to you in connection with your own pledge, our offer of cooperation is hereby renewed. Very truly yours," and the name of the bank.
- Those three cards are planned at thirty day intervals to follow up these pledges.

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HMJr: Yeah.

T: Now, if the man buys or doesn't buy, the bank handles it just the same way.

HMJr: I see.

T: That's the follow-up that's planned for the.....

HMJr: Well, it's a pledge, and it's not a contract.

T: It's a pledge followed up in writing.

HMJr: Yeah. It's a pure and simple pledge.

T: Well, it's a little more complicated than a pledge. But it's not - it's a pledge.

HMJr: Yeah. Yeah, it's not - I mean, it's no obligation on the man to buy.

T: Well, it's only a moral obligation. It is no legal contract.

HMJr: No.

T: If you mean that the bank, on receiving one of these cards - one of these pledge slips, from me, for example, and I've got an account in the bank.

HMJr: Yeah.

T: They cannot charge my account unless I give them a further order.

HMJr: Well, of course, that's what I thought they were going to do. I thought it was going to be a check on the man's bank.

T: Well, the reason it isn't - that is, the reason it hasn't been arranged that way is that the seven million people - of the seven million people that are in New York, a relatively small proportion, I mean, a very small, have checking accounts.

HMJr: Yeah.

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T: And it would be impossible to get a sufficient number with checking accounts - of the other people to buy bonds if you ask them to make - set up an account just for the purpose of measuring your order on.

HMJr: Well, Tickton, will there be any way of knowing after thirty days how many of these have come through with their pledges?

T: It'll only - that is, each bank would have to make a tabulation on that account.

HMJr: How about the post offices?

T: Now, unfortunately, as I find, no follow-up system on the post offices has been completed.

HMJr: There has not.

T: It's possible that one can be worked out and can be worked out within thirty days, but so far no arrangement has been made.

HMJr: I see.

T: On the payroll savings plan, it is proposed that they be sorted down by the name of the company.

HMJr: Yeah.

T: That is, if I worked for the Treasury, my file will fall in the Treasury file, and that they'll be sent through minute men to the various companies.

HMJr: Yeah.

T: And checked to see that these people are living up to their pledges, so to speak.

HMJr: Yeah.

T: That - it would be sometime in the middle of July before those could be in the hands of the companies concerned. There will be no particular - at least at the moment - there is no particular plan to send anybody a letter unless the Treasury goes

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ahead and takes this million or more that it will amount to, and actually sends out letters. The tie-up is - the real - the thing is tied tight as far as the banks are concerned. That is, the banks are going to follow up on it.

HMJr: Yeah, but that's only a third of it.

T: That's a third of it.

HMJr: We could do something on the post offices.

T: We could do something on the post offices if we got the post offices to agree to help us follow up or if we did the follow-up ourselves.

HMJr: Why can't we do it for the post offices?

T: Well, it's a matter of making arrangements with the post office. I understand.....

HMJr: I don't see why we can't.

T:some work has been done - some investigative work has been done with the post office, and it didn't turn out to be very satisfactory.

Mr. Coyne: Mr. Secretary, the post office has agreed to have their records open to our local committees for the purpose of determining who has purchased bonds, if the local committees or some other agency can undertake the follow-up. That is in a.....

HMJr: Who is this, Coyne?

C:stage at the present time for the reason that we had to scrutinize the pledges before we could determine just what the best approach to the post office proposition would be.

HMJr: Yeah.

C: Unfortunately, the post offices cannot do what

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the banks are doing, that is, rope a customer into a partial payment plan.

HMJr: Yeah.

C: Now, on the banks, Mr. Secretary, what it amounts to is that this subsequent follow-up is an aggressive sales effort; and these banks have established several different plans to implement the thing. They have the automatic check deduction plan, and they have this Victory Club plan, and their purpose is to rope these customers into a definite plan though it be one or two dollars per week, and in that - in that part, of course, the post offices cannot participate on exactly that basis, because they have no way of any Christmas Club idea in post offices.

HMJr: Well - well, I haven't thought about it, but I'm sure there must be an answer because a third of them are in - are with the post offices.

C: Oh, I'm sure - I'm sure there is an answer, and a constructive answer, but until we have analyzed these post office designations, I doubt if we'd be able to hit upon the precise approach to it. I'm confident that those one-third or thirty per cent of the pledges will not go down the drain, but I'm terribly encouraged to know that thirty-five per cent have designated banks, because at least thirty-five per cent are right under our teeth.

HMJr: Well, that's - we're evidently going to throw a lot of new business to the banks.

C: Absolutely.

HMJr: I mean they're going to get customers they've never had before.

C: Well, you'll be interested, Mr. Secretary, to know that one bank alone here, The Manufacturer's Trust.....

HMJr: Uh huh.

C:after instituting this - this Victory Club plan, just for two days, has already picked up three hundred new accounts, before the force of this thing

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has even gotten in stride.

- HMJr: How many new accounts?
- C: More than three hundred, and they prognosticate this morning, that by the end of the week there will be at least fifteen hundred new accounts.
- HMJr: Is that a lot?
- C: Well, for a start, before the whole force of the thing is felt, that is a lot, and they say that it will run to thousands in their bank alone.
- HMJr: Let me ask you this. I didn't quite follow the percentage. There was so much for post offices, so much for banks, so much for payroll - now, does that add up to a hundred, or does.....
- T: It was about ten per cent, Mr. Secretary, that goes to places like department stores and brokerage houses and miscellaneous sales agencies.
- HMJr: I see.
- T: A lot of corporations, for example, who have Payroll Deduction Plans also sell bonds over the counter.....
- HMJr: Yeah.
- T:so that if you don't work in that corporation, but do business with it, you can buy your bonds at that corporation.
- HMJr: I see.
- T: And some people are indicating that they're going to buy it at one place.
- HMJr: Well, Coyne, where.....
- C: Sir.
- HMJr:where does this thing differ from the plan that we started in Oregon?
- C: It differs to this extent - that thirty-five per cent that are designating banks will receive three follow-up letters.
- HMJr: Yeah. Is that the only way it differs?

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- C: At the - those that designate Payroll Savings Plans will be followed up maybe a month from now through their local committees...
- HMJr: Yeah.
- C: ... but the follow-up will be again, just to call it to his attention.
- HMJr: Is that - that the only difference?
- T: Those are the differences - isn't that right, Bob?
- C: Well, with this exception, that in Oregon they didn't anticipate any sales follow-up at all. Now, the sales follow-up that is contemplated here is a minimum sales follow-up, and I'm very confident that many of these Savings and Loan Associations will even be more aggressive, and will send a different type of letter, and very possibly, a representative to follow these pledges up. The point is that we have tried to lay down by agreement with the banks, a minimum follow-up, and many of the banks by the exercise of ingenuity will - will make it even more aggressive than that. Furthermore, it differs in this respect that we did intend that these pledges would be a sales mailing list of one type or of another. In Oregon, our thinking at that time was just that they were sort of swearing, or agreeing, and with no contemplated follow-up at all, it depending on their conscience for thirty per cent of them, or forty per cent, or fifty per cent to follow through.
- HMJr: Well, now the memorandum when I asked for a new method of selling - is it - I know Odegard did a memorandum for me on this. Who else did one?
- C: Ted did one.
- HMJr: (Aside) Ted did one. Well, did a - I'd like to take home and read - with me the Gamble memorandum - that was the final one, wasn't it? What? The Gamble one, I'd like to read that - he gave me a memorandum on this whole pledge campaign. I'd like to read that just to refresh my memory. Hello?
- C: Yes, yes Mr. Secretary.
- HMJr: Well, now, it's been useful having you up there? You men feel it's been useful?

- C: Oh yes, very much. Yes, it's entirely constructive. What this really amounts to Mr. Secretary, is that will bring within the Payroll Savings idea, that is the regularity of it in that cross-section which we couldn't touch. Now, if that thirty-five per cent that are moving to the banks, are in the main, are people who otherwise couldn't be reached by payroll savings, why I think it's a tremendous stride. John Madden is more enthusiastic by the hour.
- HMJr: Well, how much longer are you going to stay up there?
- C: I think I'd like to stay one more day to get some - to continue the statistics through so that I can give you some percentages that are a little better than those rough ones I gave you this morning - just now.
- HMJr: Well, supposing - so I could have something maybe by Monday?
- C: Oh, very definitely. I expect I'll be back, say - are you going to be in Saturday morning?
- HMJr: I hope not.
- C: I think I'll be back on Saturday morning.
- HMJr: I'm a Seventh Day Adventist.
- C: (Laughs) Oh, well, I think that's good.
- HMJr: Also a Holy Roller.
- T: Uh - huh.
- C: It's a good club.
- HMJr: (Laughs)
- C: Well, I think I'll stay tomorrow to get some fairly satisfactory statistics. They've got these nineteen thousand first day ...
- HMJr: Well, I'm still cold.
- C: What's that?
- HMJr: I'm still cold.

- C: Well, I don't think it will be, Mr. Secretary, if you're in the middle of it.
- HMJr: Well, how is Tickton? What's Tickton's temperature? He's a cold-blooded sort of so-and-so.
- T: I'm thinking - the thing I'm thinking about, Mr. Secretary, is the figure of eighty-nine per cent of sales that you had yesterday. I suppose it isn't any better today.
- HMJr: I haven't seen it.
- C: Well, what they're doing here in New York will do a lot of - will help that percentage.
- HMJr: It will?
- C: It will be high in August. It won't be any good until then.
- HMJr: How do you feel about it, Tickton?
- T: Well, I was a little disappointed on not finding that the post office follow-up had been arranged.
- HMJr: Yeah. Well, we've got...
- T: There were a surprising number that designate post office, and one of the reasons is that in a great many instances, people indicate that they're going to buy stamps or put up a dollar a week or some such thing, and the post office is the medium through which they operate. From my point of view, the real follow-up is on the banks, but it's still a pledge campaign with a kick in it, and the kick depends on how adequately people respond to these letters, and I'm not sure that I myself would buy more bonds because I got three letters from the bank, though I might continue buying my share.
- HMJr: Well, it's eighty-eight per cent today.
- C: Eighty-eight per cent. I thought it was going to get no better.
- HMJr: What?
- C: I thought it would get no better.
- T: It isn't the same good idea like a payroll savings

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plan. I mean in a payroll savings plan, it's really catching people and making it convenient for them to buy. This is doing the same thing, but on a much smaller scale and will result, I'm unhappy to say, in relatively less sales.

HMJr: In doing what?

T: It will result in relatively less sales.

HMJr: Yeah.

T: That is, a lot of people will start buying bonds as a result of this campaign, but it isn't going to produce the kind of money that will permit you to make your quota, in July and August.

HMJr: Well, is it the right kind of money, though? That's the thing.

T: Well, it's fairly small change.

HMJr: Yeah. Well, don't throw any water on the people up there. I mean....

T: Oh, no. They're ...

HMJr: Any cold water.

T: Their job, I think, what they visualize their job is to reach people, and I'm confident they are reaching people.

HMJr: Reaching what?

T: Their job is to reach the vast population in New York City.

HMJr: And they're doing this.

T: They're reaching them.

HMJr: Well, that's what we want to do. The next thing, as I say, is to get the money in the pockets.

T: Yeah. Well....

HMJr: We've got ...

T: They're working on number one right now.

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HMJr: What's that?

T: That is, to reach the people. Getting the money is something else afterwards.

HMJr: Well, we've got enough ex-post office inspectors around the Treasury that ought to be able to work out a way for a follow-up system.

T: Well, some arrangement will have to be

HMJr: Well, that doesn't seem to me so difficult.

T: Well, it has to be worked out rather quickly if they're going to get the advantage of the pledge.

HMJr: Yeah. Well, I should think that could be done by putting our own people in there.

T: Well, that's one way.

HMJr: Well, I mean - I think, just put Treasury people in there, and we could use the same letters that the banks do.

T: Well, that's - Mr. Madden would love to see that happen.

HMJr: Well, I don't see why not. I mean, if I was running it, I'd simply put our own people in there, and use similar follow-up letters and do it right away.

T: Well, there's hundreds of thousands of these cards and follow-ups that have already been printed. There's no problem - I mean getting them available. And the problem is organizing and getting the post offices to agree, and getting the jobs...

HMJr: What I would do temporarily is to take some of our regular New York employees until we could get some others, and just throw them into this job. That's what I'd do. And there are enough volunteers. Call on the Women's Volunteer organizations and the Boy Scouts or some of these people just to write these postal cards. Anybody could write them out. It would just be copying. It's the easiest kind of work. You don't have to type them. They can just copy them in longhand.

T: Apparently one of Mr. Madden's problems up there is

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that everybody's calling for volunteers at the moment. Between the USO and Mayor LaGuardia and the Civilian Defense and two or three other organizations, he's having his troubles keeping his own people intact.

HMJr: Well, Gamble's here sitting with me, and this isn't so hard. Lots more - I don't visualize this as something hard.

All right, boys. I'll be seeing you Monday.

T: Okay.

C: Okay.

HMJr: Thank you.

June 18, 1942
3:00 p.m.

INFLATION

Present:

Mr. Bell
Mr. Kuhn
Mr. Haas
Mr. Odegard
Dr. Likert
Mr. Stewart
Mr. Warren
Mr. Murphy
Mr. Daggit
Mr. MacLeod
Mr. Chapman

DR. LIKERT: Here is an outline. (Paper handed to the Secretary.)

H.M.JR: Look, Dr. Likert, don't ask me to read this thing now. What is it you want to do, briefly?

DR. LIKERT: Briefly this, that we thought that Buffalo would be a satisfactory defense area, an area with a fair amount of defense contracts - a sizable portion of defense contracts without being one of the ultra-boom towns. Therefore, it would be somewhat ahead of the country as a whole.

We thought we would like to make a study in Buffalo with this intent, to get - we would make a pilot study first of two hundred interviews to see what kind of information we can get, the best way of getting that information, both from a cross section of the community and also from retailers, bankers, and various union labor leaders and people of that kind, who ought to be somewhat better informed than the rank and file of people.

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We would like to know two major things, how much people are getting and how they are spending it. We thought we would try to get it in this fashion, get their income and how much they are saving by a certain group of inter-related questions on the saving, and the difference between income and saving we hope will be a satisfactory indication of spending power.

Then what we want to do is to find out what people are doing with their income, their attitudes towards saving, how much savings they are actually engaged in, and what form of savings, whether it is going into personal loans, if it is going to the banks, whether checking account or savings account, or what; also, what are people's plans and expectations in regard to spending. We want to find out if they are planning to spend less and save more, or planning to spend a certain proportion, or spend more and save less, and what seem to be the factors affecting that.

We would like also to get pretty extensive data from retail outlets, along the line that Dr. Ruml suggested the other day, from chain stores and large merchandising outlets. We would like also to check the pay-roll data - I mean, the person's income data against pay-roll information in the particular plants, to find out who is getting more and how much more.

Now, the time interval we would use in measuring the increase in income, six months or a year or a somewhat shorter period of time, would have to depend upon the results of the exploratory work as to what we could get that would be accurate and dependable.

(Mr. Odegard entered the conference.)

H.M.JR: Well, let me just put it this way. After all, I am not going to attempt to go over this thing, which most likely represents weeks of work, but I did have lunch with Walter Stewart, and all I can say is that you have got a real compliment when he said he is

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sufficiently interested in it so that he is going up to Buffalo himself with you for a day or so.

DR. LIKERT: Thank you.

MR. ODEGARD: Walter is?

H.M.JR: Yes.

MR. ODEGARD: That is wonderful.

H.M.JR: And I may go, too.

MR. STEWART: That is better still.

H.M.JR: So I think that you have got enough technicians around here, you see, to decide whether this is good or bad without my attempting to pass on each question. I mean, that would be stupid.

Just to take a side-step for a minute, the thing that Mr. Stewart suggested - I don't want to forget it - was that when we get going a little bit further if you could do for us what you did for the insurance companies - for instance, if we find in a certain State or a certain county that some organization is doing particularly well in their sale of War Bonds, if you would give them analytical treatment as to why, and I suppose also possibly why some others are down at the bottom of the ladder. That is just something to put in the back of your head. I don't want to crowd you too much.

DR. LIKERT: We have something on that. I was going to talk to Mr. Kuhn after the meeting about it.

MR. KUHN: You mean the further development of your study that you began in Baltimore?

DR. LIKERT: And the four regions.

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H.M.JR: I will get Mr. Thompson in. We might just as well do that first.

Do you want to take a glance at this, Peter?

MR. ODEGARD: Yes, I haven't seen it. (Paper handed to Mr. Odegard.)

(Mr. Thompson entered the conference.)

H.M.JR: Norman, this is Dr. Likert, who works in the Department of Agriculture economics section.

DR. LIKERT: Bureau of Agricultural Economics.

H.M.JR: As I get it, they have run out of money, so they are on loan to the MacLeish organization. Now, we are asking him to do a job for us to find out what money people receive, and how they spend it, and it has been gone into very, very exhaustively by Mr. Haas and by Mr. Stewart and some of his people, you see. They tell me it is all right, which is good enough for me. It is going to cost twenty thousand dollars. Is that right?

DR. LIKERT: The initial work will probably run that.

MR. HAAS: That is the beginning.

H.M.JR: Give me the worst; give me the outside figure.

DR. LIKERT: As you extend that to other communities and endeavor to build a Nation-wide picture it might run anywhere from ten to fifteen times that much, depending on how much regional or national coverage you want.

H.M.JR: But in the first instance?

DR. LIKERT: Twenty.

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MR. BELL: Was the twenty thousand for Buffalo?

MR. STEWART: The first coverage.

H.M.JR: But I am convinced this is what I want to do, to find out rapidly, and I can't get it from any other department.

Let me read MacLeish's letter, dated June 10:

"Thank you for your note of the 5th. As I told you on the telephone, I shall be very glad to have our Bureau of Intelligence help the Treasury in some of its problems. We may need reimbursement for some of the work but these budgetary problems we can deal with a little later when we pass the preliminary planning stage and know exactly what is involved."

Mr. Thompson, besides being my Administrative Assistant, is chairman of the Treasury budget. Right?

H.M.JR: Budget Officer for the Treasury, yes, sir.

"The other day our Bureau of Intelligence submitted to your representative and to others on the Interdepartmental Committee of Information Offices, dealing with the anti-inflation problem, a plan for continuous study of economic problems insofar as they affect public opinion. Mr. Haas, of your Department, is also familiar with this plan. It would help the general situation to have this related intimately to such special work as you may require.

"As I explained on the telephone, if you will ask your people to communicate either through me or Mr. Kane, who is in charge of our Intelligence operations, it will greatly facilitate our program."

Is Mr. Kane here?

MR. KUHN: No.

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H.M.JR: "As the work touches more than the Division of the Intelligence Bureau of which Dr. Likert is in charge, I am afraid it will not be practicable for us to work it out so that our channel of communication is through Dr. Likert.

"I am not familiar with all of the technical problems involved, which I leave entirely to Mr. Kane and the experts. However, I am sure that it will not really be possible or necessary to make available to the Treasury the full time of Dr. Likert and his staff. We need them to work on a number of related problems, especially the work for the anti-inflation committee."

The work for the anti-inflation committee?

MR. KUHN: That is the Interdepartmental Committee, which I can tell you briefly about.

H.M.JR: "However, I am sure that it will be agreeable to you to leave these technical and procedure questions to Mr. Kane and his associates in the Bureau of Intelligence."

This is the thought, always subject to Dr. Likert, who has to work under pleasant surroundings and under pleasant circumstances if he is going to give us this. This is a new method of doing the thing, and I am very much interested in it. My thought is this, any why be so damned complicated and work through five committees whose names are unpronounceable - why not simply go to the Secretary of Agriculture, who is this man's boss, and say, "Look, Mr. Secretary, we need some help from one of the people in the Department of Agriculture. Now, we have the money, and we would like to make an arrangement with you, Mr. Wickard, to sub-lease, or lend-lease (Laughter) Dr. Likert."

MR. BELL: Lend-lease would be better, no reimbursement there.

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H.M.JR: I mean, why go through five committees, a man by the name of Mr. Kane - well, anyway.

MR. THOMPSON: I don't see why that wouldn't be the simple way to do, either put them on our pay roll here or arrange to reimburse them. All we need to do is write the Secretary of Agriculture a letter.

H.M.JR: You would have to see his administrative officer.

MR. THOMPSON: I don't see any complications.

MR. BELL: You would have to see Jump.

DR. LIKERT: He is a very reasonable person to deal with.

H.M.JR: They know Jump. Would you like us to do it this way? I mean, this is entirely up to you.

DR. LIKERT: I think it makes a clearer, more straightforward working relationship. I think it may cause me some difficulty with Mr. Kane and Mr. MacLeish, which I don't particularly relish.

MR. KUHN: They don't want to lose you full time, altogether.

DR. LIKERT: Pardon?

MR. KUHN: They want to keep you for part-time jobs there, don't they?

DR. LIKERT: I think so. The thing right now is this, that we are operating on a total budget of five hundred thousand dollars, the bulk of which has been paid this year by OFF. This next year we will have seventy-five or a hundred thousand from Agriculture, to work on Agricultural problems. Now, I have got some work that I have to do for OFF, and I would like

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to have the relationship at least reasonably satisfactory, unless you people are going to keep me so busy that we--

H.M.JR: Let me ask, to make it easy for you, would you be willing to let Mr. Jump handle this - I mean, let him take the initiative and work it out.

DR. LIKERT: That is all right. I think in conjunction with you - that is, after all, if Mr. Morgenthau wants to talk with Mr. Wickard, that is between you two. I am not involved.

H.M.JR: Supposing you don't know anything about it and Mr. Jump decides that so much of your time should be loaned to the Treasury and paid for by the Treasury, and he so informs OFF, or what is left of OFF?

DR. LIKERT: That is perfectly all right because we will be working for Agriculture in the same way this next fiscal year.

H.M.JR: You are still in Agriculture? I mean, don't you appear on Agriculture pay rolls?

DR. LIKERT: We are entirely in Agriculture, but what I meant is the money we have been using the latter part of this year has come from OFF.

H.M.JR: Dan, you take this over. I would like to leave it with you two men (Bell and Thompson), so you ask the questions.

MR. BELL: You are on Agriculture pay roll, as I understand it, and you have been getting an allotment from OFF?

DR. LIKERT: To do certain work for them.

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MR. BELL: And so Jump is really handling the allotment, so we could make an allotment, if that is possible, or make a transfer under 601 of the Economy Act, asking Agriculture to do work for the Treasury, and that is your money just the same as you get from Congress.

MR. THOMPSON: We can do it whichever way Jump wants it.

MR. BELL: I don't know what appropriation you would use. Is this a War Savings Bond proposition?

H.M.JR: Yes.

MR. THOMPSON: We can tie it into that.

MR. BELL: If we can tie it in with War Savings Bonds financing we can charge it to "Expenses of Loans."

H.M.JR: You can do something else. You can charge it to the regular Treasury funds.

MR. BELL: That all comes out of "Expenses of Loans."

H.M.JR: This is not just War Savings; this goes to the guts of the whole thing. I don't know whether Dr. Likert asked the question but Dr. Stewart answered it - he said, "What is the problem? The problem is how is Treasury going to borrow fifty-three billion dollars." This is the guts of the thing, the thing that you (Bell) have been working on for me for two years. This is a new method of approach, a method of interview, and so forth and so on. After being with it for a month and it being recommended to me by Professor Odegard as the best method to get me what I wanted, and Stewart has been in on it and Haas has been in on it, I am convinced that I would like to invest twenty thousand dollars in it.

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MR. BELL: We ought to put in our letter, then, that it is a means of getting information to enable you to make more intelligent decisions in your financing program.

H.M.JR: The general financing, is that right, Walter?

MR. STEWART: That is it.

H.M.JR: Doesn't it go to the guts of the whole financing?

MR. STEWART: Yes.

MR. BELL: I agree it is a good project. We can just tie it in so as to put it under the appropriation.

H.M.JR: I mean I haven't bothered you with it up to this point. You know they went up to Princeton for two days.

MR. BELL: I know that.

H.M.JR: Whatever general financing is paid for under--

MR. THOMPSON: That is "Expenses of Loans."

H.M.JR: You got twenty thousand?

MR. THOMPSON: Surely. We can do this.

H.M.JR: Just a clean-cut thing. Is it all right with you then if - would it be Thompson?

MR. BELL: Thompson probably working in connection with Bartelt, to work out an allotment.

H.M.JR: Can I leave it with the two of them to work it out with Jump?

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MR. BELL: Yes.

H.M.JR: O.K.

DR. LIKERT: I will hear from Jump and Wickard and we will go ahead.

H.M.JR: No reason why it shouldn't be done in a day or so?

MR. THOMPSON: No.

H.M.JR: It doesn't have to go through the Budget?

MR. THOMPSON: No, just a straight transaction through Jump.

H.M.JR: That is my end of the job today. All right, sir, thank you.

Wait a minute - Peter, do you want to ask some questions, or is this too fresh? I mean, you haven't had a chance--

MR. ODEGARD: I assume all the questions that I would have asked have been asked.

H.M.JR: Couldn't you take this home with you?
(Indicating paper)

When are you going to start this thing in Buffalo?

DR. LIKERT: We can start on it relatively shortly. In other words, if this meets with your approval we will start the preliminary enumeration tomorrow and start interviewing within five days to a week. I would very much like to have a chance to get your (Odegard) thinking on it and thrash it over with you, if we could.

MR. ODEGARD: I would like to.

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H.M.JR: Couldn't you take a look at it?

MR. ODEGARD: I will talk with Dr. Likert.

H.M.JR: You are sitting with me now at three-thirty, aren't you?

MR. ODEGARD: Yes.

H.M.JR: Dan, do you want to take a look at it and see if there is anything that you want to add?

MR. BELL: Yes, I will take a look at it. I don't think I will have anything. It is entirely in their line. It looks all right at a quick glance.

H.M.JR: I don't want to attempt - so many good people on it.

MR. KUHN: The other work is still going on, Mr. Secretary, the work that Dr. Likert is doing on the Bonds, on the narrower subject of why people buy or don't buy bonds?

DR. LIKERT: Well, we have some additional work going on, following up what we did originally. We haven't done quite as much there as we would like to do. I would like very much to do what you just suggested, this taking a spot where the job is particularly well done and contrast it, because I am sure you will get some very valuable information that way on the whole administration of the sales operation.

H.M.JR: I am just afraid these days to push too much on anybody, but if that can be done it is of enormous importance. We have got some places that are doing extremely well, others just dragging the heels.

DR. LIKERT: I think we can get some case material that will be invaluable to you in planning your supervision and planning your ideas. That is the second step. I have some suggestions I would like to talk over with you (Odegard).

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H.M.JR: Odegard would be interested in that because he is in War Bonds part of the time.

One of the things why I think you could sell this to Jump, and I forgot about it, is, unless they are already doing it, when we go into the City of Buffalo on the consumer end of food - I mean, I am sure Mr. Wickard would be interested in maybe a few questions on the spending for food on the consumer end for Agriculture.

DR. LIKERT: Mr. Wickard and Mr. Tolley would both be very much interested in that, I am sure.

H.M.JR: And there is no reason - why not have a few questions on what you spend for food?

DR. LIKERT: That fits in well in terms of the whole price problem. Food is the thing that people are most worried about, in terms of price trends.

H.M.JR: Couldn't there be, in order to make it a little more tasteful to Mr. Wickard - couldn't there be a few questions added on there on food so that he would feel he would want to throw his weight this way, and it is important.

DR. LIKERT: Surely.

H.M.JR: I am very much interested.

MR. BELL: Not in the letter - just in here (indicating paper).

DR. LIKERT: We don't have the specific questions here. This is just in terms of general objectives.

H.M.JR: I mean, considering that you people are Agricultural people, and so forth, and everything else, and particularly when you get into foods, with the eight uncontrolled commodities, you see - I mean, I just feel that if Mr. Wickard got something concrete

- 14 -

out of it for himself he would naturally be a little more sympathetic to it; and that does get into the whole question of inflation, and particularly on the eight uncontrolled commodities. I mean, I am not trying to window dress the thing, but I think it would be - but I can't work this way through all of these fancy names.

DR. LIKERT: I am sure that it would be easier for us to work directly.

H.M.JR: All right, we will take the whole burden.

Now, while you have got me for another minute or two, what do you want to interview me on?

DR. LIKERT: I have what I want here. It is just a question now of doing the job. The second thing on the War Savings Bonds, if you would like to tackle that I would like very much to get started on that, on the second thing you were talking about. It may take us just a little while to get reoriented, who is doing a good job and why.

H.M.JR: Does that include who is doing a bad job and why?

DR. LIKERT: I don't care whether it is mediocre - anybody from mediocre on down.

H.M.JR: I would be crazy to have that. We need it desperately, too. Peter, you don't have the advantage that I did, in getting Dr. Likert's life history. One of the things he did he did for the insurance company association - maybe you know about this. He studied their methods as to why some did a good job and some didn't. Isn't that right?

DR. LIKERT: Yes.

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H.M.JR: Out of that came the thought that he could study for us why some of these people - after all, what we are doing is related to selling industrial insurance - I think it would be wonderful.

MR. STEWART: It turned out the insurance sales always picked up immediately following Dr. Likert's visit. (Laughter)

DR. LIKERT: That is a bit extreme.

H.M.JR: Well, after all, we know Alaska and Hawaii are leading the country, but we don't want to wait until somebody bombs us in order to get our sales. We know in England every time a town is bombed their sales pick up. Now, what can we give them as a substitute?

MR. BELL: Dr. Likert. (Laughter)

H.M.JR: Beautiful, Dan.

MR. BELL: I am in favor of putting him right on War Savings Bonds if he is going to get those results.

H.M.JR: Dan is good - give them Dr. Likert, that is a bomb for you.

O.K.

Proposals for a Study of Purchasing Power in a Community

Preliminary Draft

I. PROBLEMS FOR STUDY

Basic Questions for the Study

The fundamental question to which the study would be directed is this:

1. In the given community, how are people disposing of their incomes?
 - a. For various income-levels, what proportion of income is being saved, and in what form of savings?
 - b. What proportion is being spent for goods and services?
 - c. What forces are attracting people to saving or spending?

The study should therefore be designed to yield quantitative information on incomes, saving, and (either directly, or indirectly) spending, for different income-levels. Family income and family disposition of income is the unit of interest, including one-person families.

The study might further determine the answers to such questions as the following (broken down according to income-levels):

- A. What changes have taken place in saving and spending within a recent period of time? What has caused these changes?
- B. What changes in spending and saving are likely to take place within the next months?
- C. In what directions would spending be likely to move if it were to increase? Why would these directions be likely?
- D. What forms would saving be likely to take if saving were to increase? Why would the public select these forms?
- E. From what goods and services would spending be likely to be withdrawn if it were curtailed?
- F. How can saving be increased? What forms of saving can be most feasibly encouraged?

Sources for this information would be threefold:

1. All statistical information already available on incomes, savings, and purchasing in the community.
2. Direct interviews to obtain corresponding data from a sample of the population, designed adequately to cover all income groups.
3. Interviews with competent observers in the community; retailers, advertisers, bankers, labor leaders, consumer organizations, plant owners, etc.

In addition, for the purpose of predicting economic behavior under further inflationary controls and for foreseeing what informational and educational policies may become desirable, the interviewing should also seek to answer such questions as the following:

- A. What are people's expectations as to changes in standard of living as the war proceeds? What do these expectations depend upon?
- B. Where a lowered standard of living is expected, what goods and services would people
 - (1) expect to give up?
 - (2) most willingly give up?
 - (3) least willingly give up?
- C. What do people believe will cause them to give up certain goods and services?
 - (1) Will they simply become unavailable or rationed?
 - (2) Will it be the patriotic thing to do?
 - (3) Will there not be enough money for them, because of taxes, forced savings, etc.?
- D. What purpose does the individual understand in such sacrifice? How could his understanding and cooperation be aided?
- E. What are the motives back of what saving is taking place?

II. PROCEDURE

Selection of a Sample Community. A satisfactory sample community has not yet been selected. The criteria which govern its choice are mainly: that it should be a city in which defense industry has brought increased purchasing power to a notable degree; that it should not be too complexly involved with other urban communities; that it should not have had an atypical history preceding the defense-industry period; that it should be accessible; that good statistical material on its payrolls, retail business, and other economic aspects should be available.

The study should be planned so that it can (if desired) be expanded to compare this community with others which had been either unaffected or adversely affected by the rise of war industries.

Enumeration. Before any study of the community, the area would be enumerated. Enumerators would build up a total sampling population of from 2000 to 4000 persons as a reservoir from which samples for the study would be built. Age, sex, occupation, income-group, and family constellation would be recorded for each person enumerated.

Sampling. The sample would be controlled during the progress of the study to provide sufficient cases in each income group (say \$0-500, \$500-1000, \$1000-2000, etc.) It is possible that a sample with equal frequencies in the allotted income groups would be superior for many purposes (internal breakdowns, etc.) to a sample representative of income frequencies in the community, since findings can be applied later to known frequencies in the population.

Preliminary Study. Following enumeration, two or three weeks should be devoted to preliminary work in the field, to consist in trial interviews and in gathering information from the local observers (mentioned above). A trial interview-schedule should be worked out in the field as the best methods of obtaining information from interviewees are determined. Records from the trial interviews should be finally brought in for analysis to determine their efficiency before the final interviews are begun. Perhaps 200 trial interviews should be sought.

Actual Study. The final interviewing should seek a sample of at least 1000 individuals, depending on the statistical breakdowns required. The method of interviewing should include both (a) the recording for statistical analysis of answers to questions concerning income, saving, and expenditures, and sources and directions of these, and (b) the more "open-ended" type of questioning and response to give the qualitative background in which these figures are to be understood and to reveal what the material in the statistical questions means to the individual as he answers.

Supplementary Material. The field staff should also be alert to such community material as appeals to buying and saving and general public impressions as to shortages or plenty, in order that patterns of behavior influenced by the particular background of the community may be interpreted.

Cost of Study. At the present rate of operation, the cost of the whole study (from enumeration through final analysis and report) should be around \$20 per interview for a sample of 200 interviews, and around \$17 per interview for a sample as large as 1000.

OFFICE OF FACTS AND FIGURES

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Washington

June 10, 1942

Dear Henry:

Thank you for your note of the 5th. As I told you on the Telephone, I shall be very glad to have our Bureau of Intelligence help the Treasury in some of its problems. We may need reimbursement for some of the work but these budgetary problems we can deal with a little later when we pass the preliminary planning stage and know exactly what is involved.

The other day our Bureau of Intelligence submitted to your representative and to others on the Interdepartmental Committee of Information Offices, dealing with the anti-inflation problem, a plan for continuous study of economic problems insofar as they affect public opinion. Mr. Haas, of your Department, is also familiar with this plan. It would help the general situation to have this related intimately to such special work as you may require.

As I explained on the telephone, if you will ask your people to communicate either through me or Mr. Kane, who is in charge of our Intelligence operations, it will greatly facilitate our program. As the work touches more than the Division of the Intelligence Bureau of which Dr. Likert is in charge, I am afraid it will not be practicable for us to work it out so that our channel of communication is through Dr. Likert.

I am not familiar with all of the technical problems involved, which I leave entirely to Mr. Kane and the experts. However, I am sure that it will not really be possible or necessary to make available to the Treasury the full time of Dr. Likert and his staff. We need them to work on a number of related problems, especially the work for the anti-inflation committee. However, I am sure that it will be agreeable to you to leave these technical and procedure questions to Mr. Kane and his associates in the Bureau of Intelligence.

Faithfully yours,

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

Archibald MacLeish
The Director

COPY

June 18, 1942.

MEMORANDUM FOR THE FILES

Mr. White tried to reach Mr. George Schaefer, President of R.K.O., at his office by telephone today (June 18). Mr. Schaefer was not in and his office did not know whether he would return to the office today. Mr. White therefore got in touch with Mr. Richard Patterson, Chairman of the Board of Directors of R.K.O.

Mr. White told Mr. Patterson that he had not yet received a letter from Mr. Schaefer informing the Treasury that Mr. Hays, who represents the Motion Picture Industry, would have no objection to the Treasury's presenting the R.K.O. case to the British Treasury for consideration as a special case. Mr. White had explained to Mr. Schaefer that Mr. Hays had already stated that the industry would favor assistance to R.K.O. because of the financial situation in which R.K.O. found itself — irrespective of whether the industry as a whole was successful in having its balances unfrozen. Mr. White had told Mr. Schaefer that we would like to have a letter to that effect from Mr. Hays or from R.K.O., and Mr. Schaefer said he would get the letter and send it to us. Mr. Patterson said he would get right on the matter and see that we got the letter very soon.

H. D. WHITE

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ECLES
RELEASE.

1/18/42

From: Lieut. Stephens

EXPLANATION OF PROPOSED AMENDMENTSSec. 1 - Federal Open Market Committee

The Federal Open Market Committee consists of the seven members of the Board of Governors of the Federal Reserve System and five representatives of the twelve Federal Reserve Banks, and the proposed amendment would regroup the Federal Reserve Banks for the purpose of electing their five representatives on the Committee. The principal change which would be effected by the proposed regrouping is to provide that a representative of the Federal Reserve Bank of New York be a member of the Committee at all times. The regrouping would also provide for one representative to be selected by the Boston, Philadelphia, and Richmond Reserve Banks; one by the Cleveland and Chicago Reserve Banks; one by the Atlanta, Dallas, and St. Louis Reserve Banks; and one by the Minneapolis, Kansas City, and San Francisco Reserve Banks.

Under the present statute a representative is elected by the Boston and New York Reserve Banks. As this has worked out in practice, the Federal Reserve Bank of Boston has not had its President or other representative serve as a member of the Committee but only as an alternate to the President of the New York Bank, who has served continuously. This situation has been unsatisfactory, and the directors of the Boston and New York Reserve Banks have agreed that remedial legislation is necessary. As indicated below, it is desirable in the public interest that a representative of the Federal Reserve Bank of New York be on the Committee at all times. At the same time, the Federal Reserve Bank of Boston should have the opportunity for its President to serve from time to time as a member of the Committee, as do the Presidents of the other Reserve Banks.

The Federal Reserve Bank of New York occupies a unique position with respect to the Federal Reserve System, the Treasury and the banking system of the country. Its resources total approximately 40 per cent of the aggregate of the twelve Federal Reserve Banks. It is located at the money market and at the principal market for Government securities; its operations as fiscal agent of the United States and its transactions with foreign governments, foreign central banks and bankers, as well as its operations in foreign exchange, are in far greater volume than those of any other Federal Reserve Bank. It is clearly in the public interest that the Federal Open Market Committee be given at all times the benefit of counsel of the Reserve Bank possessed of this sort of experience and in current touch with such affairs.

It may be suggested that the advice of the Federal Reserve Bank of New York would be available even if it were not represented on the Federal Open Market Committee. Admittedly, regardless of the

- 2 -

composition of the Committee, the Treasury in discharging its responsibility respecting the Government securities market would still wish to confer with the Federal Reserve Bank of New York. Thus as a practical matter the New York Bank would be inevitably drawn into discussions regarding Government financing as well as open market operations. But advice obtained unofficially is a different matter from full-fledged participation in the Committee's work. Sound policy dictates that participation by the New York Bank be through its representative on the Federal Open Market Committee rather than on a voluntary or unofficial basis.

Although it is clear from the hearings and debates that Congress intended the Reserve Banks to be represented on the Federal Open Market Committee by their Presidents, this was not specified in the Act, and efforts have been made to elect officers of commercial banks. Hence it is proposed to specify in the law that the Reserve Banks must be represented by their Presidents or First Vice Presidents and that the details of their election may be governed by regulations prescribed by the Committee.

Sec. 2 - Reserve Requirements

Section 2 of the Bill would amend section 19 of the Federal Reserve Act so as to authorize the Board of Governors of the Federal Reserve System to change the reserve requirements of member banks in central reserve cities, within the limitations of the present law, without necessarily making a change in the reserve requirements of member banks in reserve cities.

Under the present law the Board of Governors of the Federal Reserve System, upon the affirmative vote of not less than four of its members, in order to prevent injurious credit expansion or contraction, may change the requirements as to the maintenance of reserves against deposits by member banks in reserve and central reserve cities or by member banks located elsewhere. It does not have authority to change the reserve requirements of member banks in central reserve cities without at the same time changing those of member banks in reserve cities. No change in reserve requirements may be made if the result is to decrease the requirements of a member bank below the amount specified in the statute or to increase them to more than twice that amount. At present reserve requirements of all member banks are at the maximum to which they can be raised under the law.

Because of the recent increases in the amounts of Federal taxes, it is probable that there will be a heavy withdrawal of deposits from banks throughout the country in order to meet tax liabilities at or around the quarterly dates on which Federal tax payments are due. In order to meet these withdrawals many banks will find it necessary

-3-

to draw upon their balances with their correspondent banks, and these in turn upon their balances with banks in central reserve cities, particularly New York City. The excess reserves of member banks located in New York City have been ranging from \$630,000,000 to \$1,212,000,000 since January 1, 1942, and this amount may not be sufficient to meet the withdrawal of deposits from these banks which may be expected at tax payment periods. If this situation should arise, the banks in New York City may find it necessary to sell United States obligations in considerable amounts. Such action might have a depressing effect upon the Government security market at a time when this would be contrary to the public interest.

In order to avoid such a contingency it may be desirable to reduce reserve requirements of member banks in central reserve cities. It may not be advisable at the same time, however, to reduce the requirements of member banks in reserve cities and, accordingly, in order to provide the necessary flexibility to meet the situation, it is felt that the Board of Governors should be empowered to change the reserve requirements of member banks in central reserve cities without at the same time changing the reserve requirements of other member banks.

Sec. 3 - Making Loans and Paying Dividends While Reserves Are Deficient

Section 3 of the Bill would amend section 19 of the Federal Reserve Act by repealing the provision which prohibits member banks of the Federal Reserve System from making new loans or paying dividends while their reserves are deficient, retaining in the law, however, the power of the Board of Governors of the Federal Reserve System to prescribe penalties for deficiencies in reserves.

One of the difficulties leading to the enactment of the Federal Reserve Act was the fact that bank reserves were unavailable in times of stress and one of the reforms incorporated in the Federal Reserve Act was a provision permitting reserves to be checked against and withdrawn for the purpose of meeting existing liabilities, subject to regulations and penalties to be prescribed by the Reserve Board.

The addition of a proviso prohibiting the making of new loans and the payment of dividends while reserves are deficient is not consistent with this purpose of this provision. On the basis of this proviso, a recent decision of the United States District Court for the Southern District of New York held a bank director personally liable for losses sustained on loans made by the bank while its reserves were deficient. Although this is in conflict with an earlier decision of a Circuit Court of Appeals in another circuit, it creates a fear of personal liability which may prevent banks from availing themselves of the privilege of utilizing their reserves in times of need.

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If the proviso were repealed, the Reserve Board would still retain the power to prescribe penalties for deficiencies in reserves and this would be a sufficient deterrent for willful neglect of reserve requirements. The Board's present regulations prescribe a penalty in the form of an interest charge amounting to 2 per cent more than the Federal Reserve Bank discount rate, so that it is cheaper for a member bank to borrow from the Reserve Bank in order to maintain its reserves than it is to become deficient in its reserves and pay the penalty.

Owing to the fact that large tax collections and the flotation of large amounts of Government securities during the present emergency may cause wide fluctuations in available reserves, especially in the money centers, it is particularly important during the emergency period to avoid any stringency in the money market resulting from the rigid and unnecessary prohibition upon making loans while reserves are deficient.

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TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 18, 1942

TO THE SECRETARY
FROM TED R. GAMBLE

Attached ^{is} ~~are~~ ~~three~~ ~~copies~~ of ~~the~~ editorial which recently ran in the Detroit Free Press covering the colored War Bond rally.

Pattern of 'Four Freedoms'

THE inter-racial War Bond rally at Olympia Sunday, sponsored by the Colored Citizens Committee of Michigan, was a magnificent contribution to Detroit's war effort. The huge audience, composed of citizens of the numerous racial strains and nationalities that make our City a great metropolis, was living proof of the basic nature of the theme discussed by Supreme Court Justice Frank Murphy—the power and resilience of a democracy that has outlawed racial oppression, intolerance and prejudice.

"I wish Hitler, Goebbels, Goering and Tojo were all here," said Mr. Justice Murphy, "to see how completely wrong they were: to learn that they cannot disunite us with propaganda and that our hands will produce the weapons that will bring the Axis to its inevitable destruction. . . . We aspire to a world in which men will be judged not on the basis of color or religion or wealth, but on the basis of their integrity and goodness of character."

Mr. Justice Murphy spoke in the developing tradition of President Roosevelt's "Four Freedoms" address of last year, the principles of which later appeared in the Atlantic Charter. Since then, other leaders throughout the United Nations have added substance to the general declaration.

Among others, Churchill and Cripps have spoken for the British Commonwealth, Gen. De Gaulle for the Free French, Generalissimo Chiang Kai-Shek for China, Litvinov for Russia. In this Country, besides Mr. Roosevelt and Murphy, Secretary Hull, Vice President Wallace, in the latter's recent address to the Free World Association, and Under Secretary of State Welles have added their interpretations to the over-all peace aims of the Allies.

THERE is good reason why these declarations and others have been general rather than specific. No matter how gifted with insight and vision even our greatest leaders may be, no man knows exactly the shape of things to come. The all-enveloping, dominating issue, before which every other is minor by comparison, is absolute victory.

If the Axis triumphs, all our plans and hopes and aspirations will be as meaningless as were Napoleon's at the Congress of Vienna. We must win before we can be assured of a voice in the shaping of tomorrow's world.

Yet the pattern of general aims has its place and value. Far more than in the last war, the people of Germany know what is being thought and spoken by leaders of enemy nations. So do the populations of the conquered nations. Each speech has its effect, and the effect will grow greater as more and more disaster is visited upon the Axis.

In the last war, Wilson's Fourteen Points were a powerful political weapon which hastened the end for Germany. It is too early for the devising of a similar declaration for this war, and much too early for exact blue prints of the United Nations' peace aims, but each Axis defeat brings the propitious moment closer.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 18, 1942

TO THE SECRETARY
FROM TED R. GAMBLE

You will be interested to know that we have set a colored War Bond rally for Pittsburgh on June 28.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE June 18, 1942.

TO THE SECRETARY
FROM TED R. GAMBLE

Four extra prints, making a total of five of the newsreel shots of the War Heroes, have just arrived in my office. I am turning them over to Mr. Kuhn for distribution to the proper people.

June 18, 1942

Dear Frank:

It would be most helpful to our War Bond effort, and I think, to the Navy, if the warships which a county or city "builds" with its War Bond subscriptions could bear a small plaque naming that county or city as its "sponsor".

For example, the District of Columbia has chosen the "building" of a destroyer as the objective of its June War Bond drive. The interest and activity of the people would be stimulated very much if our advertising and publicity could say that a small plaque or even a few stenciled or painted words would be placed on an actual destroyer. Such a plaque might say: "Sponsored and made possible by the War Bond purchases of the people of the District of Columbia." The same procedure might be followed for other types of naval equipment chosen by other cities or counties.

Would the Navy agree to do this, limiting the items to one per county or city per month?

Machinery for handling all phases of the promotion could be worked out to involve a minimum of effort and paper work.

Sincerely,

(Signed) Henry

The Honorable,

The Secretary of the Navy.

N. M. C.

Copies to Thompson

FK/egk

*George Haas let me have 222
an up to date report*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

*in this situation
(See 7-17) T.M.P.*

DATE **JUN 18 1942**

TO Secretary Morgenthau

FROM Mr. Haas *[Signature]*

Subject: Number of days it takes to receive a war savings bond issued by a Federal Reserve Bank or by a corporation issuing agent.

On each of the last five Fridays the Federal Reserve Banks have made a sample study to determine the number of days it takes a person to receive a war savings bond (1) issued by the Federal Reserve Bank, or (2) issued by a corporation which has qualified as an issuing agent. The results of the first part of this survey on each of the five Fridays are shown in Table 1, attached to this memorandum. The results of the second part of the survey on Friday, June 12, 1942, are shown in Table 2, attached. The major items noted are the following:

1. A person buying a war savings bond by sending a check to the Federal Reserve Bank through the mails normally waits at least a week before he receives his bond. Two of these days are consumed by the movement of the mails, three more of these days are required by the Federal Reserve Bank to collect the check, and one of these days is a Sunday on which no business is transacted.
2. At peak periods -- particularly those when a large volume of applications are on hand for companies whose employees are purchasing under the payroll savings plan -- it takes a person 10 to 25 days to obtain his bond. The Federal Reserve Bank of Kansas City, it appears from Table 1, has been far behind in its deliveries during the past 3 weeks, but we were advised in the letter transmitting the information this week that the peak period has passed and that deliveries are expected to be made within a week from now on.

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3. Eight of the 12 Federal Reserve Banks took a longer period to deliver savings bonds last Friday than they took a month ago. This is accounted for primarily by the fact that the increase in the volume of savings bonds sold has enlarged the number of pieces the Federal Reserve Banks must issue each month. Some of the relief in issuing bonds that corporation issuing agents were supposed to provide has not materialized, we are advised, because many corporations have postponed issuing operations until they obtain the mechanical equipment needed for the large-scale inscribing of bonds.
4. A few corporation issuing agents are taking 20 to 30 days to deliver bonds purchased by employees participating in the payroll savings plan (Table 2). Most corporations are able to deliver bonds purchased by such employees within 10 days or so after payment has been completed, however, and a few corporations are able to deliver the bonds the very same day the payments are completed.

Attachments

Table 1

Approximate number of days it takes a person
to receive a war savings bond issued by a
Federal Reserve Bank ^{1/}

Federal Reserve Bank	Survey made				
	May 15, 1942	May 22, 1942	May 29, 1942	June 5, 1942	June 12, 1942
Richmond.....	15	7	6	10	9
Philadelphia....	10	8	8	9	14
San Francisco...	10	7	8	8	13
Chicago.....	8	9	8	10	10
Dallas.....	8	3	5	9	5
Boston.....	8	7	10	10	12
New York.....	7	6	9	9	10
Kansas City.....	6	6	17	25	14
Cleveland.....	5	5	5	6	5
Minneapolis.....	4	4	4	8	4
Atlanta.....	4	4	8	6	6
St. Louis.....	4	5	5	5	5

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

June 16, 1942

^{1/} Allows 2 days for period in the mails.

Table 2

Longest period of time it takes an employee of a selected group of corporations to receive his war savings bond purchased under the payroll savings plan and issued by his employer

(On the basis of the survey made by the Federal Reserve Banks on June 12, 1942)

Name of company and location	: Maximum num- : ber of days : : to receive : : bond :	Explanation submitted by the Federal Reserve Banks
1. Brown Company, Berlin, N. H.	28	At present 1 to 4 weeks elapse after payment is completed, but in the near future it will be approximately 2 weeks.
2. Southwestern Bell Telephone Co., St. Louis, Mo.	26	
3. St. Louis Independent Packing Co., St. Louis, Mo.	11	
4. John Wyeth & Bros., Inc., Philadelphia, Pa.	8	Bonds delivered 7 to 8 days after payment is completed.
5. J. & P. Coats, Pawtucket, R. I.	7	
6. A corporation selected by the Federal Reserve Bank of New York	7	
7. E. J. Brach & Sons, Chicago, Ill.	7	
8. Commonwealth Edison Co., Chicago, Ill.	7	
9. The Fair, Chicago, Ill.	7	
10. Brown & Bigelow, St. Paul, Minn.	7	
11. Sears Roebuck & Co., Minneapolis, Minn.	7	

(Continued)

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

June 16, 1942.

Table 2

Longest period of time it takes an employee of a selected group of corporations to receive his war savings bond purchased under the payroll savings plan and issued by his employer
(On the basis of the survey made by the Federal Reserve Banks on June 12, 1942)

(Continued - 2)

Name of company and location	: Maximum num- : ber of days : : to receive : : bond :	Explanation submitted by the Federal Reserve Banks
12. Geo. E. Keith Co., Campello, Mass.	6	Deductions are made on Wednesdays, Thursdays, and Fridays, and bonds fully paid for are delivered to purchaser on Tuesday of the following week.
13. Fleetwings, Inc., Bristol, Pa.	6	Bonds delivered 4 to 6 days after payment is completed.
14. A corporation selected by the Federal Reserve Bank of New York	4	
15. Sears, Roebuck & Co., Philadelphia, Pa.	2	
16. A corporation selected by the Federal Reserve Bank of New York	0	Bonds delivered the day payment is completed.
17. Theo Hamm Brewing Co., St. Paul, Minn.	0	Bonds delivered the day payment is completed.

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

June 16, 1942.

Sales of United States Savings Bonds
From June 1 through June 17, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

Date	Series E				Series F and G				Total			
	Actual Sales		Quota,	Sales	Actual Sales		Quota,	Sales	Actual Sales		Quota,	Sales
	June 1	June 1	June 1	to Date	June 1	June 1	June 1	to Date	June 1	June 1	June 1	to Date
Daily	to	to	as % of	Daily	to	to	as % of	Daily	to	to	as % of	
	Date	Date	Quota		Date	Date*	Quota		Date	Date	Quota	
1	\$ 19.8	\$ 19.8	\$ 21.7	91.2%	\$ 9.7	\$ 9.7	\$ 14.0	69.3%	\$ 29.5	\$ 29.5	\$ 35.7	82.6%
2	8.0	27.8	32.0	86.9	7.9	17.6	23.0	76.5	15.9	45.4	55.0	82.5
3	15.0	40.8	46.4	87.9	8.6	26.2	37.9	69.1	21.6	67.0	84.3	79.5
4	17.4	58.2	63.6	91.5	13.8	40.0	51.0	78.4	31.2	98.2	114.6	85.7
5	24.8	83.0	79.6	104.3	9.3	49.4	61.7	80.1	34.1	132.3	141.3	93.6
6	15.2	98.2	93.7	104.8	6.5	55.9	69.4	80.5	21.7	154.1	163.1	94.5
8	27.0	125.2	120.0	104.3	11.5	67.4	82.2	82.0	38.6	192.7	202.2	95.5
9	8.9	134.2	132.4	101.4	5.0	72.4	89.2	81.2	13.9	206.5	221.6	93.2
10	20.1	154.2	149.6	103.1	9.9	82.3	99.6	82.6	30.0	236.6	249.2	94.9
11	15.7	169.9	170.0	99.9	7.5	89.9	108.4	82.9	23.2	259.8	278.4	93.5
12	16.5	186.5	189.0	98.7	5.4	95.3	115.4	82.6	22.0	281.7	304.4	92.5
13	15.2	201.7	205.6	98.1	6.2	101.5	120.8	84.0	21.4	303.2	326.4	92.9
15	24.0	225.7	236.5	95.4	7.3	108.7	130.9	83.0	31.2	334.4	367.4	91.0
16	7.5	233.2	251.1	92.9	3.6	112.3	137.3	81.8	11.1	345.5	388.4	89.0
17	15.8	249.0	271.3	91.8	7.5	119.7	147.8	81.0	23.3	368.8	419.1	88.0
18			295.2				157.0				452.2	
19			317.4				164.6				482.0	
20			336.9				170.6				507.5	
22			373.0				181.9				554.9	
23			390.0				189.2				579.2	
24			413.5				201.3				614.8	
25			441.1				212.0				653.1	
26			466.8				221.0				687.8	
27			489.2				228.0				717.2	
29			530.6				241.4				772.0	
30			550.0				250.0				800.0	

June 18, 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 both the daily trend during the week and the monthly trend during the month.

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 as percent of May
		June	May	April		
June 1942						
1	\$ 9,705	\$ 9,705	\$ 7,302	\$ 11,987		132.9%
2	7,895	17,601	15,168	21,677		116.0
3	8,634	26,235	25,516	29,097		102.8
4	13,774	40,009	33,145	35,818		120.7
5	9,344	49,353	48,751	46,174		101.2
6	6,535	55,888	60,817	55,991		91.9
8	11,526	67,414	67,213	63,695		100.3
9	4,952	72,366	72,794	70,364		99.4
10	9,945	82,310	80,845	77,197		101.8
11	7,542	89,852	85,410	80,586		105.2
12	5,402	95,254	94,391	91,623		100.9
13	6,210	101,464	102,106	96,031		99.4
15	7,251	108,715	108,923	102,657		99.8
16	3,564	112,279	114,129	111,829		98.4
17	7,470	119,749	123,534	116,374		96.9

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

June 18, 1942.

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

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

UNITED STATES SAVINGS BONDS - TOTAL

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 as percent of May
		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
3	21,604	67,046	72,048	64,147		93.1
4	31,162	98,208	88,605	82,937		110.8
5	34,132	132,341	122,575	111,289		108.0
6	21,744	154,085	157,866	129,786		97.6
8	38,574	192,659	181,431	149,409		106.2
9	13,863	206,523	201,464	168,289		102.5
10	30,029	236,552	232,801	185,904		101.6
11	23,220	259,772	246,756	196,667		105.3
12	21,952	281,724	271,525	229,895		103.8
13	21,439	303,163	296,152	242,969		102.4
15	31,235	334,398	317,861	257,280		105.2
16	11,099	345,497	337,371	279,933		102.4
17	23,285	368,782	371,066	295,244		99.4

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

June 18, 1942.

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

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

UNITED STATES SAVINGS BONDS - 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 as percent of May
		June	May	April		
June 1942						
1	\$ 19,834	\$ 19,834	\$ 12,679	\$ 12,993		156.4%
2	8,008	27,841	24,263	24,256		114.7
3	12,970	40,811	46,532	35,050		87.7
4	17,388	58,199	55,460	47,119		104.9
5	24,789	82,988	73,824	65,115		112.4
6	15,209	98,197	97,049	73,795		101.2
8	27,048	125,245	114,218	85,714		109.7
9	8,912	134,157	128,670	97,925		104.3
10	20,085	154,242	151,956	108,707		101.5
11	15,678	169,920	161,346	116,081		105.3
12	16,550	186,470	177,133	138,272		105.3
13	15,230	201,700	194,047	146,937		103.9
15	23,984	225,684	208,939	154,623		108.0
16	7,535	233,218	223,242	168,103		104.5
17	15,815	249,033	247,532	178,870		100.6

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

June 18, 1942

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

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 18, 1942

TO THE SECRETARY
FROM PETER H. ODEGARD

This is the report on compulsory savings prepared by economists of the Canadian National War Finance Committee.

You expressed some interest in seeing this, so I had a fresh copy made.

COMPULSORY SAVINGS

Suggestions are being made, with increasing frequency, that the Government should institute compulsory savings, at the earliest moment possible.

These suggestions are advanced on the premises (a) that the present volume of taxation revenue, and quantity of voluntary savings, are inadequate to enable the early and full development of our war potential, (b) that taxation cannot be advanced sufficiently beyond present levels to take up the slack, and (c) that the job of holding the price ceiling will become extremely difficult, and the need for rationing of consumers' goods intensified greatly, unless civilian spending is reduced substantially.

In general, these suggestions are advanced without reference to alternative courses of action, and give no indication of (a) the effect of compulsory savings on the present voluntary savings approach, or (b) the portion of the mopping-up job which compulsory savings is expected to accomplish.

Following is a brief review of certain pertinent considerations on the subject of compulsory savings:

(1) Up to the present time, individuals and corporations have not been compelled by law to lend any portion of their financial resources to the Government; that is, saving and lending are on a "voluntary" basis. While

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legal compulsion has been absent, there is no doubt that informal pressure has been applied to some corporations to buy new issues of Government bonds, and to the employees of many corporations to purchase War Savings Certificates under the Payroll Savings Plan.

(2) Total borrowing requirements of the Government in the current financial year, ending March 31, 1942, aggregate about \$1.3 billions. Borrowing requirements in the new financial year which begins on April 1 will certainly exceed this figure.

(3) At present tax rates, and current levels of incomes, the yield from National Defence Tax is probably something around \$130 to \$140 millions per annum, and from Personal Income Tax something around \$225 millions per annum. The incidence of these taxes over the various income levels cannot be calculated accurately but, from such indications as are available, it would appear (a) that the National Defence Tax is derived $\frac{2}{3}$ from persons with annual incomes of \$2,000 or less, and $\frac{1}{3}$ from persons with annual incomes in excess of \$2,000, and (b) that Personal Income Tax is derived 20% from persons with annual incomes of \$2,000 or less, 25% from persons

- 3 -

with annual incomes from \$2,000 to \$5,000, and 55% from persons with annual incomes over \$5,000. In summary, total yield of National Defence Tax and Personal Income Tax at present tax rates, and levels of incomes, is around \$360 millions, of which persons with annual incomes of \$2,000 or less would probably contribute \$90 millions in the form of National Defence Tax, and \$45 millions in the form of Personal Income Tax.

(4) From all available indications, it would appear that financial institutions, special Governmental accounts, and corporate bodies cannot be expected to produce much more than \$500 millions of new savings in 1942. Under present circumstances, it will be relatively easy to mobilize these savings for Government use. Assuming 1942 borrowing requirements to reach at least \$1.5 billions, this means that individuals will be expected to produce at least \$1 billion of new savings this year.

(5) In Canada, nine out of every ten employed persons earn less than \$2,000 per year, and this group receive about 80% of the entire National Income. In the aggregate, people with annual incomes of \$2,000 or less have

- 4 -

received a large increase in net income since the war began, even after allowing for war taxation, while the net income of the relatively well-to-do has been reduced. While the spending of persons in all income classes is involved, difficulties in holding the price ceiling, and intensification of the need to extend physical controls over production and consumption, are most likely to develop through an excessive demand for goods and services by the group of persons with modest incomes.

(6) Faced with the need to raise about \$1 billion of new savings in 1942 from individuals, it is obvious that suggestions for compulsory savings which contemplate merely a doubling or trebling of National Defence Tax, or even the doubling of the entire Personal Income Tax structure, fall far short of immediate borrowing needs; fail to make adequate reduction in the aggregate purchasing power of persons with modest incomes, which is the principal area of the problem; and, would produce widespread hardship, as it would be absolutely impossible to devise workable tax-savings formulae of general application which would take into account all the varying

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expenditure liabilities and asset holdings of every taxpayer in each income group.

(7) Suggestions for extreme compulsory savings contemplate a periodic means test of every person with financial resources, and the transfer to Government use of that portion of financial resources, which, from time to time, are ruled to be "excess". An undertaking of this character would involve (a) tremendous problems of administration, and would engage the services of personnel urgently needed for more constructive war work, and (b) moratoria on many types of debts, and freezing of assets. That is, many types of debt repayment out of income would not be allowed, and liquidation of assets to evade the purpose of compulsory income savings would have to be prevented. There is no doubt that a large reduction in civilian consumption could be achieved in this manner. But, no scheme of this nature, no matter how ambitious, could hope to do the full job of reducing civilian consumption. In the first place, the supply of many goods and services will be shorter than average, and will require specifically designed physical controls to supplement whatever fiscal controls are in effect. Secondly, it is impossible to devise (a) a workable

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savings formula of general application which would mop up all pockets of excess spending power, or (b) an administrative procedure which could hope to keep civilian supply and demand in constant balance. Finally, the prospect of abrupt, and possibly frequent, increases in the level of compulsory savings would inject a new element of instability into living standards, and no doubt would have serious effects on civilian morale.

(8) In summary, it is apparent that compulsory savings, either in its simple form of doubling or trebling the Income Tax rates, or in its complex form of a means test, would still leave a large share of the job to be done by a combination of voluntary savings and physical controls over production and consumption. It would not, as some suggestions imply, be a full answer to the problem of reducing civilian consumption. At all stages in its development, compulsory savings would consist, to an important degree, of savings which otherwise would have been made on a voluntary basis. Further, the introduction of compulsory savings would seriously retard the development of voluntary savings as many people would immediately adopt the attitude that the level of compulsory savings

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was an official measure of the real need for savings.

(9) From the viewpoint of civilian morale, it would seem more desirable to leave people with a portion of their financial resources, in accessible and disposable form, and to reduce civilian consumption by direct controls over production, supply and distribution, than to force a reduction in civilian consumption by compelling people to lend the Government such a large portion of their financial resources that they are left with little or no financial resources, quickly accessible and disposable, to meet emergency conditions. This condition could be relieved in some degree by allowing the release of savings, on compassionate grounds, on application to some Government agency. However, this contention would seem to have residual importance under any system of extreme compulsory savings.

Conclusion.

Admitting the urgent need to reduce civilian spending (a) to enable the early and full development of our war potential, (b) to minimize pressure on the price ceiling, and (c) to minimize the need for further physical controls over production and consumption, it would appear advisable, at this time,

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to achieve this objective (a) through the imposition of higher taxes, (b) through the further development of the voluntary savings approach, (c) to apply the tax increases and savings development to persons in all income levels, with special attention to persons with modest incomes, and (d) to relieve any residual competition between Governmental and civilian demands, and pressure on the price ceiling, by an extension of physical controls over production and consumption.

This conclusion is based on the belief that this technique, at least, will be equally effective as a combination of higher taxation, compulsory savings, voluntary savings, and direct controls, and, in addition, will involve (a) less drain on administrative personnel whose services are required in more constructive phases of war work, and (b) less bureaucratic control, more individual freedom, and a consequent higher degree of civilian morale.

January 22, 1942.
SN/MT

JUN 18 1942

6-18-42.

Mr. Peter H. Odegard,
Amherst,
Massachusetts.

Sir:

In connection with your employment as a Consulting Expert on the War Savings Staff, you will also serve as an Assistant to the Secretary, in which capacity you are hereby designated and appointed.

Under your designation as an Assistant to the Secretary, you will perform such duties as may be assigned to you by the Secretary.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

H.M.C.

Copies to Thompson

WNT:cf
6/18/42

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 18, 1942

TO Secretary Morgenthau
FROM Mr. Thompson

A program for conserving paper and carbon paper is under way in all departments and establishments of the Government. We have already accomplished much in this direction in the Treasury and are continuing our surveys for further savings.

As you know, Messrs. Foley, White, Haas, and Blough submit to you monthly progress reports. Much time and labor is put in on these reports which could be conserved, along with a saving of paper, if they should be discontinued. I do not know whether you feel there is a continuing necessity for these reports and I am bringing the matter to your attention for your decision as to their continuance.

[Handwritten signature]

June 8, 1942

MEMORANDUM

To Mr. Thompson
From Mr. Blough

Attached are Progress Reports for this Division covering work from July 1941 through March 1942.

These reports have been on my desk but have not been transmitted for two reasons. Something the Secretary said to me last winter was interpreted by me to mean that he did not see the reports and was not calling for them. Furthermore, I have not been satisfied with the form in which our reports have been prepared and have been trying to find time to revise the form.

Reports for April and May were not prepared in final form but will be finished and submitted to you in the course of a day or two.

I am endeavoring to revise the report form effective as of the beginning of the next fiscal year. Any suggestions for revision will be appreciated.



Attachments

January 24, 1942.

MEMORANDUM FOR THE SECRETARY:

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during July - December, 1941

Attachment

RB

Summary report on projects in the Division
of Tax Research, July - December, 1941

I. Revenue revision, 1941.

In connection with the revenue revision for 1941, memoranda, tables, and charts were prepared on various phases of the bill and proposals dealing with income, excess profits, estate and gift, and excise taxes were analyzed. (Staff members)

II. Income tax

A. Collection at source

- (1) A memorandum analyzing the problems involved in the collection of the individual income tax at source was prepared. (Mr. Atlas) *
- (2) The distribution of burden by income classes which would result from a supplementary income tax at source were analyzed. (Mr. Friedman and Miss Coyle)

* Persons listed as working on the different projects do not include those who acted largely or exclusively in a consulting or reviewing capacity. In general, the person, if any, actively in charge of the project is listed first.

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B. Mandatory joint returns

Various joint return and community income problems were analyzed, including methods of equalizing the tax on earned income under mandatory joint returns and under separate returns. (Miss Coyle and Mr. Campbell)

C. Percentage depletion

Analyses of the law relating to percentage depletion and of suggested proposals for eliminating excessive deductions were prepared. (Mr. Campbell and Mr. Gordon)

D. Taxation of banks

Problems involved in the income and excess profits taxation of banks were analyzed. (Mr. Atlas)

E. Capital stock tax

Statistics and case histories relating to the capital stock tax were analyzed. (Mr. Anderson)

F. Insurance companies

Problems involved in the income and excess profits taxation of insurance companies were analyzed. (Mr. Vickrey and Miss Wells)

- 3 -

G. Capital gains

An analysis of the tax treatment of capital gains and losses of individuals and fiduciaries since 1938 in relation to the tax treatment of other sources of income, together with proposals for revision, was prepared. (Miss Coyle)

H. Mutual investment companies

An analysis was prepared of the income and excess profits tax treatment of investment companies. (Mr. Hellborn and Mr. Atlas)

I. Disincorporation

The effect of taxes on disincorporation and other corporation tax problems were analyzed. (Mr. Keith, Mr. Hellborn, and Mr. Campbell)

III. Excess profits tax

- A. Statistics relating to excess profits taxes were analyzed and proposals for revision of the present excess profits tax law were studied. (Staff members)
- B. Technical problems in applying a 100 percent tax on profits above 6 percent on capital were studied. (Mr. Campbell)

- 4 -

- C. An analysis was prepared of a proposal to impose a special excess profits tax to reduce profiteering arising out of shortages in the supply of defense commodities.
(Mr. Farioletti)
- D. A memorandum was prepared outlining a proposal for a sliding scale income credit under the excess profits tax based upon the relation between average earnings and invested capital. (Mr. Shere and Mr. Campbell)

IV. Estate and gift taxes

Problems relating to (1) the integration of the estate and gift taxes and (2) the prevention of forced liquidation caused by the payment of estate taxes on the due date were studied. (Mr. Harriss)

V. Excise taxes

- A. A memorandum was prepared dealing with a proposed radio broadcasting franchise tax. (Mr. Ecker-Racz)
- B. A memorandum analyzing the proposal to impose a tax on "net value added" was completed. (Mr. Farioletti and Mr. Copeland)

- 5 -

- C. A memorandum analyzing the advantages and disadvantages of a retail sales tax as opposed to a manufacturers' or wholesalers' sales tax was prepared. The problems which have arisen in the administration of State retail sales taxes were also studied. (Mr. Farioletti, Mr. Copeland, and Miss Wells)
- D. The problems of tax pyramiding, multiple taxation and rising prices were studied. (Mr. Farioletti)
- E. The tax burden on alcoholic liquors was studied. (Mr. Campbell)
- F. Basic data relating to excise taxes were collected and analyzed (Mr. Farioletti and Mr. Schwartz)

VI. Tax-exempt securities

- A. The annual estimate of the volume of tax-exempt securities was prepared for the 1941 Annual Report of the Secretary. (Mr. Farioletti and Mr. Zorach)

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- B. Economic data on tax-exempt securities were prepared. (Mr. Ecker-Racz and Mr. Gordon)
- VII. Federal-State fiscal relations.
Assistance was given to the special Committee studying Federal-State fiscal relations in the planning of its studies and the drafting of its report to the Secretary. (Mr. Ecker-Racz)
- VIII. Foreign and State taxes
- A. Data comparing tax burdens and expenditures in the United States with those in Great Britain, Canada, and Australia were prepared. (Mr. Atlas and Miss Hughes)
- B. Data on State taxes were compiled. (Miss Wells)
- IX. Routine assignments
- A. Forthcoming Treasury publications were reviewed and significant studies were analyzed.

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- B. In connection with the supervision of the statistical work of the Bureau of Internal Revenue, various proposals for statistical compilations were examined and administrative reports and statistics were commented upon for Mr. Sullivan's information.
- C. Data relating to different taxes, digests of tax items, and Congressional activity on tax items of interest to the Division were compiled and reviewed.
- D. Correspondence pertaining to tax matters was handled. (Staff members)

February 17, 1942.

MEMORANDUM FOR THE SECRETARY:

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during January, 1942.

Attachment.

RB

Summary report on projects in the Division of
Tax Research, January, 1942.

I. Revenue Bill of 1942

Conferences are continuing with representatives of the Joint Committee on Internal Revenue Taxation, the Office of Price Administration and other governmental agencies on various phases of the Revenue Bill of 1942. (Staff members)

II. Income tax

A. Mandatory joint returns

Various joint return and community income problems were analyzed. (Miss Coyle) *

B. Depletion

The problems of depletion and the percentage depletion allowances are being studied.
(Mr. Campbell and Mr. Gordon)

C. Disincorporation

A memorandum on the effects of corporation income and profits taxes on disincorporation is in process. (Mr. Keith, Mr. Hellborn and Mr. Campbell)

* Persons listed as working on the different projects do not include those who acted largely or exclusively in a consulting or reviewing capacity. In general, the person, if any, actively in charge of the project is listed first.

D. Interest deduction

The effect of disallowing the deduction of interest paid in determining the net income of corporations was analyzed.

(Mr. Keith and Mr. Hellborn)

E. Medical expenses

A memorandum analyzing the proposal to allow, for purposes of the individual income tax, the deduction of medical expenses is in preparation.

(Mr. Atlas)

III. Excess profits tax

A. Statistics relating to excess profits taxes were analyzed and proposals for the revision of the present excess profits tax law were studied. (Staff members)

B. Tables relating to the income and excess profits tax liabilities of selected oil companies were prepared. (Mr. Anderson)

IV. Estate and gift taxes

A. Statistical comparisons of United States and British death duties and questions of jurisdiction under the estate and gift taxes are being analyzed. (Mr. Harriss)

B. Proposals to revise the estate and gift taxes are being analyzed. (Mr. Harriss)

- 3 -

V. Excise taxes

- A. A memorandum indicating the deficiencies of the net value added tax was prepared. (Mr. Ecker-Racz and Mr. Farioletti)
- B. Possible sources of additional excise tax revenue are being investigated. (Mr. Farioletti)
- C. A draft of a speech relating to sales taxation was prepared for Mr. Sullivan's use. (Mr. Gordon)
- D. A memorandum relating to the taxation of interstate truckers is in process. (Mr. Gordon)

VI. Profits on naval contracts

- A. The report of the Vinson Committee "Investigation of the Naval Defense Program" was reviewed. (Mr. Atlas)
- B. A memorandum on the Vinson proposal to limit profits on defense contracts to 7 percent of the contract price is in process. (Mr. Keith)

VII. Tax-exempt securities

- A. A memorandum was prepared indicating recent Treasury statements relating to tax-exempt securities. (Miss Wells and Mr. Gordon)

- 4 -

- B. A memorandum was prepared outlining the incidental advantages of eliminating the Federal tax exemption of interest on outstanding State and local securities. (Mr. Gordon)
- C. Economic data on tax-exempt securities were prepared. (Mr. Ecker-Racz and Mr. Gordon)

VIII. Incentive taxation

Various incentive tax proposals designed to (a) encourage sales of defense bonds, (b) stabilize employment, or (c) prevent a post-war depression were analyzed. (Mr. Atlas)

IX. Tax loopholes

An inventory of the Secretary's statements relating to the more important loopholes in the revenue laws was prepared. (Staff members)

X. Routine assignments

- A. Forthcoming Treasury publications were reviewed and significant studies were analyzed.
- B. Correspondence pertaining to tax matters was handled. (Staff members.)

March 27, 1942.

MEMORANDUM FOR THE SECRETARY:

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during February 1942.

Attachment.

RB

Monthly Report on Projects in the
Division of Tax Research
February, 1942.

I. Revenue Bill of 1942

Conferences were held on various phases of the Revenue Bill of 1942 and statistical materials relating to revenue revision proposals were prepared. (Staff members)

II. Income tax

(a) Depletion

Problems of depletion and the percentage depletion allowances are being studied.

(Mr. Campbell and Mr. Gordon) *

(b) Disincorporation

A memorandum on the effects of corporation income and profits taxes on disincorporation is in process. (Mr. Keith, Mr. Hellborn, and Mr. Campbell)

(c) Medical expenses

A memorandum analyzing the proposal to allow the deduction of medical expenses for purposes of the individual income tax, was completed. (Mr. Atlas)

* Persons listed as working on the different projects do not include those who acted largely or exclusively in a consulting or reviewing capacity. In general, the person, if any, actively in charge of the project is listed first

(d) Allocation of bank expenses

Material relating to the proposal to disallow bank expenses attributable to tax-exempt income was prepared. (Mr. Atlas)

(e) Building and loan associations

A memorandum examining the tax treatment of building and loan associations was prepared. (Mr. Hellborn)

(f) Capital gains

Material illustrating the effect of capital gains on the effective rate of tax was prepared. Similar material was compiled with respect to tax-exempt interest. (Miss Coyle)

(g) Investment companies

The tax treatment of investment companies, together with the dividend distribution restrictions upon mutual investment companies under the Investment Company Act of 1940, was studied. (Mr. Hellborn)

(h) Joint returns

Various joint return and community income problems were analyzed. (Miss Coyle)

(i) Dependent credit

The problems involved in raising the age limit for dependents under the individual income tax to 21 years was studied. (Miss Coyle and Miss Wells)

(j) Pension trusts

A memorandum relating to the taxation of pension trusts was prepared. (Mr. Harriss)

(k) Hardship cases

The possibility of hardships which may result from increased individual income taxation is being studied. (Mr. Slitor)

III. Excess profits tax

(a) Statistics relating to excess profits taxes were analyzed and proposals for the revision of the present excess profits tax laws were studied. (Staff members)

(b) Tables relating to the income and excess profits tax liabilities of selected companies were prepared. (Mr. Anderson)

(c) The relief provisions under the excess profits tax law are being studied. (Mr. Campbell, Mr. Keith, and Mr. Zolot)

(d) Memoranda relating to the relief provisions under the British and Canadian laws and the Revenue Act of 1918 were prepared. (Mr. Campbell)

(e) The problems involved in the taxation of small corporations under the excess profits

tax are being studied. (Mr. Hellborn)

IV. Estate and gift taxes

- (a) Statistical comparisons of the United States and British death duties and questions of jurisdiction under the estate and gift taxes are being analyzed. (Mr. Harriss)
- (b) Proposals to revise the estate and gift taxes are being analyzed. (Mr. Harriss and Mr. Oakes)

V. Tax burden

A study of the distribution of the tax burden is in process. This study has been undertaken in conjunction with the Bureau of the Budget. (Mr. Vickrey)

VI. Excise taxes

- (a) Various phases of excise taxation are being investigated. (Mr. Farioletti, Mr. Schwartz, and Mr. Prewitt)
- (b) A memorandum relating to the taxation of interstate truckers was completed. (Mr. Gordon)
- (c) A memorandum outlining the arguments against a general sales tax was prepared. (Mr. Oakes and Mr. Poole)

- 5 -

- (d) Memoranda relating to sales tax experience of foreign countries were prepared.
(Mr. Poole)
- (e) A memorandum considering the problems involved in including dwelling accommodations as part of a retail sales tax base was prepared. (Mr. Poole)
- (f) Correspondence received in the Division and in the Bureau relating to the Federal automobile use tax was examined to determine objections raised and suggestions made with respect to that tax. (Mr. Zorach)
- (g) Estimates of the distribution of a sales tax burden were prepared. (Mr. Farioletti and Mr. Schwartz)
- (h) A legislative history of Federal sales tax proposals is in process. (Miss Wells)
- (i) Tables showing rates of State excises on commodities and services included in Treasury excise proposals were prepared. (Miss Wells)

VII. Profits on naval contracts

A memorandum on the Vinson proposal to limit profits on defense contracts to 7 percent of the contract price is in process. (Mr. Keith)

VIII. Tax-exempt securities

(a) Alternative procedures for the disallowance of tax exemption to interest on all outstanding securities were studied.

(Mr. Oakes, Mr. Slitor and Mr. Bramble)

(b) A memorandum on the increased importance of tax-exempt interest was prepared.

(Mr. Bramble)

IX. Foreign taxes

Comparisons of individual and corporation income and excess profits tax burdens under the United States law and under British and Canadian laws were prepared. (Mr. Atlas and Miss Hughes)

X. Routine assignments

(a) Forthcoming Treasury publications were reviewed and significant studies were analyzed.

(b) Correspondence pertaining to tax matters was handled. (Staff members)

April 9, 1942

MEMORANDUM FOR THE SECRETARY:

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during March 1942.

Attachment

RB

Monthly Report on Projects in the
Division of Tax Research
March 1942

I. Revenue Revision 1942

Statements, memoranda and statistics on various phases of proposals under consideration in connection with revenue revision for 1942 were prepared for the use of Mr. Paul and the Ways and Means Committee. (Staff members)

II. Income tax

(a) Capital gains

Materials supporting the Treasury proposal for the taxation of capital gains and refuting the opponents of capital gains taxation were prepared. (Staff members)

(b) Depletion

Problems of depletion and the percentage depletion allowances are being studied. (Mr. Campbell, Mr. Gordon and Mr. Hart)*

(c) Disincorporation

A memorandum on the effects of corporation income and profits taxes on disincorporation is in process. (Mr. Keith, Mr. Hellborn and Mr. Campbell)

* Persons listed as working on the different projects do not include those who acted largely or exclusively in a consulting or reviewing capacity. In general, the person, if any, actively in charge of the project is listed first.

- 2 -

(d) Joint returns

Various phases of the joint returns problem were considered, including the status of the problem in Great Britain. (Miss Coyle, Mr. Harriss and Miss Wells)

(e) Hardship cases

Hardships which may result from increased individual income taxation are being studied. In this connection the proposal to permit deductions for special obligations such as insurance premiums and home finance charges is being examined. (Mr. Slitor)

(f) Investment companies

The tax treatment of mutual investment companies, together with the diversification test required of such companies, was studied. (Mr. Hellborn)

(g) Distribution of dividends

An analysis of the extent to which persons in different income brackets are dependent upon dividends for their income was prepared. The effect of the Treasury proposals on funds available for dividends was studied. (Mr. Hellborn and Mr. Keith)

- 3 -

(h) Marginal rates on corporations

Tables showing the marginal tax rates on corporations under the present law, the Revenue Act of 1918 and the Treasury proposal were prepared for corporations in various size and profitability positions. (Mr. Anderson)

(i) Consolidated returns

The problems involved in consolidated returns are being studied. (Mr. Campbell and Mr. Pritchard)

III. Excess profits tax

- (a) Statistics relating to excess profits taxes were analyzed and proposals for the revision of the present excess profits tax law were studied. (Staff members)
- (b) The relief provisions under the excess profits tax law are being studied. (Mr. Campbell, Mr. Keith and Mr. Zolot)
- (c) The problems involved in the taxation of small corporations under the excess profits tax are being studied. (Mr. Hellborn)

- 4 -

IV. Estate and gift taxes

- (a) Statistical comparisons of the United States and British death duties and questions of jurisdiction under the estate and gift taxes are being analyzed. (Mr. Harriss)
- (b) Proposals to revise the estate and gift taxes are being analyzed. (Mr. Harriss and Mr. Oakes)

V. Tax burden

A study of the distribution of the tax burden is in process. This study has been undertaken in conjunction with the Bureau of the Budget. (Mr. Vickrey)

VI. Excise taxes

- (a) Various phases of excise taxation are being investigated. (Mr. Farioletti, Mr. Schwartz and Mr. Prewitt)
- (b) Memoranda on various phases of sales taxes and the relation of sales and other taxes to price inflation were prepared. (Mr. Poole)
- (c) A log of Congressional bills and resolutions pertaining to general sales taxes 1918-1941 together with a brief history of general sales tax proposals was prepared. (Miss Wells and Mr. Atlas)

- 5 -

VII. Foreign taxes

- (a) The United States, Canadian and British individual and corporation income and profits tax burdens were compared. (Mr. Atlas and Miss Hughes)
- (b) A memorandum describing the Australian individual income tax system was prepared. (Mr. Slitor)
- (c) Memoranda on the treatment of capital gains and losses under the British income tax and the income tax laws of other foreign countries were prepared. (Mr. Atlas)
- (d) Memoranda on the British purchase tax and the Canadian sales tax were prepared. (Mr. Due and Mr. Prewitt)
- (e) Profit-limiting provisions in the British, Canadian and Australian laws were studied. (Mr. Campbell, Mr. Keith, Mr. Slitor and Mr. Zolot)

VIII. Tax-exempt securities

- (a) A memorandum summarizing recent changes in State income tax laws with respect to the treatment of interest of Federal obligations was prepared. (Miss Wells)
- (b) A table showing the gross and net outstanding debt of State governments by States for 1941 was prepared. (Mr. Bramble)

- 6 -

IX. Compulsory savings

A memorandum analyzing Senator Brown's proposal requiring payment for overtime on government contracts to be made in defense bonds and stamps is in process. (Mr. Harriss, Mr. Bramble and Mr. Atlas)

X. Routine assignments

- (a) Forthcoming Treasury publications were reviewed and significant studies were analyzed.
- (b) Correspondence pertaining to tax matters was handled. (Staff members)

June 15, 1942.

MEMORANDUM FOR THE SECRETARY:

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during April-May, 1942.

Attachment.

RIB

INTERNAL DEPARTMENT

JUN 12 1942

THOMPSON
OFFICE

Monthly report on projects in the
Division of Tax Research
April-May, 1942

I. Revenue Revision, 1942

Statements, memoranda and statistics on various phases of proposals under consideration in connection with revenue revision for 1942 were prepared for the use of Mr. Paul and the Ways and Means Committee. (Staff members)

II. Income Tax

(a) Tax on increases in personal income

A memorandum analyzing the problems involved in the taxation of increases in personal incomes was prepared.

(Mr. Hewett)*

(b) Special tax on individual incomes above \$25,000

The problems involved in imposing a super-tax on individual incomes above \$25,000 were analyzed. (Mr. Harriss and Mr. Slitor)

(c) Capital gains

(1) The problems involved in the exemption of farm property from the capital gains

* Persons listed as working on the different projects do not include those who acted largely or exclusively in a consulting or reviewing capacity. In general, the person, if any, actively in charge of the project is listed first.

- 2 -

tax were examined. (Mr. Harriss and Miss Coyle)

- (2) A memorandum describing the treatment of capital gains and losses under the British income tax was prepared.

(Mr. Atlas)

(d) Inventory profits

- (1) A report was prepared on the possibility of using a price index in order to apply the last-in first-out method of inventory valuation to retail trade and related industries. A summary and critical appraisal of the retail method of valuing inventories was also prepared.

(Mr. Butters)

- (2) A study of last-in first-out inventory practice during 1941 as revealed by income tax returns of selected companies was prepared. (Mr. Campbell and

Mr. Hart)

- (3) Several memoranda on inventory reserves were prepared in connection with the Treasury's proposal to allow corporations to set up such reserves.

(Mr. Butters)

- 3 -

(e) Taxation of credit accounts

A memorandum analyzing the problems involved in imposing a special tax on open-book or charge account credits was prepared. (Mr. Harriss and Mr. Slitor)

(f) Exempt corporations

The exemption granted to charitable, educational and other non-profit corporations under Section 101 of the Revenue Act is being examined. (Mr. Shultz and Mr. Hellborn)

(g) Corporate indebtedness

An analysis of the problems involved in granting tax relief for corporate indebtedness has been prepared. (Mr. Campbell)

(h) Special tax on the income from war contracts

A memorandum analyzing Senator George's proposal for a special tax on income from war contracts was prepared. (Mr. Campbell and Mr. Hart)

(i) Fiscal year corporations

The question whether the new corporate rates should apply to fiscal year corporations as well as to calendar year corporations was analyzed. (Mr. Atlas and Mr. Butters)

(j) Foreign tax credit

The operation of the foreign tax credit with

- 4 -

respect to United States corporations deriving all or nearly all of their income from sources outside of the United States, with particular reference to those corporations operating in South and Central America, was examined.

(Mr. Campbell, Mr. Atlas, and Mr. Zolot)

(k) Consolidated returns

The problems involved in consolidated returns are being studied. (Mr. Campbell and Mr. Pritchard)

III. Excess Profits Tax

(a) Statistics relating to excess profits taxes were analyzed and proposals for the revision of the present excess profits tax law were studied. (Staff members)

(b) The relief provisions under the excess profits tax law are being studied.

(Mr. Campbell, Mr. Keith and Mr. Zolot)

IV. Estate and Gift Taxes

Proposals to revise the estate and gift taxes are being analyzed. (Mr. Harriss)

V. Tax Burden

A study of the distribution of the estimated 1942 tax burden, by net income classes, is in

- 5 -

process. (Mr. Vickrey)

VI. Excise and Sales Taxes

- (a) Various phases of excise taxation are being investigated. (Mr. Farioletti, Mr. Due, and Mr. Prewitt)
- (b) Specifications are being prepared for a Federal retail, wholesale and manufacturers' sales tax. (Mr. Martin)
- (c) Memoranda on phases of sales taxation and the relation of sales and other taxes to the price structure are in process.
(Mr. Poole)

VII. Compulsory Savings

A memorandum analyzing the problems involved in compulsory savings for individuals is in process. (Mr. Harriss)

VIII. Post-war Credits and Reserves

- (a) A memorandum was prepared analyzing the proposal to allow contractors a post-war credit, free of tax, equal to 10 percent of savings under estimated contract costs.
(Mr. Keith)
- (b) Amounts of corporate reserves available for post-war release and the problems involved are being studied. (Mr. Seltzer)

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IX. Foreign Taxes

- (a) A summary of changes in British taxes proposed for the financial year 1942-43 was prepared. (Mr. Atlas)
- (b) Descriptions of collection at source in Great Britain, Canada and Australia were prepared. (Mr. Harriss, Miss Coyle, Miss Wells and Mr. Bramble)
- (c) A memorandum on the operation of the British post-war credit was prepared. (Mr. Atlas)
- (d) A report on the quantitative aspect of Federal-Puerto Rican fiscal relations is in process. (Mr. Zolot)

X. Special Tax on Agricultural Real Estate Profits

A memorandum analyzing the proposal to impose a special stamp tax on profits from the sale of agricultural real estate was prepared. (Mr. Harriss, Mr. Atlas and Miss Coyle)

XI. Routine Assignments

- (a) Forthcoming Treasury publications were reviewed and significant studies were analyzed.
- (b) Correspondence pertaining to tax matters was handled. (Staff members)

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- (c) Treasury materials in the record of the Hearings before the Ways and Means Committee are being edited.
(Miss Coyle and Miss Hughes)

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THE WHITE HOUSE
WASHINGTON

June 18, 1942.

MEMORANDUM FOR THE
SECRETARY OF THE TREASURY

What should I do about this?

F.D.R.

Friday, June 12, 1942

279

463 Oak Grove Ave., Fall River, Mass.

Dear Mr. Roosevelt,

I am a young woman, thirty-nine years old and mother of three daughters; one of them married to a radioman stationed at Lakehurst, N.J. Since this terrible war started I have thanked God that my children were all girls. I have found out, however, that we are all in it. My daughter as well as my son-in-law is in it as I fully realized when I heard of the disaster at Lakehurst the other day. It might so easily have been my boy; my daughter's husband.

As a busy housewife, I feel so helpless. If there was only something worthwhile I could do! The only thing I can do is write. I have just finished a book which I have called "ONE THING AFTER ANOTHER" and which I would like to dedicate to the American people. We have had so many books about 'The last time I saw Hitler, etc., etc., etc., that I think everyone is about ready for a good, wholesome American novel.

My story is about three families living on the lower East side of New York and of their relatives on the spacious farms of Westport, Massachusetts. It is the story of American people whose lives are just 'one thing after another'; the millions of people who are really the backbone of America. For, regardless of how many times they are knocked down, they always land right side up.

Mr. Roosevelt, will you accept this manuscript as a gift and donate the proceeds to replacing those two blimps that were destroyed at Lakehurst?

Five years ago I wrote a book entitled "PICK OF THE CROP" and it is still being widely read in the libraries in this section as you might verify if you inquired at the Fall River Public Library.

My work I know, is lacking in technique. I had only the advantage of a grammar school education (which is just another example of what an American can do when she puts her mind to it). My characters, however, are real and very much alive. My work is sincere. May I present my book to you? And to America?

Sincerely,

Doris Mae Murray
Doris Mae Murray

Friday, June 12, 1942

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Sincerely,
Doris Mae Murray
Doris Mae Murray

June 18, 1942

Dear Don:

On the chance that it has not been brought to your attention, I wish to inform you that a total of 338,904 tons of cargo purchased by the Procurement Division of the Treasury Department for the Russian Lend-Lease Program was on hand as of June 11, 1942.

In view of this situation, I would like to have you advise us whether you wish us to continue our purchase of material for Russia on the same scale.

Yours sincerely,

(Signed) Henry

Honorable Donald M. Nelson,
Chairman, War Production Board,
Washington, D. C.

n. m. c.



THE SECRETARY OF THE TREASURY
WASHINGTON

Dear Mr. Nelson:

A review of the reports that we have on the Russian Lend-Lease Program shows that a total of 338,904 tons of cargo purchased by the Procurement Division of the Treasury Department was on hand on June 11, 1942. This accumulation was due, as you know, to the lack of available shipping accommodations for Russian cargo.

I am advised that an improvement in the shipping situation is likely to occur shortly and that starting with July it is contemplated that 40 to 50 ships will be assigned for the movement of Russian cargo. This number compares with a total of 25 ships assigned to the movement of such cargo during the month of June. Moreover, I am advised that the shipment of Russian cargo on troop transports is also being considered. Should such an arrangement be worked out, this would make another 40 to 50 ships available each month for the movement of Russian cargo. It is expected that a decision on this matter will be reached within the next week.

The proposed increased shipping schedule, it appears to me, seem promising. The available tonnage has reached such a point, however, that I feel you should be personally informed.

Sincerely,

Honorable Donald M. Nelson,
Chairman,
War Production Board,
Washington, D. C.



TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE JUN 18 1942

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

Last week, at the request of the State Department, I sent Donald Sherbondy of the legal division down to Mexico to help Messersmith, our Ambassador, on freezing control matters and alien property problems which the Mexican government was working on. We have heard several times through the State Department that the Ambassador regards Sherbondy's work as of "great assistance to the Embassy and to the Mexican Treasury authorities during the consideration of many provisions of the proposed decree * * * and during the early days after the passage of the decree in order that they may lend their experience in the enforcement of the law." The State Department has asked that we allow Sherbondy to stay down there for a few weeks longer and I have said that was satisfactory to us as long as he was of help to the Ambassador and the Mexican authorities.

I think this case is of particular interest because it shows that the competent men in our mission are

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anxious to have assistance from the rest of the Government but it is the State Department that prevents such cooperation. On May 23, as soon as we heard Mexico was thinking of declaring war on the Axis, we suggested to the State Department that a Treasury man be sent to Mexico immediately to assist the Ambassador on freezing control and alien property control problems. The State Department was opposed because they thought there were more important matters to deal with in Mexico and, furthermore, Messersmith would not like to have a Treasury man suggested to him. We repeated the suggestion to the State Department on one or two further occasions, pointing out that the newspaper stories indicated the Mexicans were giving a great deal of thought to freezing control matters. Finally, the State Department took the matter up with Messersmith who said that the Treasury man should already have been in Mexico to help.

S. F. L.

BOARD OF ECONOMIC WARFARE
~~ECONOMIC DEFENSE BOARD~~

WASHINGTON, D. C.

OFFICE OF THE EXECUTIVE DIRECTOR

JUN 18 1942

(Handwritten: June 18, 1942)

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

Since there has been no opportunity to circulate the reports scheduled for discussion at the meeting of the Board of Economic Warfare, which was to have been held on June 18, the meeting is being postponed until Thursday, June 25, at 10:00 A.M., and will be held in the Office of the Vice President.

We are enclosing the Progress Report on Wooden Sailing Vessels for Latin American Trades, which will be discussed at the next meeting along with the food report, copies of which will be circulated at a later date.

Sincerely yours,

Milo Perkins
Executive Director

Enclosure

SUMMARY
of
PROGRESS REPORT ON WOODEN SAILING VESSELS FOR LATIN AMERICAN
TRADES

Approval: Letters are attached from all interested agencies approving the program and assuring cooperation. Outstanding individuals have been consulted.

Corporation: Certificate and by-laws for Inter-American Transportation Corporation prepared under laws of the State of Delaware.

Financing: Negotiations under way for Reconstruction Finance Corporation purchase of vessels acquired and built with provision for charter to new Corporation. Funds necessary for operation and administration will be obtained from other sources. Construction costs of 100 vessels of various types are not expected to exceed \$7,000,000.

How Corporation Will Function: Existing vessels will be acquired as soon as possible. Up to 100 vessels will be contracted for within the next year in Latin American yards. Corporation will operate and control vessels, assigning cargo handling to principal steamship companies.

Building Program: Suitable wooden auxiliary sailing vessels can be built in Mexico, Cuba, Honduras, Nicaragua, Costa Rica, Columbia, Venezuela and Haiti. Facilities in these and other countries are being surveyed. Local woods are estimated sufficient for most needs, excepting spars. Considerable other materials can be supplied locally. The War Production Board, Maritime Commission, Navy and the Board of Economic Warfare are agreeable to granting priorities on necessary materials from the United States including small diesel power units.

Operations Schedule: Corporation will attempt to have 25 vessels in operation by Fall of 1942; 50 vessels in the Winter of 1943; 75 vessels in Spring of 1943; 100 vessels in Summer of 1943.

Operation: Insurance can be provided by War Shipping Administration and/or private companies. Full coverage will run nearly 85% of value. Recommended to carry only crew protection approximately 20% annually establishing fund from operating revenues for other contingencies. Wooden vessel premiums somewhat higher than on steel vessels are slightly reduced if vessels have auxiliary power. Vessels will be operated under foreign flags. Crews are available in Latin America. Some masters and mates and engineers can be obtained in the United States. Operations and movement of vessels will be carefully controlled to prevent their being of benefit to enemy and to permit them to be of help to the Navy.

What Vessels Can Carry: The vessels can carry almost any type of cargo with the exception of refrigerated cargo, coal, and ores. It is estimated that 100 vessels averaging 350 tons over long and short runs can carry approximately 1,000,000 tons of cargo in a year.

Relative Costs of Operation: Operation for various types of wooden vessels should average approximately same as normal vessels.

Uses of Vessels: Ample need for vessels demonstrated for distributing local cargoes, emergency foodstuffs and some long hauls.

June 15, 1942

PROGRESS REPORT BY THE COORDINATOR OF INTER-AMERICAN AFFAIRS
ON
THE ACQUISITION, CONSTRUCTION, AND OPERATION
OF
WOODEN SAILING AUXILIARY VESSELS FOR THE INTER-AMERICAN TRADES

During the past two weeks, consultations have been held with members of the Maritime Commission, the War Shipping Administration, the War Production Board, the Department of Agriculture, and the Department of Commerce. Outside of the Government agencies, the following is a list of some of the private individuals who have also advised the Coordinator:

CAPTAIN L. A. SCOTT, formerly owner and operator with his brothers of a large fleet of sailing vessels under United States registry. He has advised on matters of acquisition, construction, and operation.

MR. JOHN ALDEN, considered one of the foremost wooden vessel designers in the United States, had advised on questions of design.

MR. MANUEL BLANCO, well-known builder of wooden vessels in Cuba, together with his partner Mr. William Barlow, have submitted vessel designs for Cuba, estimated the facilities and costs of building, etc.

MR. ALBERT D. WARREN, experienced boat builder and sailor from the Bay Islands in Honduras, has recommended the type of construction to be undertaken in the Bay Islands and estimated the costs of production and building.

MR. E. I. CHAPPELLE, boat designer from Cambridge, Maryland, advised on designs.

MR. JOSEPH NADAILL, President of the Chamber of Commerce in Haiti, advised concerning the boat building facilities in Haiti.

SR. GUSTAVO BACHMAN, representing the Colombian Government, indicated the interest of his Government in building vessels in Barranquilla and Cartagena.

MR. C. D. MELL, who is considered the outstanding expert on tropical woods, was consulted on this subject.

MR. E. ROBERTS, President of the Watsons Steamship Corporation; and

MR. R. R. ADAMS, Executive Vice President of the Grace Lines, were both consulted with reference to the feasibility of the program.

APPROVAL BY INTERESTED AGENCIES

The Coordinator has received letters approving the program and assuring full cooperation from the Department of State, the Navy Department, the Department of Commerce, Maritime Commission and War Shipping Administration, War Production Board, and the Board of Economic Warfare. Copies of these letters are attached to this Report.

FORMATION AND FINANCING OF THE CORPORATION

The Coordinator has drafted the certificate of incorporation and by-laws for the Inter-American Transportation Corporation, a non-profit corporation to be formed under the laws of the State of Delaware, to begin operations July 1, 1942.

The Corporation will be empowered to construct, purchase, charter, or otherwise acquire all types of vessels and to operate the same through its own facilities, by contract with

existing companies or through companies which may be formed for operational purposes. The Corporation will have all the powers necessary to effectuate its purposes in the construction, acquisition and operations of the vessels under its control.

It is definitely understood by the Coordinator that the instructions of the interested departments and agencies limit construction to yards in the Western Hemisphere outside the United States.

Negotiations are now under way with the Reconstruction Finance Corporation providing for a contract with the new corporation under which the Reconstruction Finance Corporation will purchase from the new Corporation the ships acquired or constructed by said new corporation. The ships so acquired by the Reconstruction Finance Corporation will then be chartered to the new corporation at an annual charter rate, plus the amount of premiums necessary to provide insurance satisfactory to the Reconstruction Finance Corporation.

The new corporation will obtain the funds necessary to pay for the cost of operation of the vessels, together with the charter hire, and insurance premiums out of the capital funds of the corporation and such amounts as it may receive from freight rates and other sources. The capital funds of the corporation, in an adequate amount, will be obtained by

The Coordinator on behalf of the new corporation from sources other than of Reconstruction Finance Corporation.

HOW THE CORPORATION WILL FUNCTION

Attached herewith is the organization chart showing how the Corporation will function. It is intended to keep the staff to a minimum by contracting with existing companies for as many of the Corporation's duties and functions as possible and economical and thus avoid duplication of adequate existing facilities. It is planned, subject to change, to accomplish the main purposes of the program as follows:

(a) Acquisition of Existing Vessels

Existing small available vessels, not required by the Navy or the War Shipping Administration, will be surveyed, acquired by purchase or charter when suitable, for the account of the Reconstruction Finance Corporation and made ready for use in collaboration with the Maritime Commission and the War Shipping Administration and in turn chartered from the Reconstruction Finance Corporation and turned over to the Operations Division of the Corporation.

(b) Design and Construction of New Vessels in Latin-American American Yards

The Corporation intends to carry out this function directly by employing on salary or as consultants proper designers, constructors, supervisors, and field men. The Corporation will, wherever feasible, enter into direct contract for the account of the Reconstruction Finance Corporation with a suitable in-

dividual or group in each Latin American country where construction will be undertaken, said individual or group to be responsible for the entire program in that country. Insofar as possible, the Corporation will endeavor to contract with local interests so that the maximum benefit may derive to citizens of that country.

(c) Operation of All Vessels Chartered by the Corporation

The vessels chartered by the Corporation will be operated under foreign flags by the Operations Department in close collaboration with the War Shipping Administration, and with the approval of the Navy. The Operations Department will maintain its principal operating office in a suitable United States Gulf port and have agents or branch offices in such other United States or foreign ports as may be necessary to control movements of the vessels, and to effect their prompt loading, unloading, maintenance, supplies, repairs, crews, etc., and will assume directly costs for such services, including vessel and crew insurance.

The handling of the cargoes will be assigned to one or more of the principal United States Shipping Lines operating in the Latin American trades for the account of the Corporation. These lines will book cargoes, handle bills of lading, consular invoices, stevedoring, and all related matters. It is believed that this method will prove the most economical to the Corporation and will prevent duplication of existing facilities.

The Corporation will acquire for the account of the Reconstruction Finance Corporation, with the assistance of the War Shipping Administration, available and suitable existing vessels and place them in operation as soon as possible. With few exceptions, vessels acquired or built under this program will be under 1,000 tons deadweight capacity.

Surveys made to date by the War Shipping Administration indicate that, as of June 1, at least 8 wooden sailing vessels of over 400 net registered tons were in operation not related to the war effort and were available for purchase. In addition, another 8 to 10 sailing vessels of more than 400 net registered tons requiring some repair were offered for sale.

A larger number of smaller vessels requiring some alterations are also available. A certain number of vessels now operating in the Latin American trades and owned by Latin American interests are not carrying essential cargoes and are offered for sale. In all, it is indicated that at least 25 small vessels, not required by either the War Shipping Administration or the Navy, can be acquired by the Corporation in the near future.

CONSTRUCTION OF VESSELS

The Coordinator is able to report the following additional information regarding the construction of Wooden Sailing Vessels and Wooden Auxiliary Sailing Vessels in Latin America.

(a) What Sizes and Types of Vessels Can Best Be Built

Three masted schooners with a deadweight capacity of from 350 to 500 tons are the largest vessels that can be suitably built in most Caribbean yards. The principal designers and builders in this area are now submitting designs and models. These will be checked and approved by the foremost United States naval architects and builders and master working drawings prepared where necessary. It appears probable that a few larger vessels, three-masters of 500 to 900 deadweight tons, can be built for long runs. These will be the largest vessels it is planned to authorize. The plans of the 250 deadweight ton schooners now being built in the Dominican Republic, will be adopted for construction in yards not equipped to build larger vessels. Construction of smaller vessels for short coastal runs will be undertaken where necessary.

(b) Field Surveys

Preliminary field surveys of building facilities are now being made in Venezuela, Colombia, Chile and Central America and special men will be despatched immediately to Cuba and Mexico.

(c) How many Vessels will be built

Until surveys have been completed it is not possible to prepare a building schedule. However, offers to build received from Cuba, Mexico, Honduras, Haiti, and the Dominican Republic, total nearly 100 vessels without including facilities in other countries. It is planned to authorize immediate construction up to 50 vessels and to develop facilities for additional construction up to 100 vessels all to be delivered by the summer of 1943.

(d) When Will the First Vessels Be Ready for Sea

Contracts for new construction will call for delivery of the first vessels by early 1943; acquired vessels will be placed in operation before that date. The Corporation will endeavor to have 25 vessels in operation by the fall of 1942, 50 vessels in early 1943, 75 vessels by late Spring of 1943, and 100 vessels by the summer of 1943.

(e) Where Will the Vessels Be Built

The vessels will be built principally in Mexico, Cuba, Central American countries, Colombia, Venezuela, Haiti, and the Dominican Republic. Facilities are being surveyed in Brazil and Chile in case construction becomes desirable in these countries.

(f) Cost

As indicated in the previous Report, construction and acquisition is budgeted at a maximum cost of \$200 a deadweight ton ready for sea and with power installed. This figure is based upon estimates already received from Latin American builders, and quotations on existing vessels. Assuming that a fleet of 100 vessels is built and acquired averaging 350 deadweight tons per vessel, the total cost should approximate \$7,000,000 with additional vessels in proportion. The corporation will extend every effort to obtain vessels at lower cost.

(g) Tonnage Moved.

A study in process indicates that 100 vessels of various sizes operating over long and short routes in the Gulf and Caribbean areas and in the inter-island trades should, over a period of a year, be able to move approximately 1,000,000 tons of cargo.

MATERIALS FOR VESSEL CONSTRUCTION

Wood:

The advice of the Forest Service of the Department of Agriculture and of C. D. Nell, outstanding expert on tropical woods, has been sought as to the availability and suitability of local woods for wooden vessel construction in Latin American countries. Conferences and reports confirm that suitable woods for frames and planking are available particularly in Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, Colombia and Venezuela and limited supplies in Cuba. With the exception of spars, which must come from the Pacific Northwest, the majority of all wood can be supplied locally. It may be desirable, particularly for Cuban construction that some planking come from the United States if available. Inquiry indicates that companies in Washington and British Columbia can cut spars at once and if necessary, they can be shipped by sailing vessel. Mr. Nell advances the opinion that tropical woods can be sufficiently cured by air drying in from 8 to 12 weeks. Mr. H. S. Betts confirms that chemical seasoning is used commercially at the present time to hasten drying without shrinkage or checking and has stated that the Forest Products Laboratory in Madison, Wisconsin, can advise the Corporation on seasoning problems. Available

supplies of seasoned wood will permit some construction to start without delay.

Other materials:

The other materials required are indicated in the following list based on a vessel 140' overall of 400 to 500 deadweight tons. This has not been prepared from finished plans and specifications and must, therefore, be taken as approximate:

Anchors	1 - 1800 lbs.	Spikes, Bolts, Rods
	1 - 500 lbs.	Compasses 2
Chains	2 - 50 Fathoms	Radio receiving sets 1
Deck or Donkey Engines	- 1	Batteries 2
Windlass	1	Wiring & lighting fixtures
Davits	2	Pumps 2
Mast Bands - goosenecks		Plumbing fixtures 2
Rigging wire	3000 ft.	Sea Cocks 5
Drift bolts and clinch rings		Valves
Turnbuckles	30	Exhaust lines
Spike fastenings		Tanks, fuel 2
Rope	5500 ft.	Tanks, Water 2
Canvas	10,000 sq. ft.	Galley equipment
Blocks	60	Hawse pipes 2
Chain plates	30	Chain pipes 2
Shafts	1	Reduction gears 1
Propellers	1	Stuffing Boxes 1
Diesel Engines	1 or 2.	Stern Bearings 1
Paint		

Weights, square feet, lengths, etc., of the above will vary with the size of the ship. The question of radio installation will be decided upon with the advice of the Navy Department.

The Coordinator is able to report very favorably on steps that are being taken to reduce the items listed that will have to come from the United States. For example, at least

part of the iron requirements can be fashioned from scrap by foundries and machine shops in Cuba, Mexico and Colombia. Sisal rope can be largely substituted for manila if necessary. A search is being made for substitute materials, and in this respect a large quantity of seasoned locust treenails has been located which will reduce requirements for galvanized iron spikes. It is indicated that all sails can be cut by experienced labor in Cuba. Some other scarce materials will be obtainable from the stocks of suppliers and from the second-hand market. Therefore, while materials must come from the United States on schedule, the amounts will not be significant.

Power:

The opinion that the sailing vessels should have auxiliary power is unanimous. In addition to enabling them to maintain faster and more regular schedules, such power will make them independent in ports, better able to get out of hurricane tracks, generally more maneuverable and will effect a reduction in the marine insurance rate. Between 100 and 200 effective horsepower will achieve these purposes. Diesel engines are the unquestioned first choice. The coordinator has indications that Diesel engine manufacturers can produce 100 to 200 units within this power range with unused capacity and without interfering with other war production. The War Production Board

has indicated that such production is not expected to impede naval and military programs and the Navy Department has given its approval to the manufacture of minimum requirements of such engines. Meantime, a survey in process indicates that a small number of new and used units may be obtainable and if so, the number of units to be manufactured will be reduced.

All Caribbean routes contemplated for these vessels have been charted. A few routes are feasible for sailing vessels without power and if desirable, a few vessels can be built on this basis.

WHAT CARGOES THESE VESSELS CAN CARRY

The vessels will be suitable for dry cargoes -- sugar, coffee, coconuts, flour, grains, foodstuffs, most general merchandise, small machinery, replacement parts, lumber, oil nuts, copra, newsprint, etc. Generally speaking, unsuitable cargoes are: refrigerated cargoes, coal (unless it is to be carried exclusively), ores and metals (except on occasional voyages.)

RELATIVE COSTS OF OPERATION

Time has not permitted completion of studies of operation, routes, cargoes, rates, etc. However, it is apparent to date that operation costs on the proposed wooden sailing auxiliary

vessels of 200 to 900 deadweight tons will be considerably less than the costs on regular commercial steel vessels including all operating costs of both vessels excepting insurance. On the 400 to 500 ton deadweight vessels, operating costs per ton will be slightly less than on regular vessels, and on the 250 deadweight ton vessels, about the same. It is believed that total operation costs including insurance will average out for the proposed vessels at about the per ton operating cost of regular steel vessels for similar runs and cargoes.

INSURANCE

The question of insurance on the vessels has been discussed with the War Shipping Administration and the Committee of Five Brokers of the Reconstruction Finance Corporation and with independent brokers. Usual complete insurance coverage for the vessels is as follows:

- Regular Marine Risk (including damage, general coverage and salvage charges)
- Marine Protection and Indemnity (P & I) covering normal crew hazards
- War Risk Hull Insurance
- War Risk Protection and Indemnity (crew)

If these four covers are carried, the annual premium rate is estimated to be about 85% of the value of the vessels. Similar coverage on ordinary steel steamers would be about 65%.

The War Shipping Administration has given the opinion that their powers will permit them to give a group period war risk cover to the vessels and will study the legal phases of including all the covers heretofore mentioned. If the War Shipping Administration cannot issue normal marine and P & I risk, the balance of the protection would be obtained in the regular market.

At the present time, it is the policy of the War Shipping Administration not to insure hull war risk on its own vessels and the Defense Supplies Corporation does not insure war risk on government cargoes.

It has been recommended that the corporation insure on its vessels only normal and war risk P & I (giving cover to the crew) and set up a reserve out of operating revenues to cover other contingencies. This would cut annual premiums to about a fourth of the aforementioned figure or to about 20 percent. However, if the Reconstruction Finance Corporation requires full coverage on vessels owned by it and chartered to the corporation, the higher rates aforementioned will have to be paid and charged to operating costs.

War risk insurance on cargoes carried in the corporation's vessels can be obtained from the War Shipping Administration.

War risk insurance rates are not higher, and in some cases are lower than on regular steel cargo vessels. However, ordinary marine cover on wooden vessels, particularly in the Caribbean area where they operate in the hurricane season is higher as are also normal P & I rates.

USES OF THE VESSELS

The Coordinator is working with the War Shipping Administration in further development of the express cargo distribution plan, under which the small vessels will locally distribute cargoes delivered at express points by regular vessels.

In addition, the availability of the vessels for emergency voyages, particularly in the delivery of food-stuffs will be important.

There are many cargoes awaiting shipment both in the United States and in Latin American ports with no relief for the tonnage shortage in sight. The War Shipping Administration has confirmed that there is ample use for all of the vessels which the Coordinator can acquire or build within the next year.

The Coordinator is working closely with the Anglo-American Caribbean Commission in connection with their Schooner Pool being organized in the British West Indies to deliver essential cargoes to the British Islands, Porto Rico and the Virgin Islands from storage points at Santiago, Cuba; St. Thomas, Virgin Islands; and Port-of-Spain, Trinidad. The Corporation will work on closest terms with the Commission and will send an observer to Barbados, operating headquarters for the Schooner Pool, to gain experience in this operation and to act as a liaison.

CREWS

Information available gives assurance that there will not be too great difficulty in obtaining crews. Throughout the Caribbean area there are many good sailors and some able masters and mates. In addition, there are already applications on hand from United States citizens trained in sail, some with masters' papers, for berths aboard the vessels. Mr. R. R. Adams, Executive Vice President of the Grace Lines, W. F. Crosby, Editor of The Rudder Magazine, and others have indicated the availability of United States citizens trained in sail. Some of these men, competent navigators,

have been rejected by the Navy on physical or educational grounds or because they were over age. Although they do not have a license in the Merchant Marine, they are nonetheless competent men for these small vessels.

An examination, stressing the practical end of navigation and seamanship can be given by the United States Coast Guard to determine the qualifications of unlicensed American citizens to Captain a vessel of the tonnage proposed, or to ship as mate or engineer.

The power in the vessels will be in small units and engineers qualified to operate engines of this horsepower can be found as outlined above.

Personnel in the Merchant Marine training schools can serve part of their time in these vessels and receive excellent training under sail while hauling necessary cargo.

FLAG AND REGISTRY

The vessels of the Corporation will all be operated under the flags of one or more Latin American countries and the Corporation's powers, as recommended in paragraph 8, page 7, of the previous Report, will permit it to "..... arrange for the transfer of vessels acquired to the registry of whatever Latin

American country may be deemed best in each case, and to register vessels it arranges to have constructed in Latin America, Canada, or the United States, in whatever Latin American country may be deemed best in each case and to operate such vessels through its appointee or appointees under whatever conditions are deemed best to accomplish the purposes of said vessels."

CONCLUSION

The Coordinator fully realizes the many difficulties involved in the accomplishment of this program; of the organization necessary to arrange for speedy and efficient construction of good vessels in Latin American yards; to cut, season, and deliver large quantities of timber and various priorities materials on schedule; the responsibilities of efficient operations of these vessels under war conditions including the recruiting and protection of crews, the operation of the vessels without financial loss, etc.

However, there is no question but that an acute shipping shortage exists and every reasonable effort must be undertaken to relieve it.

Accordingly, with the approval and cooperation of all the Government agencies involved, and the support of

the various Latin American countries, representatives of whom have expressed enthusiasm for the program, the Coordinator feels that this emergency program can be carried out creditably to the Government of the United States and to the benefit of the Western Hemisphere countries, and that those vessels can be controlled and operated in such manner as to prevent their being of any benefit to the enemy and so as to be of certain benefit to the Navy.

ORGANIZATION CHART

BOARD OF DIRECTORS

SECRETARY TREASURER
Administrative management, personnel, general accounting and auditing

PRESIDENT

GENERAL COUNSEL
All legal matters affecting the Corporation and its dealings with other Governmental agencies and private companies, supervision over contracts, charters, registry, insurance.

EXECUTIVE VICE PRESIDENT

SPECIAL ASSISTANT
Linton

VICE PRESIDENT
In charge of design and construction, construction contracts, acquisition of existing vessels, supervision of construction & all matters related to acquisition and building of vessels.

VICE PRESIDENT
In charge of all operations of vessels including crews, supplies, maintenance, repairs, insurance, charters, routing of vessels, control of movements, etc.

WAR SHIPPING ADMINISTRATION

WASHINGTON, D. C.

June 13, 1942

Mr. Nelson A. Rockefeller,
Coordinator of Inter-American Affairs,
400 Commerce Building,
Washington, D. C.

Dear Mr. Rockefeller:

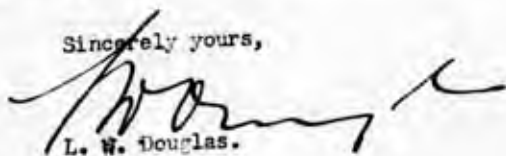
Your suggestion to me to send you a letter in regard to the proposed construction program of wooden sailing vessels in the other American republics is received.

At the present time the War Shipping Administration is prepared to discharge at central points in the Caribbean cargoes of food stuffs provided arrangements are made for its distribution by small local boats, either to be constructed or acquired for this purpose, or organized for this purpose under their present ownership.

Your organization, directly or indirectly, alone or in collaboration with other organizations is, so we understand, to arrange for this local distribution as soon as possible, and with as great despatch as is practical. While we, for reasons that do not need elaboration here, will not organize or control the operation of these local ships, we will be glad to make available to you such information as we may possess, and to keep you fully informed of the development of the program of the larger vessels, in order that you may integrate your operations with those of the War Shipping Administration.

The War Shipping Administration, as you know, is the only agency of the Federal Government clothed with the authority to requisition vessels. This authority we shall be glad to exercise in your behalf for the purpose of assisting you in acquiring and organizing shipping facilities for the local distribution of cargoes in the Latin American area.

Sincerely yours,


L. W. Douglas.



BOARD OF ECONOMIC WARFARE
~~ECONOMIC DEFENSE BOARD~~

WASHINGTON, D. C.

OFFICE OF THE EXECUTIVE DIRECTOR

JUN 16 1942

Mr. Nelson A. Rockefeller

Coordinator of Inter-American Affairs

Dear Nelson:

I am in accord with the proposal that your Office arrange for the acquisition of existing small vessels and the building of up to 100 small wooden auxiliary vessels in the shipyards of the other American Republics, as presented to the Board of Economic Warfare meeting on June 4 by a memorandum of your Office entitled, "Report on Merchant Shipping Policy with Respect to Other Latin American Republics."

There is no question about the very real shipping shortage which exists in the Latin American trades and in order that we may attempt to bring to the United States those materials that are necessary for the war effort and deliver to the Latin American countries their minimum requirements, particularly of food and other necessities, this small vessel program should be undertaken and should prove to be of considerable assistance.

With the provision that you will utilize local woods to the fullest extent reasonable and that you will arrange to have fastenings and other metal requirements fabricated locally from scrap insofar as feasible, and further, that you will utilize any other suitable materials that may be obtained in the other American Republics, the Board of Economic Warfare will be prepared to facilitate export licenses for minimum priority requirements from the United States for the construction and maintenance of these vessels, and otherwise to help your organization accomplish this program which you have undertaken.

Sincerely yours,

Gilbert Tarkenton

Executive Director

WAR PRODUCTION BOARD
WASHINGTON, D. C.

OFFICE OF
DONALD M. NELSON
CHAIRMAN

June 13, 1942

Dear Mr. Rockefeller:

It is my understanding that, in accordance with our talk of some weeks ago, you have been developing a program for the acquisition of existing small vessels and the construction of new wooden sailing auxiliary vessels in Latin America to relieve the serious shipping shortage in the Latin American trades.

We must bring the materials required in the war effort from the American Republics to the United States and use every effort to supply the American Republics their essential requirements, particularly of foodstuffs and other necessities. At the present time, there is a considerable volume of materials awaiting export at various United States ports and a substantial amount of needed imports awaiting shipping space in Latin America.

The program you are undertaking will be of sufficient value to the war effort, and the quantities of materials involved will be so small as to justify the granting of effective priorities on minimum requirements of this program from the United States. Therefore, if every reasonable effort is made to utilize existing Latin American woods, to make fastenings from scrap locally and obtain any other materials available in Latin America, the War Production Board will be prepared to facilitate the granting of effective priorities on the minimum requirements from the United States for these vessels, such as canvas, iron (fastenings, wire, windlasses, ground tackle, etc.), rope, lumber, shipbuilding tools, maintenance and repair materials and navigating instruments.

I understand further that it is planned to make the vessels auxiliary sailing vessels and that the propulsion machinery would have to come from this country. From information available to this Office, it appears that suitable diesel or semi-diesel propulsion



- 2 -

machinery under 200 horsepower and up to a quantity of 200 units could be built in plants not now working at capacity, and delivered by November first, without delaying Army and Navy programs. The War Production Board will also be prepared to grant effective priorities for such propulsion machinery.

Very truly yours,



Donald M. Nelson

Mr. Nelson A. Rockefeller
Coordinator
Office of the Coordinator of
Inter-American Affairs
Washington, D. C.

UNITED STATES MARITIME COMMISSION
WASHINGTON

OFFICE OF THE CHAIRMAN

June 15, 1942

Mr. Nelson A. Rockefeller
Coordinator of Inter-American Affairs
Commerce Department Building
Washington, D. C.

Dear Mr. Rockefeller:

I refer to the proposal for construction of wooden auxiliary sailing vessels in the other American Republic shipyards which was presented to the Board of Economic Warfare meeting on June 4th by a memorandum of your office, entitled "Building of Wooden Sailing Vessels and Acquisition of Existing Small Vessels to Aid in Transporting Necessities in the Western Hemisphere".

The Maritime Commission and the War Shipping Administration do not wish to undertake this construction and acquisition program and recommend that it be undertaken by your office.

In view of the very real shipping shortage in the Latin American trades and the impossibility of knowing how soon this situation can be alleviated, I do agree that these sailing vessels will be of value in helping out, particularly in the local distribution of cargoes delivered at express ports by larger vessels.

With the assumption that you will utilize local woods to the fullest reasonable extent and that you will arrange to have fastenings and other metal requirements fabricated locally from scrap in so far as feasible, and further, that you will utilize any other materials that may be obtained in Latin America, the Maritime Commission will give its approval to the Board of Economic Warfare and the War Production Board for the export of minimum priority materials required from the United States, including small diesel or semi-diesel propulsion units that can be manufactured without delay to any Commission or military program.

In reference to acquisition of existing vessels, the Maritime Commission will facilitate transfer of registry where necessary following its usual procedure and the War Shipping Administration will be glad to aid you in acquisition and requisition of existing vessels.

You may feel free to call upon the staff of the Maritime Commission and the War Shipping Administration for such technical help in the matters of design and construction of these vessels as may be needed and for help and advice in developing the plans

-2-

for their operation. If you wish, I will be glad to designate a man to act as liaison for you with the Commission.

Sincerely,



E. S. Land
Chairman



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EO

My dear Mr. Rockefeller:

The attention of the Department has been called to the proposal that your office undertake the chartering of existing small vessels and the construction of up to 100 wooden sailing auxiliary vessels in the other American republics' shipyards to relieve the acute shipping shortage in the other American republics. I understand that these vessels would be operated by or under the direction of your office working in close cooperation with the War Shipping Administration and other interested agencies.

The Department has been deeply concerned with the general shipping situation as it affects the other American republics and believes that the efficient utilization of a limited number of small wooden sailing vessels might supplement advantageously, especially in the Caribbean area, the regular merchant vessels which will remain in service. It therefore believes it desirable that you go forward with your plans for placing such vessels into service and for the construction of additional wooden sailing vessels, provided, of course, that the demands for critical materials to be supplied from the United States remain at the low levels which have been the subject of discussion. The Department believes further that the construction of such vessels might afford a measure of economic assistance to the countries in which such construction would be undertaken.

Sincerely yours,

[Handwritten Signature]
Under Secretary

The Honorable
Nelson A. Rockefeller,
Coordinator of Inter-American Affairs,
Room 3898B, Commerce Department,
Washington, D. C.

FOR DEFENSE





THE UNDER SECRETARY OF COMMERCE
WASHINGTON

June 11, 1942.

Mr. Nelson A. Rockefeller
Coordinator of Inter-American Affairs
Office for Emergency Management
Room 3898, Commerce Building
Washington, D. C.

Dear Mr. Rockefeller:

I am pleased that the Board of Economic Warfare decided, at its last meeting, to ask you to go forward with the plan for the acquisition of existing wooden sailing vessels and the building of wooden sailing auxiliary vessels in the shipyards of the other American Republics, which plan was developed by this Department and referred to you for study and action some time ago.

We felt at that time that the present acute shipping shortage would develop and that no stone should be left unturned to bring the things we need for the war effort to the United States and to deliver particularly the foodstuffs and other essentials which our friends to the south need from us. We felt more strongly than ever the need for and importance of this program which you are undertaking and you may count upon the full support of the Department.

Please call upon us for whatever help and assistance we may render.

Sincerely,

Wayne C. Taylor
Under Secretary of Commerce.

THE SECRETARY OF THE NAVY

WASHINGTON

June 13, 1942

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JUN 15 1942

Dear Mr. Rockefeller:

I refer to the proposal for construction of one hundred wooden sailing vessels in the other American republics' shipyards which was presented to the Board of Economic Warfare meeting on June 4, by a memorandum of your Office entitled "Building of Wooden Sailing Vessels and Acquisition of Existing Small Vessels to Aid in Transporting Necessities in the Western Hemisphere".

In view of the very real shipping shortage in the Latin American trades and the impossibility of knowing how soon this situation can be alleviated, the Navy Department favors the undertaking by your Office of the acquisition and construction of small vessels for use in the Latin American trades as outlined in the Report referred to above.


With the provision that you will utilize local woods to the fullest extent reasonable and that you will arrange to have fastenings and other metal requirements fabricated locally from scrap insofar as feasible, and further, that you will utilize any other suitable materials that may be obtained in the other American republics, the Navy Department will give its approval to the Board of Economic Warfare and War Production Board for the export of minimum priority materials required from the United States.

In reference to the auxiliary power planned for these vessels, the Navy Department will give its approval for the manufacture of suitable diesel or semi-diesel propulsion machinery under 200 horsepower and up to a quantity of 200 units providing such manufacture does not delay Army and Navy programs.

The Report indicated that you are aware of the importance of careful operation of any vessels which you acquire or build to the end that they do not interfere with commercial or naval vessels in the areas in which they operate and are not of benefit to the enemy. This is, of course, essential, and the Navy Department requests that the plans of operation be submitted for its approval as they develop.

You may feel free to call upon the Department for such help and advice as it can give.

Very truly yours,


Secretary of the Navy

Mr. Nelson A. Rockefeller
Coordinator of Inter-American Affairs
3898 Commerce Building
Washington, D. C.

June 18, 1942

Mr. Livesey

Mr. White

Will you please transmit the necessary instructions, by cable, to our Missions abroad which will make available to us the following information:

1. Daily reports from Argentina, Brazil, Portugal, Spain, Switzerland, Sweden and Turkey, giving (a) the value of United States dollar currency in the markets of these countries, (b) some indication of the total volume of trade, (c) reports of large blocs of United States currency which are seeking markets or which have found markets, with names of individuals involved in the transactions whenever such names are available.

2. Bi-weekly reports from all other countries in which dollar currency is traded (but excluding dollar-using countries such as Cuba and Panama) such reports to contain the same information as above.

HG:rel - 6/18/42

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 18, 1942.

TO Mr. White

FROM Mr. Hoflich

Subject: British Press Review.

Highlights of British press reviews received from Mr. Casaday for the period May 25--June 7, 1942:

1. Britain's total war expenditures have passed the \$36 billion mark, which is more than the total cost of the first World War.
2. In order to save transportation, the country will be divided into nine areas, and wholesalers of food will be allowed to sell only to retailers in the same area or to customers not more than forty miles outside that area, beginning August 24.
3. Lord Beaverbrook's Daily Express stated on May 30 that a plan had been worked out to transfer thousands of workers from some war plants to others and to the most hard-pressed civilian industries. "We have wiped out the whole loss at Dunkirk. The Ministry of Supply is so satisfied with its reserves of some stores that their manufacture is to be tapered off. Other needs, however, like tanks, planes and ships, are to go into increased production. The change involves the redundancy in some factories of tens of thousands of workers. They will either be released, if they are skilled, to coal mining, cotton or shipbuilding, or be transferred to other war plants concentrating on new types of munitions. Actually the demand for munition workers will go on. There will be thousands more employed on war work by Christmas than there are today."
4. It was announced on June 6 that the Ministry of Food has decided to discontinue the subsidy on flour used by bakers, estimated to cost the Government \$14 million annually. The Ministry feels, it is stated, that the bulk of the subsidy is going into the pockets of large firms who do not need it.
5. The Gallup Poll, taken after Churchill's speech of May 10, but before the 1000-bomber raids, indicated that the popularity of the Government rose from 50 percent in April to 63 percent in May, while approval of Mr. Churchill personally increased from 82 percent to 87 percent.

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 206

Information received up to 7 A.M., 18th June, 1942.

1. NAVAL

17th/18th. One of H.M. Destroyers escorting a homeward convoy was bombed and sunk one hundred miles west of BANTRY BAY. Another of H.M. Destroyers was bombed and sunk escorting returning convoy to ALEXANDRIA. The Cruiser reported in tow in OPTEL No. 202 has reached port. Survivors from the Cruiser reported sunk by U-boat returning to ALEXANDRIA in OPTEL No. 205 now reported as 24 Officers and 416 ratings. Norwegian ship (11,000 tons) torpedoed off CAPE VERDE ISLANDS on 3rd and small U.S. ship sunk in YUCATAN CHANNEL on 5th. Between 10th and 17th following ships were sunk - two medium British ships north of COLON and off PORTUGUESE EAST AFRICA. Total losses of merchant ships from air action in convoy returning to ALEXANDRIA now reported as two medium Dutch ships sunk, one small and one medium British ship damaged.

2. MILITARY

LIBYA. Enemy attacks against ACHROMA lasting all 16th failed but our troops holding at EL MRASSAS further north were withdrawn. Enemy armoured units continued their thrust eastwards and despite strong action by our light forces it was found necessary on 17th to withdraw our garrisons from EL ADEM and SIDI REZEGH. We still hold BIR EL HAMED (just north of SIDI REZEGH).

RUSSIA. Enemy offensive against SEVASTOPOL has died down. So far the Germans have made little territorial gain and may be regrouping.

3. AIR OPERATIONS

WESTERN FRONT. 16th/17th. Approximately 37 tons of bombs were dropped on ESSEN and 117 tons on the alternative target BONN. Results generally were unobserved.

17th/18th. Aircraft despatched sea mining FRISIAN ISLANDS and ST. NAZAIRE 46, ST. NAZAIRE 26, Aerodromes 14, Leaflets 2, one aircraft missing.

Approximately 37 enemy aircraft plotted majority in anti-shipping activities west of BREST. Some bombs were dropped at BRIXHAM, damage slight.

LIBYA. 16th. Bombers and fighter bombers heavily attacked enemy concentrations in EL ADEM and SIDI REZEGH areas. Direct hits were made on at least 10 tanks (in addition to those reported destroyed yesterday). A tank recovery unit was bombed and heavy damage inflicted on enemy supply columns. 11 Fighters missing, 7 pilots safe. Our fighters destroyed 3 enemy aircraft, probably destroyed 3 and damaged 3.

- 2 -

Night 16th/17th. Wellingtons bombed EL TMIMI landing ground.

MALTA. Between 0725/16 and 0504/17 enemy activity on a very small scale. One enemy bomber destroyed and another damaged by A.A. fire.

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 214

Following is supplementary resume of operational events covering the period 11th to 18th June, 1942.

1. NAVAL

MEDITERRANEAN. Two supply ships reached MALTA after a hazardous passage from GIBRALTAR, during which four other Merchant Ships in a strongly escorted convoy were lost by heavy and continuous enemy air action. A second strongly escorted convoy sent from ALEXANDRIA to relieve MALTA, was frustrated in its attempt by powerful enemy opposition from aircraft, U-boats and E-boats and by the presence of enemy capital ships, which caused convoy escorts to use up fuel and ammunition, making it imprudent to continue. This convoy lost two merchant ships sunk, and two others damaged, out of ten. Our Naval casualties in these operations were severe and the following ships were sunk:- An H.M. Cruiser and Destroyer by U-boat, two of H.M. Destroyers by air attack, one of H.M. Destroyers damaged by enemy cruisers and later sunk by aircraft, a Polish Destroyer by mine entering MALTA. 4 Cruisers were slightly damaged, but all have reached their destinations. 2 Destroyers and a Minesweeper damaged. The enemy lost an 8-inch Cruiser sunk by one of H.M. submarines, after being previously damaged by air attack and an enemy destroyer was severely damaged by air attack.

ITALY. From 1st June to 17th, 40,000 tons of shipping reached TRIPOLI (L) from ITALY. A reconnaissance of TARANTO on the 17th showed two LITTORIO class Battleships, three CAVOUR class Battleships, the 8-inch Cruiser GORIZIA and two 6-inch Cruisers. The photograph does not indicate any damage to these ships.

GERMANY. The 2 Pocket Battleships ADMIRAL SCHEER and LUTZOW and about 6 Destroyers are at NARVIK. In the Eastern Baltic preparations for combined operations continued. Co-operation of ship-borne M.T.B.'s. with a surface raider has been reported in the ASCENSION ISLAND Area.

U-BOAT WAPFARE. U-boat activity was maintained and shipping losses were heavy, especially in the WEST INDIES and CARIBBEAN. Attacks have been renewed on convoys by groups of U-boats in NORTH ATLANTIC and there is increasing activity in INDIAN OCEAN and MEDITERRANEAN areas. Nevertheless, during two weeks ending 14th June, 203 ships arrived in U.K. in 8 ocean convoys. Ten attacks by surface craft and 12 by aircraft were made upon enemy submarines during the period.

TRADE. During week ending 13th June, imports into UNITED KINGDOM totalled 438,000 tons, including 36,000 tons of oil, making average 596,500 tons for the past ten weeks.

2. MILITARY

LIBYA. The recent Axis successes may be attributable inter alia to hard hitting power of German 88 mm. gun originally anti-aircraft, but later found very effective also as anti-tank, and their skillful concentration of these guns, fact that some German tanks (PZKW IV) mount a new more powerful 75 mm. gun (14 pdr.) whereas only relatively few of ours have as yet 6 pdr. Gun (57 mm.) most still having 2 pdr. (40 mm.).

RUSSIA. The German attack North East of KHARKOV was made by 4 Armoured and 8 Infantry Divisions, but is not necessarily the beginning of their main offensive. A week ago they succeeded in establishing a bridgehead east of DONETS, but situation appears to have stabilised. Operations are still expected to spread to a broader front in the Southern sector. German attack on SEVASTOPOL died down after making little progress but has since been resumed with full vigour.

3. AIR OPERATIONS

WESTERN FRONT. Our operations, both day and night, were on a very small scale. On one night, attacks were made on BORN and ESSEN - 149 aircraft of Bomber Command laid 330 sea mines.

Regraded Unclassified

- 2 -

MEDITERRANEAN. Strong air support was given to the two convoys for MALTA and hits were claimed on enemy warships, during these operations, 21 enemy aircraft were destroyed, six probably destroyed and 16 damaged for the loss of 22 of our aircraft. U.S. Liberators co-operated.

LIBYA. Our aircraft were intensively employed throughout the week. Bombers and fighter bombers were concentrated in support of BIR HAKEIM garrison and against enemy tanks, mechanical transport, supply columns and landing grounds, the sum total of damage caused was undoubtedly considerable. Fighters carried out offensive patrols, protective shipping patrols and broke up dive-bombing attacks. The German effort, especially by dive-bombers, was greatly increased, the main role of Axis aircraft appeared to be provision of air cover and direct support to their advancing ground forces.

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

BREMEN. 3rd/4th. Additional from more recent photographs. Damage to warehouses and at least 3 factories in the docks area, two large tanks and the blast wall of an oil refinery destroyed. Considerable destruction to residential property.

THE RUHR. 7th. Some of the railway services from ESSEN were affected, and 80 lorries were helping to maintain essential services.

COLOGNE. After the big attack, no goods trucks arrived at BASLE from COLOGNE for 4 days, and after 7 days, only 1 passenger train was running between the two towns instead of the usual six.

LANNION AERODROME. Photographs during daylight attack show several hits in dispersal areas, on a runway and near some Junkers 88.

OSTEND. Photograph shows a direct hit on the power station.

SEA MINING. Further reports have been received concerning loss and damage to coastal shipping off the Dutch and Danish coasts and dislocation of ferry services in the Great and Little Belts.

5. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

METROPOLITAN AREA

<u>British</u>	<u>In the Air</u>
Bombers	7
Fighters	3
Coastal	2
Total	12

<u>Enemy</u>	<u>Destroyed</u>	<u>Probably Destroyed</u>	<u>Damaged</u>
Bombers	3	2	5
Miscellaneous	Nil	Nil	4
Total	3	2	9

MIDDLE EAST (including MALTA)

<u>British</u>	<u>In the Air</u>
Bombers	10
Fighters	57
Others	1
Total	68

One crew and 15 pilots safe.

<u>Enemy</u>	<u>Destroyed</u>	<u>Probably Destroyed</u>	<u>Damaged</u>
Bombers	32	8	19
Fighters	25	22	33
Miscellaneous	2	Nil	1
Total	59	30	53

- 3 -

FAR EAST

<u>British and Allied</u>	<u>In the Air</u>
Bombers	1
Fighters	<u>5</u>
Total	6

One pilot is safe.

<u>Enemy</u>	<u>Destroyed</u>	<u>Probably Destroyed</u>	<u>Damaged</u>
Fighters	19	4	2
Miscellaneous	<u>1</u>	<u>Nil</u>	<u>Nil</u>
Total	20	4	2

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

6. HOME SECURITY

Estimated civilian casualties for period ending 6 a.m. 17th.
Killed 54, seriously wounded 29.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 18, 1942

TO Secretary Morgenthau
FROM Mr. Kamarck
Subject Summary of Military Reports

Axis Navies

The Italian Navy now possesses the following big ships:

- 5 battleships (two, 35,000 tons; three, 24,000 tons)
- 1 10,000 ton, 8-inch gun cruiser.

(The German Navy has in service one 35,000 ton battleship, two 10,000 ton heavy cruisers, and has just completed its first aircraft carrier, the Graf Zeppelin. The European Axis, therefore, so far as pure naval strength is concerned, can scarcely be considered a formidable force).

(U.K. Operations Report, June 4 - 11, 1942)

Blockade of Europe

Since July 1941, it is estimated that 12 ships have arrived in the occupied French ports from Japan. Eight of these ships arrived in the last two months. These ships must have carried 70,000 to 100,000 tons of cargo, of which a large part must have been rubber. (Since the total German rubber consumption is probably less than 200,000 tons a year, this accession must have been very welcome).

In the same period, seven ships left European ports for the Far East.

(U.K. Operations Report, June 16, 1942)

'Voice of the Chief' Broadcasts

Pursuits in West must avoid battle

Because pursuit squadrons armed with brand new Focke-Wulf 190's "have strict orders from above that, for the time being, losses must be avoided at all costs in the West", there "were no defensive pursuit planes at all" to parry the R.A.F.'s Emden bombing and "45,000 of our fellow countrymen in Cologne were made homeless". (This agrees with the British estimate).

At (Morlals) in France "the gentlemen with the brand new Focke-Wulf 190's lie in the hotel beds until noon and sleep off their drunk." Because of the orders to avoid battle, the R.A.F. at Emden "came down to 60 meters and bombed the submarine shipyards and grain silos and the whole business in the harbor and not a single pursuit was near or far to protect such a war-important city as Emden."

'Wanglers' misuse Army's facilities

Although the common front soldier would give "his last cigarette to hear only a word from the people at home" in bombed Cologne and the Ruhr area, privileged "wangers" can radio-telephone long conversations over Wehrmacht facilities.

Even today, many front-soldiers "do not know if their wives and children have been burnt to death, crushed, or if they are alive and where they are. Communications between the bombed territory and the front are cut off, leave has been cancelled, mail does not arrive, and to inquire by telephone is impossible."

As a "wangler," "The Chief" singles out "factory manager and Commune-profiteer Bernhard Wolf-Limper" at present in Paris at "Boulevard...45." Wolf-Limper, because of "his first-class connections with the Party" was able "to telephone by wireless from Paris to his wife in Cologne for a full quarter hour" June 1.

"This serious misuse of military facilities has come to my knowledge because one of our V-stellen (listening posts) overheard the wireless conversation of the Wolf-Limper couple and even recorded a part of it."

At this point, the program was jammed beyond intelligibility.

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NUMBER 36

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OFFICE OF STRATEGIC SERVICES

THE WAR THIS WEEK

June 11-18, 1942

Printed for the Board of Analysts

Copy No. 6

Secretary of the Treasury

JUNE 11-18, 1942

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Office of Strategic Services

THE WAR THIS WEEK

As the Japanese advanced in Kiangsi and pursued their attacks on the Aleutian Islands, the general configuration of events in the Far East suggested the possibility of an early attack on eastern Siberia. The offensive in eastern China is steadily denying the United Nations air bases for the bombing of Japan, providing the Japanese essential security in the event of attack on Siberia. Military observers view the naval attacks in the Aleutians and at Midway as possible screening actions for such an offensive. The enemy has been strengthening his ground forces in Manchuria over a period of months and more recently has moved additional air strength to that region. Whether such an attack would take place fairly soon or perhaps toward the end of the summer was a matter of speculation among military observers.

Axis naval forces this week attacked two British convoys moving through the Mediterranean. British losses have admittedly been large, but Anglo-American air forces took a heavy toll of Italian warships sunk and damaged. Simultaneously Marshal Rommel's forces smashed forward across the desert, nearly trapped the British at El Gazala, and are now threatening to cut off the British stronghold at Tobruk once again.

On the Eastern Front stubborn Russian resistance has halted a heavy German onslaught at the gates of Sevastopol, while the latest Nazi drive before Kharkov has apparently succeeded once more in ironing out a Russian salient. The main German offensive has yet to begin, although observers have considered it imminent for some time. On the diplo-

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matic front, divergent reactions have greeted the new agreements with Russia, but it is generally believed that they strengthen the partnership with the Soviet and represent, for the present at least, a renunciation of Russian annexationist demands.

Significance of Japanese Naval Losses

Estimates of Japanese naval losses in large combatant ships to date are as follows: three aircraft carriers, five heavy cruisers, and ten light cruisers—with many more damaged. There is no conclusive proof that the Allies have sunk any Japanese battleships. The losses in carriers and cruisers may amount, however, to almost a third of Japan's pre-war strength in these two categories.

It is in carriers that Japan will feel her losses most severely. As the naval warfare in the Pacific has developed, carriers have proved indispensable in almost every task force, while neither side has made very extensive use of its battleships.

In recent naval engagements, American bombers have sunk or severely damaged the greater part of Japan's newest and largest carriers—in the Coral Sea, one sunk (probably the *Ryukaku*, 1941, 15,000 tons), and one damaged (probably her sister-ship, the *Shokaku*); off Midway, two sunk, one possibly sunk, and one damaged (these four may be the *Akagi* and *Kaga*, 1927 and 1928, of 26,900 tons, and *Hiryu* and *Soryu*, 1937 and 1938, of 10,050 tons); and off the Aleutian islands, one further carrier damaged. Japan now has in shape for action perhaps five of the following six ships—two new carriers of 15,000 and 10,050 tons, respectively, two small carriers of just over 7,000 tons, and two converted merchantmen of 22,500 tons.

Such losses may prove more serious in the long run than those suffered by the United States at Pearl Harbor. For, with a magnificent and largely untouched battle fleet, Japan

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may well lack the carrier strength with which to escort and protect it in major offensive operations.

The Shape of Things in Eastern Siberia

Cumulative evidence now suggests that the Japanese intend to attack the Russians in eastern Siberia in the not very distant future. Some military observers point out that there are factors in the situation, notably the weather, which will be more favorable to a Japanese attack in late summer rather than in the coming weeks. The evidence for such an attack is by no means convincing in detail, but the total impression is that the war may soon spread to this area.

In the first place, the Japanese have recently sent substantial air reinforcements to Manchuria, coincidentally with the reduction of the air force in Burma from about 400 planes to about 100. It is believed that the Japanese may have increased the number of planes in Manchuria from 700 to as many as 1,000.

In the second place, it is known that the Japanese have steadily reinforced the Kwantung army during the period since Pearl Harbor, until they now possess a force believed to be notably superior in size to that of the Russians. On the other hand, the statement of the Chinese military attaché in Kuibyshev that the Japanese recently moved 18 divisions into Manchuria is considered fantastic by military observers.

In the third place, some military observers are inclined to view recent Japanese naval action at Midway and the Aleutians as an attempt to screen contemplated action against Siberia from interference on our part. Russian supply ships plying from our west coast to East Siberian ports by the shortest water route pass through the Aleutian Islands near the mainland and keep to the north of the islands thereafter (where incidentally fog is less prevalent than to the south of the Aleutians). If the Japanese could establish bases in the

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western Aleutians (they have already made landings on Attu and Kiska islands), they could more effectively menace this supply route. More important, they could threaten a significant air route to Siberia. The Japanese possess a familiarity with the topography and navigation of the western Aleutians deriving from their regular operation of fishing fleets in that area and of tankers to refuel them.

Finally, the recent serious naval losses of the Japanese—especially in crucial carrier strength—have undoubtedly imposed limits on their capabilities in the immediate future. These losses have clearly made offensives against either Australia or India much less likely and may have obliged the Japanese to adopt the Siberian alternative.

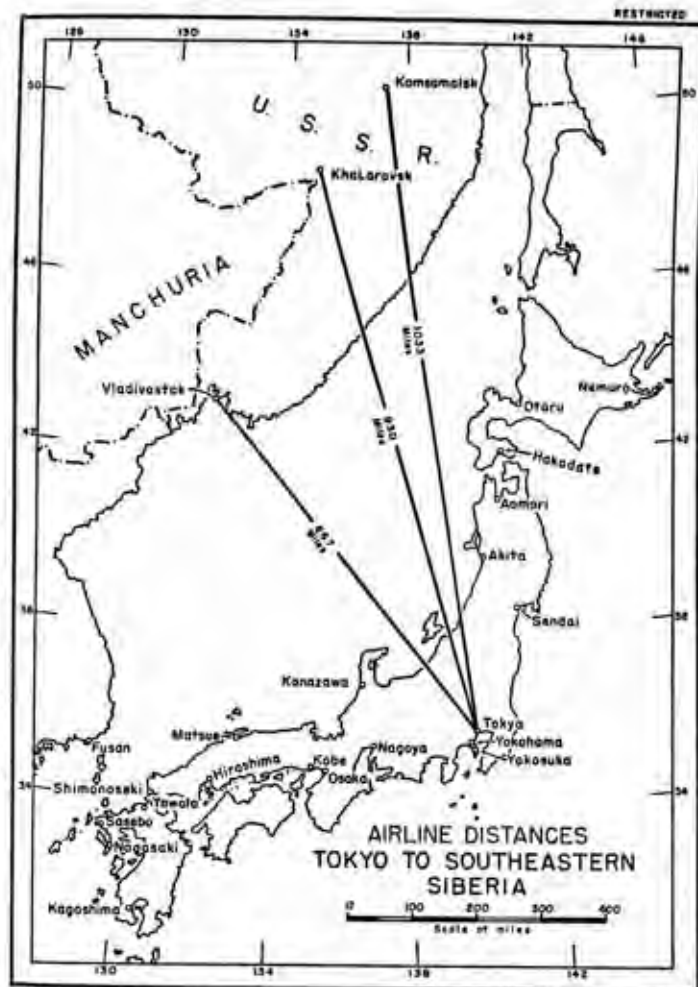
Air Distances to Japan from Siberia

In any projected invasion of Siberia, the Japanese must take full account of potential Russian striking power in the air. Unless the invasion were so rapid as almost immediately to overpower Siberian fields, Soviet air raids might have a very damaging effect on Japanese cities. Three significant centers—Vladivostok, Khabarovsk and Komsomolsk—lie from about 700 to 1,000 miles from Tokyo (see map), distances which are not too great for reasonably effective mass-target night bombing without fighter escort. The distances would not vary greatly to other strategic sites such as the string of industrial cities stretching from Tokyo along the southern shore of Honshu to Shimonoseki, or to the main naval bases at Yokosuka and Sasebo, or to the great iron and steel works at Yawata.

Japanese Push Continues in Kiangsi

In China the Japanese drives from east and west along the Chekiang-Kiangsi railroad are reported to be moving steadily

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toward a junction. A military spokesman at Chungking declares that all sections of the 400-mile railway which have been lost to the Japanese have been rendered unusable, and he denies that Chinese now fighting in Kiangsi Province are threatened either with encirclement or annihilation.

Nevertheless, Japanese occupation of Nan-ch'eng (not to be confused with Nanchang, also in Kiangsi) does bar the most likely route by which defeated Chinese troops could retreat. Nan-ch'eng is the junction of two important highways. A good road runs southwest through Ning-tu and Kan-hsien to the railhead at Shao-kuan in northern Kwangtung, and another runs southeast to Yen-p'ing in Fukien province. The latter road formerly bore the greater part of the traffic between Fukien and the other provinces of unoccupied China, and the isolation of Fukien consequently is now increased. The only remaining practicable motor road runs through the rough country of southwest Fukien to Jui-chin and Kan-hsien in Kiangsi.

The Chinese have now admitted the fall of Ch'u-hsien, after bitter fighting. Elsewhere in China there have been no clear indications that the Japanese are opening new offensives along any of the potential invasion routes (*The War This Week*, June 4-11, pp. 21-23). The front in Yunnan, that north of Canton, and that about Pao-t'ou were all relatively quiet.

Political Offensive in Kwangtung

Coincident with their military drive northward along the Canton-Hankow railroad, Japanese political activity in Kwangtung Province has notably increased, and an attempt to secure the support of Cantonese for the Nanking puppet regime apparently is in progress. In Canton the Japanese have staged celebrations of the second anniversary of the so-called Kwangtung Provisional Government in which various

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Chinese puppet officials have participated. On June 13 Tokyo reported that Wang Ching-wei, head of the Nanking regime, had himself arrived in Canton, where he appears to have a fairly strong following. It is to be noted, too, that cooperation between the Chungking government and its Kwangtung members has not always gone smoothly.

The Chinese Ask a United Strategy

The Chinese press is reported to have received the announcement of the Soviet-British-American agreements with what one journalist describes as "more or less polite expressions of satisfaction." Nevertheless, Dr. P. S. Foo, Vice Minister of Foreign Affairs at Chungking, has taken this occasion publicly to reopen the question of the relative importance of the Pacific and Atlantic fronts. The United Nations, he says, cannot expect that Japan will collapse automatically if Germany is defeated.

At a Chungking press conference, Dr. Foo is reported to have emphasized the role of "unified" strategy. His statements may reflect dissatisfaction on the part of the Chinese Military Mission in Washington—more or less publicly revealed—with their own role in the conduct of the war. General Hsiung Shih-hui, the leader of the mission began as early as April 30 to make a moderate bid for public notice. More recently, in appealing for arms for China, he referred to the need for "a unified strategy covering all theaters of operations". Recent reverses suffered by the Chinese have induced the mission to take its case to the press in a rather critical spirit. An article in *The New York Sun* of June 3, said by members of the mission itself to "correspond" to their position, pointed out that General Hsiung had arrived two months ago as the personal representative of Generalissimo Chiang Kai-shek and the leader of the Chinese military mission. "In these capacities it has been his function to speak for

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China in General Staff conferences called for the formation of Allied grand strategy. Today he declared that since coming here he has heard no discussion of grand strategy and that the question of an effective over-all command of Allied operations has to his knowledge come no nearer settlement."

The Chinese Mission

The appointment of the Chinese mission came soon after the announcement on March 10, 1942, that Lieutenant General Joseph W. Stilwell was to be "Chief of Staff" to the Generalissimo. Chinese in Chungking commented at the time that the group included some of the "choicest members" of the Chinese military "brain trust" and that they would "ably represent China's interests in Allied war conferences." The mission arrived in Washington April 13.

General Hsiung was born in 1892, is a native of An-i, in Kiangsi Province, and participated in the Chinese national revolution of 1911. He was trained in the Japanese Imperial Military Academy in Tokyo. Although he has some knowledge of the Japanese and German languages, he does not speak English. In 1926 he was Commander of the Thirty-seventh Division of the Nationalist Thirteenth Army, and from September 1928 to November 1931 he was Commander of both the Fifth Division and the Shanghai-Woosung garrison. He was Concurrent Chairman of the Kiangsi Provincial Government for the next ten years. On February 25, 1942, General Hsiung was called to Chungking, appointed to the National Military Council, and shortly thereafter was assigned to his present post.

Raids on Darwin Renewed

After six weeks of relative quiet, the Japanese have again raided Port Darwin. Three attacks on three successive days

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were the heaviest since the initial bombing of the port on February 19, according to reports. Press despatches suggest that the Japanese objective is to disrupt Allied preparations for the offensive.

In the islands northeast of Australia, Allied bombers attacked a Japanese base at Sohana, an island in Buka Passage in the Solomons, where the Japanese apparently are continuing the effort to expand and strengthen their bases. Infrequent raids on Japanese bases in Northeast New Guinea, together with increasing Allied attacks on the main but more distant Japanese base at Rabaul, New Britain, would indicate, however, that Allied fliers have been successful not only in halting Japanese expansion in the New Guinea area, but of actually repelling it.

The Philippines Join the United Nations

On Sunday, June 14, in a memorable Flag Day ceremony at the White House, Mexico and the Philippines were welcomed by President Roosevelt and representatives of the other United governments into the ranks of the United Nations. For the Philippines this dramatic gesture was of peculiar importance, according to a close and unusually well informed observer of the Philippine scene. It signified the joint recognition by the United States and its war associates of the national stature of the island country which is now an almost autonomous Commonwealth under the American flag, and which, by Act of Congress, has been pledged its complete independence in 1946. The determination of the Filipinos to stand fast in the face of Japanese blandishments and coercion can hardly fail to be increased by the reception of their flag among those of the United Nations.

From the American standpoint, too, the occasion which added the Philippine flag to the banners of the United Nations was an important one. Long before December 7, the Hon.

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Manuel L. Quezon, the intensely nationalistic President of the Philippines, had "assured the government of the United States, in behalf of the Commonwealth, that the entire Philippines—its man-power and national resources—are at the disposal of the United States in the present emergency" (Annual Message to National Assembly, December 31, 1941). Through the bitter trials of the Japanese conquest the Filipinos fulfilled this pledge. Even with their country in the grip of the Japanese occupation, they remain loyal to the United States, the cause of the Democracies and, above all, to their own independent nationhood. Such recognition of the fairness with which the United States has administered its trusteeship for the Philippines can hardly fail to strengthen the moral position of America in the entire Far East during the war, at the peace table, and in the period of post-war reconstruction, our observer concludes.

Postscript on Indian Production

In commenting on the recommendations of the Grady-Johnson mission (*The War This Week*, June 4-11, pp. 5-6), Leopold Amery, Secretary of State for India, has given them his general approval, while stressing the shortage of skilled labor in India and the inevitable delay incident to changing over Indian manufacture from job work to mass production. Meantime in India itself, the press outcry against the recent and generally negative statement of the Indian government on the Grady proposals has evidently caused the Viceroy's Council to reconsider. Sarker, member of the Council for education, health, and public lands, has implied that in issuing this statement for the government, the supply member acted prematurely; the document, Sarker said, did not necessarily represent the views of the majority of the Council. A later statement, he added, might prove to be more conciliatory.

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On the positive side, Sarker advocated the adoption of as many of the Grady recommendations as were practicable, and the utilization of all possible technical aid from the United States. A proposed War Resources Board, he said, might perform some of the functions of the war cabinet recommended by the Grady-Johnson mission. In somewhat more skeptical vein, Targett, Director-General of Supply, has declared that one of the chief obstacles to introducing mass production in India is the attitude of the Indian industrialists themselves: while perfectly willing to accept lend-lease equipment, they are not particularly interested in making sacrifices for the Allied war effort.

The press reaction to American intervention in Indian industrial problems has been mixed. The *Star of India* (which speaks for the Moslem league in Bengal) has acidly advised the United States to desist, and to confine itself to supplying India. In friendlier vein, the Hindu press has in general welcomed the Grady recommendations, while warning that "even in the midst of a total war the Indian bureaucracy is not prepared to change methods and policies." One paper expressed gratification that the report did not appear to forecast a "powerful American vested interest in this country."

Gandhi Plans Resistance

Meantime, the conversations at Wardha between Gandhi, Nehru, and Maulana Azad (president of the Congress) are drawing to a close. American correspondents are under the impression that the Mahatma has definitely decided to launch a movement designed to implement his recommendation that the British withdraw from India. In the June 7 issue of *Harijan* he wrote, "I feel that I cannot afford to wait; I have decided that even at certain risks which are obviously involved, I must ask the people to resist." In conversation

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with American journalists, he has not yet revealed what specific action he may be planning—except to say that he was going to start a movement which would be felt throughout the world. Nor is the role of Nehru entirely clear. Despite the statement attributed to him, "we would not like the American army . . . overrunning this country," observers in New Delhi believe that he may now be acting as a moderating influence on Gandhi.

In the past two days, Gandhi and Nehru have both issued statements expressing their firm opposition to any Japanese aggression in India, and their unequivocal dislike for the whole Axis program. With this, they have repeated their demand for the withdrawal of the British from governmental control of India. Under such circumstances, they conclude India would welcome British and American troops as the forces of Allied states.

Air and Sea Battle in the Mediterranean

Attempting to push two convoys through the Mediterranean this week, the British fought air and sea battles that were among the most intense the Mediterranean has yet seen. From a welter of conflicting communiqués and reports, it appears that the Allies suffered considerable losses from Axis planes, warships, and mines, but in turn sank an Italian heavy cruiser and two destroyers, and damaged two Italian battleships, two cruisers and one or two destroyers. The main Allied blows were delivered by long-range RAF torpedo bombers and United States Army Consolidated B-24's (known to the British as Liberators), the majority of which were American-manned.

The Admiralty announced that supplies have been delivered to Malta and Tobruk, although with heavy losses. One convoy, moving westward from Alexandria, was apparently attacked by Axis planes from North Africa and the

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Aegean area, while an Italian naval force, including two battleships, cruisers and destroyers, was sighted moving south from Taranto. The enemy fleet was subjected to aerial attack from Africa and Malta and returned to its base on the night of June 15/16, the Admiralty announced. The Italian communiqué states that this convoy was forced to turn back to Alexandria. The other convoy was eastbound for Malta when attacked by another naval force of cruisers and destroyers in the neighborhood of Pantelleria.

The coordinated timing of these two convoy movements was probably planned to divide enemy naval forces, while bringing relief to hard pressed Malta. British losses have admittedly been serious, but the Admiralty has dismissed as "fantastic and without any foundation" extreme Axis claims. The sinking of an Italian heavy cruiser may deprive Italy of her last vessel of this class now fit for sea, leaving only two heavy cruisers out of the eight with which Italy began the war, and both of these now damaged.

Rommel Forces British Retreat

General Rommel this week threw his reorganized forces in a drive toward Tobruk and the sea. He has forced the British to abandon El Gazala on the coast and to withdraw to a defensive perimeter about 15 miles outside of Tobruk.

After forcing evacuation of Bir Hacheim last week, Rommel drove east at El Adem and north toward Aeroma where the main fighting took place. The Axis advance threatened to cut off British forces to the west, but the infantry division at El Gazala is said to have been successfully withdrawn. Other forces are working their way back toward Tobruk, though losses must be expected. British tank losses are believed to have been especially severe, and the Axis is now credited with clear numerical tank superiority. This situ-

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ation is in part due to the effectiveness of Rommel's 88-mm. dual purpose gun.

Rommel clearly has the initiative, and the latest British announcements indicate that he has forced Allied withdrawal from El Adem and Rezegh to the southeast of Tobruk, threatening to cut off that port from land supplies. He may again be thinking of penning up the British and moving on toward the Egyptian frontier, despite the difficulties of supply and his own heavy losses.

American Bombers Land in Turkey

The Turkish Government is making every effort to be most friendly toward us in regard to the internment of the American bombers that landed in Turkey last week. Turkey's Foreign Minister gave assurances that his government understood that the landings were unintentional and that these things must be expected in war time. The American planes have attracted large crowds in Ankara, including high officials and an off-the-record visit by the President; and people are reported to be impressed by this new evidence of American participation in the European war. No unfavorable comment has been heard. The Turkish government has expressed the hope that it may be given these planes for transport use, where the need is acute. Perhaps as a warning against any too lenient treatment of the Americans, the Nazis are reported to have stirred up an anti-Turkish agitation in Bulgaria.

The Turkish Foreign minister is reliably reported to be very much pleased with the recent Russo-British agreement.

Laval Seeks Negotiated Peace?

There are new indications that Vichy policy is to play for time and work for a negotiated peace. Laval has stated in an interview that the great menace is Bolshevism, and that a

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German triumph would therefore be less bad than an Anglo-Russian victory. The United States, he feels, has no business in the war and can only expect to fight the Nazis to a draw. The Vichy radio is taking the same line, emphasizing the probable military stalemate and the common interests of both sides. Finally, it is reported that the French people want only peace, that Pétain and Darlan, as well as Laval, think the German armies cannot be defeated, and that air attacks will not knock out the Reich.

In internal affairs, Laval appears to have strengthened his control over France and the Empire. Claiming that the country was on the verge of collapse when he took over from Darlan, Laval has designed his internal policy to give him sweeping powers and to gain some popularity for his regime. He has apparently acted with energy in regard to food problems and the Black Market, and has restricted the hostile activities of Doriot's "troopers." It is also reported that he has obtained the support of the Legion of War Veterans, following an eloquent endorsement by Marshal Pétain, who publicly announced that "Laval and I are advancing hand in hand" with "complete understanding and confidence." The problem of supplying 350,000 skilled workers for Germany is still acute, however, and Laval may be forced to draft the men himself in order to prevent the Germans stepping in. The Nazi attitude toward the French is said to be increasingly contemptuous.

Azis Versus Allies in North Africa

In North Africa, German interest is greatly increasing. However, the announcement of immediate resumption of American shipments to that area, it is felt in official quarters here, will be a source of satisfaction to French officials in North Africa. These officers are reported by official observers to be increasingly pro-American in their sentiments,

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although paradoxically Laval's authority and power are at the same time apparently making themselves more and more felt. In view of a report indicating that Laval has definitely decided to let the Germans rearm French dependencies in this territory, it is felt that the American shipments at this time, which are aimed to offset German influence, assume increased importance.

From Tangier it is reported that Laval will replace the pro-ally French consular staff there with a Consul General favorable to Germany. There are reports of German investigations of all Moroccan airfields, and of meetings between French Moroccan aviation authorities and the German and Italian Armistice Commissions. These concessions to the Nazis are probably part of a reported understanding whereby diplomatic sources believe Germany has quieted Italian territorial demands in return for strict French enforcement of the Armistice Agreements with both the Axis partners. Simultaneously, a propaganda offensive against American influence in the region appears to be under way with the publication on an article in *Das Reich* (Berlin) accusing American under-cover officers of attempting to separate North Africa from France.

General Orgaz, the commander in Spanish Morocco, has stated that his country desires only neutrality and peace in Morocco, and that Franco-Spanish relations there are good despite the efforts of Germany and Italy to stir up trouble. It is thought possible that Suñer's current visit to France may have some connection with a "Latin solidarity" move.

Sevastopol Holds On

With the Russian Black Sea fleet shelling the attacking troops, the Soviet lines around Sevastopol have continued to withstand prolonged Nazi assaults. According to an American military observer, the Crimean naval base, refueled and

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resupplied by sea last winter, can hold out for a long time to come. The Black Sea fleet, which is probably still bringing in supplies from ports farther east, is a key factor in Sevastopol's defenses; a shortage of food, however, may prove an increasingly serious threat as the Nazi attacks continue.

For the present, the Germans claim the capture of Fort Stalin, four miles east of Sevastopol itself. And London observers suggest that the Nazis may not wait for the fall of Sevastopol before beginning a general offensive on the Eastern Front. Meantime, however, they are apparently holding their main air strength in reserve.

On the Kharkov front, while the Russians have restricted themselves to detailing the losses suffered by the Nazis in their week-old attacks, German military spokesmen assert that the battle east of Kharkov is over. The Nazis claim to have achieved their objective of removing "the northern pincer of Marshal Semyon Timoshenko's forces"—thereby revealing that the attack around Kharkov was simply a continuation of their previous efforts to straighten the Russian front, rather than the beginning of a general offensive, as the Allied press at first announced. The German reports conclude with the claim that the Nazi army has annihilated or taken prisoners the "remnants of the beaten enemy."

The Anglo-Saxon Agreements With the USSR

The simultaneous announcement of the 20-year mutual assistance pact between Britain and Soviet Russia, and the lend-lease agreement and informal understanding negotiated at Washington by President Roosevelt and Soviet Foreign Minister Molotov, naturally brought elation to the capitals of the United Nations. Authoritative spokesmen saw in the new agreements the formal expression of a practical partnership which had been in existence for almost a year. Further-

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more, they found in Foreign Secretary Eden's announcement that the Anglo-Russian treaty contained no secret clauses, a bold refutation of the Axis claim that the British were prepared to turn the European Continent over to the Soviet Union.

In the opinion of a highly placed American observer, the two agreements have given Russia the guarantee she has long been demanding. Three possible avenues of security were open to the Soviet Union—the attainment of strategic frontiers, a system of collective security, or a series of alliances. The first of these would have constituted a violation of the Atlantic Charter. The second must necessarily await a post-war settlement. The Anglo-Soviet treaty initiates the third course—with the door left open for collective security later on. Whatever ambiguities the two agreements may contain, in any event it seems clear that, for the time being, the Soviet Union has abandoned its endeavors to prevail upon the British and American governments to recognize Russian claims to territory annexed during the years 1939 and 1940.

Britain and the United States

Yet there were several aspects of the two agreements that evoked characteristically divergent comment in Allied and Axis capitals. A British observer, contrasting the binding Anglo-Soviet alliance with the informal Russo-American understanding, has asserted that this difference is expressive of a corresponding divergence in American and British popular attitudes toward the Soviet Union. The average American, he said, is still distrustful of Russia. While welcoming her as an ally in war, he fears the contagion of her form of government, and doubts the possibility of effective Russo-American cooperation in the post-war years. In France, Laval's *Le Moniteur* has remarked that the repugnance of American public opinion to a closer rapprochement with Moscow

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prevented the United States from adhering to the Anglo-Soviet accord.

In Britain, on the other hand, our observer continues, the Soviet Union enjoys a tremendous popularity as the unexpected savior in the dark months of the war. Critics of the Chamberlain policy now profess to see the realization of their hopes, and point out that such an agreement as the present one, if negotiated three years earlier, might have prevented the war. Furthermore, with a strong political element already sympathetic with the Russian experiment (and with most of the Catholic members of the House of Commons affiliated with the Labor Party), distrust of the Soviet Union appears to be a far less common sentiment than is confidence in Russia's future. The *Daily Telegraph*, for instance, finds that the Anglo-Soviet treaty's "most gratifying feature is its symbolism of a new trust between the British and Russian peoples."

The Second Front

On the question of a second front, there is a widespread conviction that Britain and the United States have gone as far toward giving Russia a definite commitment as strategic circumstances now permit. Furthermore, many commentators express the view that any ambiguity in the two documents may be partly a deliberate effort to confuse our enemies, and that the phrase "full understanding with regard to the urgent tasks of creating a second front in Europe in 1942" must be understood in the context of the war of nerves. Furthermore the BBC, while welcoming the statement as terminating the former "stage of controversy" among the Allies on this issue, sounds a note of caution: the Russians understand the need for careful preparation until "the odds are with us".

In Berlin, however, the correspondent of Sweden's *Social-*

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Demokraten finds the Wilhelmstrasse unimpressed by the Allied threat; German official circles evidently take the line that the Anglo-Russian pact is a "suicidal emergency propaganda measure" evidencing the distressed situation of the Soviet Union. In the same vein, the Berlin radio asserts that the signing of the pact "will not change anything" in the military situation.

The Sanctity of the Atlantic Charter

The Anglo-Soviet Treaty apparently sidesteps the crucial issue of Russia's post-war boundaries. But the renunciation of "territorial aggrandizement" and of interference in the "internal affairs" of other nations has naturally proved reassuring to such countries as Sweden and Turkey, which have long feared Soviet aggression. There is, of course, no specific statement that this renunciation applies to non-Russian areas annexed between September 1939 and June 1941. The British and American press, however, generally adopts the aforementioned point of view that the Soviet Union, for the present at least, has dropped its territorial claims against Finland, Poland, and the Baltic States.

In the United States, at least two well-informed columnists have given a coherent account of the negotiations preceding the signature of the two new agreements. For weeks on end, they relate, President Roosevelt and Secretary Eden stubbornly resisted Soviet annexationist claims. The lend-lease agreement and the mutual assistance pact, plus the American declarations of war on Hungary, Bulgaria, and Rumania, finally emerged as complementary measures of security offered in return for Russia's dropping her demands. The sanctity of the Atlantic Charter had been saved.

The British press generally adopts the line that territorial questions have simply been postponed until after the war. The *Daily Express* thinks that "these comparatively lesser

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matters" have been left "in abeyance," while the *Manchester Guardian's* diplomatic correspondent expresses the view that questions of boundaries can only be settled at a peace conference; the treaty guarantees, however, that they "will be settled on the principle of self-determination." The *Times*, while pointing out that no word of the treaty conflicts with the Atlantic Charter, concludes enigmatically that "a country giving a promise so far-reaching [as Britain's] naturally desires to see its partner strong in all forms of defense, economic, military, and territorial."

The Finns interpret the Anglo-Soviet arrangements as a sell-out—the conservative *Uusi Suomi* predicting the annihilation of the Baltic States and a new mutilation of Finland. The Swedish press, while noting a lack of clarity in the Allied statements of post-war intentions, sees grounds for optimism as to the fate of the smaller northern states. *Nya Dagligt Allehanda* asserts that Britain will have some say in Moscow's future arrangements with Helsinki, and *Dagens Nyheter* finds that the Anglo-Soviet pact disproves the Nazi claim that Eden has sold Europe to Stalin. Berlin naturally views the renunciation of territorial claims as "pure bluff"; "the Baltic, Finnish, and Rumanian peoples know the true value of the Soviets' word from bitter experience."

The Post-War World

On the post-war significance of the agreements, there is a characteristic divergence of opinion. The *Manchester Guardian* hails them as marking a new epoch and applying for the first time the lessons taught by experience that "neither the balance of power system nor a League of Nations that is not strongly underpinned and equipped with large constructive powers can save Europe." On the Continent, Laval's *Le Moniteur* finds that the post-war clauses of the treaty aim at placing all Europe under an "Anglo-Bolshevist condominium."

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The Berlin radio takes a somewhat different position in underlining the "incomparable mistrust" that Stalin, Churchill, and Roosevelt "have in each other." Rome views the pact as an indication of the "progressive degradation of the Anglo-Saxon powers in their servitude to the Soviet Union." For the future, the threat of spreading Bolshevism will probably prove the most fruitful Axis line of attack on the newly-affirmed solidarity of the United Nations.

Chilean Struggle Over a Break With the Axis

During the past three weeks the conflict in Chile over the issue of a break in diplomatic relations with the Axis (*War This Week*, May 14-21, pp. 17) has been intensified. A certain element of public opinion is undoubtedly influenced by an aggressive campaign by the leaders and press of the Communist and Socialist Parties and the Chilean Confederation of Labor, urging a break in relations with the Axis and stern repression of fifth-column activities. The Socialists have not only decided to bury the hatchet with their old enemies, the Communists, but are attempting to unite all leftist and left-center political groups in a new anti-Axis front, which would have much influence in the Congress, although probably not a voting majority.

Other developments have strengthened the hand of these anti-Axis forces. The influential but hitherto neutral *El Mercurio* and *La Nacion* roundly denounced the Axis on the occasions of Mexico's entry into the war and of the announcement of the Anglo-Russian pact. Recent American naval victories in the Pacific have done much to restore confidence in the cause of the United Nations among a public generally sympathetic to that cause, but which recognizes that Chile's weakness must oblige her to back the winning horse. A congressional Committee to Investigate Nazi Activities has initiated hearings. Its effectiveness in influencing public

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opinion may, however, be limited by rightist opposition in the committee itself, and by restrictions on publicity and on the calling of witnesses.

This apparent trend toward a break with the Axis has not gone unchecked, however. President Rios and the rightist press have reproached Cabinet Minister Oscar Schnake and other Socialist leaders for opposition to the administration's policy of neutrality. Foreign Minister Barros Jarpa has assured the press that rumors of an imminent break in relations are groundless and that Chile's position has not changed. At the instance of the German Ambassador, Barros has announced that press attacks on the Axis will be curbed, in conformity with a general provision in existing Chilean law.

Rios and his foreign minister have repeatedly promised that Chile's foreign policy would closely reflect public opinion. Evidently, they are not yet aware of any majority sentiment in favor of a break with the Axis. Nor, in view of their own strong convictions that neutrality is the best course for Chile, are they likely to permit such sentiment to develop too hastily.

Bolivian Laxness in Deportation of Axis Nationals

Although the Bolivian Government has expressed its willingness to cooperate in deporting dangerous Axis nationals from that important tin-supplying country, the fulfillment of those promises has not been satisfactory, it is reliably reported. A powerful German commercial group has important Bolivian friends and relatives with considerable influence in the government, it is said. Only last week, when a group of Axis nationals was supposed to be flown out to a Peruvian port for deportation, the National Police obstructed the action by delays in rounding up the deportees. In all, some 98 Axis nationals have been listed for expulsion, but so far only 10 have left the country, and their departure was voluntary.

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APPENDIX

JAPANESE AIR POWER

Japanese first-line air strength and available reserves probably declined from 5,200 at the beginning of the war to about 3,700 by the end of April, according to a memorandum prepared by the Economics Division of the Office of Strategic Services. The actions at Midway and in the Coral Sea cost the Japanese another 200 to 250 planes in immediate combat losses, according to the present estimates of military observers. As a result, it is possible that the Japanese air force may now be fully extended on existing fronts. If Japan is now impelled for strategic reasons to open an immediate large-scale attack on Siberia, she will do so without the protection of adequate reserves.

The "depth" of Japanese air strength has been steadily decreasing since Pearl Harbor, according to the memorandum. By the end of April, total combat reserves may have been reduced to about 55 percent of their original strength. Moreover, if we exclude damaged planes (out of action but subject to repair), the Japanese position would be still less favorable, with perhaps only about 1,075 first-line combat reserves remaining to her at the end of April, or 40 percent of pre-Pearl Harbor reserve strength. If then we deduct a minimum of 200 planes lost in the recent engagements at sea, these reserves would in turn be reduced to only 875 combat planes.

These calculations however—as the memorandum points out—are based on estimates of output and noncombat losses. Among students of this problem such estimates vary widely. For example, available estimates of actual total production of aircraft in Japan range from 200 to 1,300 per month. The most authoritative estimates, however, cluster around a figure of 750, of which roughly 70 percent are combat planes. Since this is the estimate which appears to be most consistent with other known facts (it is much higher than the preponderance of estimates), this figure has been used.

Losses Since Pearl Harbor

For the five months ending with April, the number of Japanese planes officially reported to have been shot down in action reached a total of 1,310 (including 233 planes claimed by the AVG). Such a figure, however, represents only a part of the total wastage of planes involved in a military campaign. Noncombat losses (usually occurring when pilots get lost or run out of gasoline or when planes are damaged in reconnaissance, crash landings, or faulty take-offs) account for another significant part of total losses, to which must also be added planes used up in training and transportation, and those out of operation for repair. For the present, estimates of such losses must be based largely on European experience. But if we adopt a conservative viewpoint and make adjustments for differences in conditions of operation, it is probable that the total first-line strength (planes carried in organized formations) plus combat reserves had declined from 5,200 in December to about 3,700 by April 30.

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This figure assumes the rate of output mentioned above—about 750 planes per month of all types. The highest production estimates—1,100 to 1,200 per month—are entirely inconsistent with the relatively low estimates of total strength at the outbreak of the war, and such a production rate could not be achieved overnight.

While Japan's lavish use of aircraft in the first months of the war might suggest a greater output than was at first supposed, her incentive then drove her to seek a quick and decisive victory and seemed no doubt to justify cutting into reserves to the fullest extent necessary. The necessity for such a quick victory might still compel the Japanese to risk the lavish expenditure of reserves, according to some observers, if such a step would improve Japan's long-run position of security.

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