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War Savings Bonds

 See Financing, Government

February 8, 1943.
10:15 a.m.

GROUP

Present: Mr. Bell
Mr. Graves
Mr. Buffington
Mr. Odegard
Mr. Gamble
Mr. Thompson
Mr. O'Connell
Mr. Schwarz
Mr. Gaston
Mr. Sullivan
Mr. Haas
Mr. Blough
Mr. White
Mrs. Klotz

H.M.JR: Bell, what have you got? We will start with you.

MR. BELL: I haven't anything special right at the moment. I have got a lot of things, such as financing.

MR. THOMPSON: The Appropriations bill is in the House. I suppose you noticed in the press that it has been kicked around.

H.M.JR: No, I just saw the headlines.

MR. THOMPSON: Mr. Taber succeeded in knocking a million dollars off of Foreign Funds to start off with. Then they prohibited the employment of Mr. Pickens. All of these actions are temporary because they have to come to a final vote in the House. It is possible there may be some changes this week.

H.M.JR: What are you going to do about Pickens?

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H.M.JR: What are you going to do about Pickens?

- 2 -

MR. THOMPSON: Harold Graves has covered that pretty well. Ludlow made a very earnest appeal to avoid the actions taken, but the House seemed to be in a mood last Friday to go wild. I have a feeling that they will straighten out most of it.

MR. BELL: I thought maybe when Dies got his extension through and his additional appropriation, he would stop. I understand they did extend his time.

H.M.JR: Who has got that in hand?

MR. GRAVES: I have. We have done everything that we could to influence some votes on this Pickens matter. Our people from North Carolina, and South Carolina, and Kentucky, and Missouri have been in touch with their members, and we have done some other things that we think may change this vote. It will be a record vote, and I believe a lot of people will wake up and--

H.M.JR: Have they got anything on Pickens?

MR. GRAVES: No.

H.M.JR: Just that he is a Negro?

MR. GRAVES: Well, Pickens has a record of membership in certain organizations that, by some people, are regarded as subversive - the Dies Committee has that record. When Mr. Irey's people made the character investigation of Pickens they got that record, and also a report that has been made on Pickens by the FBI. Their report of investigation referred, of course, to the Dies record, and their conclusion was that there was nothing that connected Pickens with any subversive organization. They gave a favorable report on Pickens. That was a year ago last October. As Norman has said, this thing is to come up separately on the floor either today or tomorrow. I was wondering whether you would care to phone the Speaker about it. That is one further thing.

H.M.JR: I will be glad to write a letter. If somebody will write a letter for me, I will sign it.

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MR. GRAVES: All right.

H.M.JR: I will be glad to write a letter. It makes a record of it, anyway.

MR. GRAVES: We have already made a record. I went down and saw Congressman Ludlow as soon as I heard of this. Ludlow is in charge of our bill. He asked for a letter.

H.M.JR: Don't you think a letter to the Speaker would be more effective?

MR. GRAVES: I am inclined to think it would be more effective if you phoned him.

H.M.JR: When does it come up?

MR. GRAVES: Either today or tomorrow.

MR. WHITE: There is so much public interest in that.

MR. GASTON: These fellows up there are going to burn their fingers very badly. They couldn't have picked a better case on which to burn their fingers than the Pickens case, but I think it is most important that our record of standing loyally by this fellow should be perfectly clear.

MR. WHITE: There is so much growing public interest in that case that I think letters would be more in order, in addition to any conversation.

H.M.JR: Did anybody talk with the congressional delegation from New York and Chicago?

MR. GRAVES: I am not sure. I talked with Colonel Patterson about it and he said he would.

H.M.JR: Who is the leader of the New York delegation?

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MR. SULLIVAN: Lynch is the man on Ways and Means.

H.M.JR: I don't mean that. I mean the thirty-odd from Greater New York.

MR. SULLIVAN: What they are up against, Mr. Secretary, is they can't keep the Democratic votes in town.

H.M.JR: No, but in a case like this, if you want to do it politically, you see - I mean, why not get in touch with Mayor Kelly, Chicago, see - and tell him to talk to the boys and then give - I don't know who is the head of the--

MR. SULLIVAN: Sabath, I think, is the head of the Illinois delegation.

H.M.JR: Well, Sabath--

MR. SULLIVAN: Do you want to talk with Sabath?

H.M.JR: I would like you to. The man who used to be the head of the New York delegation--

MR. SULLIVAN: Do you want me to talk to him, too?

H.M.JR: If he will say yes, there are thirty or forty votes in New York, and there must be fifteen or twenty in Chicago.

MR. SULLIVAN: What they have been up against, they haven't been able to get the Democrats here, even on Monday.

H.M.JR: But I would try it. If you succeed there, you might go to some of the other cities with a large Negro population, like Detroit.

MR. SULLIVAN: Right.

H.M.JR: Frank Murphy could tell you who to talk to in Detroit.

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MR. BELL: They made a mistake bringing this bill up on Thursday when all the Democrats went home over the week end. I think Ludlow admits it, now.

H.M.JR: What else?

MR. THOMPSON: In introducing the bill, Mr. Ludlow advised the membership of the House to read your testimony. He said you were a very interesting witness. He thought it was rather enlightening to read the first fifty pages of the hearing.

H.M.JR: They said they would rather read a detective story? (Laughter)

MR. THOMPSON: I thought it was very nice for him to do that because it certainly was worth being read.

H.M.JR: Bell told me last night that they are short a million dollars on Foreign Funds.

MR. THOMPSON: Yes. Mr. Taber introduced an amendment which cut that a million dollars. You will have to go to the Senate for that if it sticks in the final vote.

MR. BELL: Somebody raised the question, when they were discussing the bill, as to whether there wasn't an overlapping of functions in Foreign Funds, and Leo Crowley's organization. They went back and had another hearing with Pehle and Crowley, together, and that afternoon when the bill came up on the floor, there was an amendment offered by Taber, and not by the committee.

Paul, through John Shea, has been talking to some of the people, and he talked to McCormack. McCormack told him the trouble was they did not have the Democrats available at the time the vote was taken. That is in the Committee of the Whole. They hope tomorrow, when the bill comes out of the committee, that they will have votes enough to reverse that action of the Committee of the Whole. It may be necessary, either today or tomorrow, to call McCormack. We will know today.

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MR. SULLIVAN: I think I should notify McCormack that I am seeing those fellows.

MR. GRAVES: Mr. Houghteling, by the way, has talked with McCormack about this Pickens case, and McCormack is all right.

H.M.JR: I will be seeing you (Bell).

Harold?

MR. GRAVES: I have nothing.

H.M.JR: Harry?

MR. WHITE: There are a number of things that we put down on paper. You can select whichever one of them you want to pursue.

H.M.JR: You fellows now realize why I told you to let the State Department take the lead on that foreign exchange.

MR. WHITE: We found out in time.

H.M.JR: Was the old man smart? (Laughter) I mean, I didn't want you to go pushing ahead.

MR. BELL: We went slowly.

H.M.JR: Didn't I tell you to let them lead and you follow? Isn't that what I said?

MR. BELL: You said, "Go slowly," as I remember, and we did.

H.M.JR: Did you "suspicion" anything?

MR. BELL: I did Monday or Tuesday. Something came to my attention that gave me an inkling.

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H.M.JR: It would have been nice if you had called a conference on foreign exchange in North Africa. I didn't want you boys going out on the end of a limb. I talked to the President last night. He started in and he says, "I can't figure one and a third - it is just too difficult." He says, "I can figure two cents to the franc. I just thought I would change it, that I would show you fellows how to do it." And then--

MR. BELL: I wasn't quick enough on the trigger or I would have said that it would have been much easier to make it a hundred. (Laughter)

H.M.JR: I said, "You had to give them something, and this was the easiest thing to give them."

He said, "That was part of it. I like two cents. It figures out nicely with the pound, too." So he had it very much on his mind, you see.

MR. WHITE: What I am afraid is that that was exactly the basis of his choice. (Laughter)

H.M.JR: You mean the pound?

MR. WHITE: No, that it was easier for him to figure. I can't find any other good reason. (Laughter)

H.M.JR: That is why we made gold thirty-five dollars an ounce, too. (Laughter)

MR. GASTON: Harry says it was a good reason. (Laughter)

H.M.JR: I just figured that he most likely wanted to give them something. He said that DeGaulle wanted forty-three and a half.

MR. WHITE: They had already agreed here to make it - the Free French here had indicated they would accept sixty and would bargain for sixty-five.

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H.M.JR: I am sure that he wanted to let you know, and let me know--

MR. BELL: I took quite a kidding at the Cabinet.

H.M.JR: Bernstein was very much upset about it. I can't get upset about it.

At the conference they had to give something. I suppose that was the easiest thing.

MR. BELL: That was the rate that was mentioned before November 8.

H.M.JR: It will take more than that to get me excited. (Laughter)

Schwarz?

MR. SCHWARZ: I have a few additional things here I think you might want to see, that I saved, including a good piece on taxes by "Corporal Paul."

(Clippings handed to the Secretary by Mr. Schwarz.)

H.M.JR: There will be no press conference this afternoon. I don't want to be asked a thousand questions. I am not ready.

MR. SCHWARZ: I had a list of some things.

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H.M.JR: George?

MR. HAAS: I have nothing, except I have a couple of memoranda dealing with financing which I will have finished by noon.

H.M.JR: When you are ready, I will get them.

Peter?

MR. ODEGARD: I have nothing urgent.

H.M.JR: Joe?

MR. O'CONNELL: I think nothing, Mr. Secretary.

H.M.JR: Joe, find out what has happened to the Hamilton Fish case, will you?

MR. SULLIVAN: I can tell you, sir. At least I can tell you up to ten days ago. We got some confidential information through the State Department, conversations with Trujillo and--

H.M.JR: Are you handling this? Is it under you?

MR. SULLIVAN: It has been.

H.M.JR: Then you (O'Connell) forget it.

MR. SULLIVAN: It didn't look too good.

H.M.JR: For who?

MR. SULLIVAN: For us, and we sent it over - that is, on the possibility of proving anything - and we sent it over to Justice, and then about two weeks ago Sam Clark called me and wanted to know if he could have that information. I called Larry Duggan, and he said, "Certainly," so I sent it over to Sam Clark. They were getting ready to make a decision on it.

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H.M.JR: Supposing you find out and give me a little memorandum on it the next day or two, will you?

MR. SULLIVAN: I will, sir.

H.M.JR: I would like to know what they find out about Trujillo.

MR. SULLIVAN: I will get back the Duggan memorandum and give it to you.

H.M.JR: I was in a nice place to be in. They claim that Madam Batista is the third wealthiest woman in America now. Most of the money - there are estimates it is around fourteen million dollars. I mean, they have got - everything works very nicely there. They have gasoline and tires. Everybody in the Government - I only had one formal day there. Friday I called on the Minister of Finance and then had lunch with the ambassador. I mean, nobody knows there is any war there. At lunch they had cocktails, a white wine and red wine, and champagne. (Laughter) All they seem to do there is just have luncheons, afternoon receptions, and tea parties, and dinners. But it is a good place for a rest. The Minister of Foreign Affairs sat next to me, and sort of whispered to me, "What do you think about the Central Bank? Should it be in the hands of the Government?" I gave him quite a talk on it. What's-his-name told me that the ambassador was criticized up here for saying it shouldn't, but that he was really holding back. His reason is that the Government is so dishonest the thing would go sour and then the United States Government would get blamed.

MR. WHITE: That is the position he has been taking. That is the position every South American country takes when the Central Bank comes up.

H.M.JR: I talked to Batista about it. They said they are going to take it up now.

I don't know how crooked - if you listen to them down there the crookedness is just unbelievable.

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MR. WHITE: They have to suffer from their own sins and pull their own weight out. Our own record and England's record of crooked politics is extremely bad in the first half of the nineteenth century; their own record hasn't been any too good in spots.

H.M.JR: I told this foreign minister - I said, "After all, it is up to the people; if they want an honest government, they can get it."

How far did I get? Ted?

MR. GAMBLE: I have nothing, Mr. Secretary.

H.M.JR: Who is the president of Paramount? Did we have any contact with them?

MR. WHITE: He was one of the group that came in. I haven't had any contact with them since, but Schenck has called up a couple of times to keep informed of their activities, speaking for the group. I can find out for you and let you know.

H.M.JR: Find out whether he was here.

MR. WHITE: Whether he was here with those four persons?

MR. GAMBLE: Balaban was here.

H.M.JR: Yes, of Chicago. Was he president of Paramount?

MR. GAMBLE: Yes.

H.M.JR: Anyway, I have a little chore I want to do for my friend Ernest Hemingway. I want to find out what has happened to that picture.

MR. WHITE: There was a note about it that the State Department is holding it up.

H.M.JR: He doesn't know. I volunteered to find out for him. I saw the stills. Gosh, what a picture!

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MR. ODEGARD: "For Whom The Bell Tolls"?

H.M.JR: Yes. Gary Cooper and this girl--

MR. SCHWARZ: Ingrid Bergman.

H.M.JR: It is marvelous. It is in technicolor.

I see you sent, according to the radio this morning, the Director of the Budget up to testify this morning.

MR. BLOUGH: That is a mistake. It is another committee he is going before.

H.M.JR: To show you my new philosophy, I didn't call anybody up on the phone to give them hell or find out - (Laughter) I wrote a memo on it.

MR. BLOUGH: I am informed it was another committee he was asked to testify before, not the Ways and Means.

H.M.JR: It pays not to get excited. (Laughter)

MR. BLOUGH: I don't know how much you know or want to know about what is going on.

H.M.JR: Any time.

MR. BLOUGH: Nothing pressing at the moment, I think.

H.M.JR: Wonderful. We will get around one after another.

MR. BUFFINGTON: I have nothing.

H.M.JR: Has this fellow made his tour of the country, Harold Thomas?

MR. BELL: Harold Thomas is in New York now writing his report. He ought to be here tomorrow.

H.M.JR: It isn't waiting on me?

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MR. BELL: No.

MR. SULLIVAN: We are not getting in the income tax returns we should.

H.M.JR: I read your testimony in the Times.

MR. SULLIVAN: They are about half of what they were last year on February 1. We got a resolution through Ways and Means and Senate Finance that we think would help, but it has got to be driven home. Next week, Monday night, we have a broadcast on a hundred and twenty-one stations. We wanted to submit to you the idea of having you and Mr. Doughton and Senator George on that program.

H.M.JR: Good.

MR. SULLIVAN: I talked with Herb last Thursday about seeing Mr. Doughton and Senator George to see if they wanted to participate, and we decided we should wait to see if you were going to be available to do it. If you were, I would then talk with them. So, with your approval I will speak to them this morning.

H.M.JR: Sure. Who will write the stuff?

MR. SULLIVAN: I have a draft on my desk. Mager, Crampton, and Horn have been working on it. I haven't seen it, but I have a draft. I think it is a pretty good program.

H.M.JR: I think if the three of us go on it would be fine.

MR. SULLIVAN: I think so. I think you might want to consider the idea of having the President also make some sort of a statement.

H.M.JR: Well, no, I wouldn't bother.

MR. SCHWARZ: Last week end Mr. George and Mr. Doughton posed for the newsreels on that subject, of which there will be a lot of circulation.

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H.M.JR: Joe, I asked Paul to get me a copy of the speech that Ruml made down at the University of Charlottesville.

MR. GASTON: University of Virginia.

H.M.JR: Yes. He made a speech on his multiple plan of getting prosperity back. I never got it. He had this plan, certain multiplications, and out of that - he did it in the office here - you get prosperity. Do you remember?

MR. BLOUGH: I remember.

H.M.JR: I told Paul - I wonder if we couldn't get it. He said that he made a speech on the subject down at Charlottesville, and he was going to get me a copy. I hope that they will circulate that amongst the committee and ask him to testify on that as well as the other.

Do you know what I am talking about, Harry?

MR. WHITE: No, sir.

MR. BELL: You remember the "Peaks and Valleys Committee."

MR. WHITE: I thought this was something he did recently.

H.M.JR: No, two or three years ago. He had these numbers.

MR. WHITE: I remember his views on the subject very definitely.

MR. BLOUGH: He had a chart - two sides.

MR. WHITE: I don't think that would be a too-fruitful exploration, because with sufficient modification, whatever he said could be sustained; maybe not the way he said it, but he can use qualitative terms by which his position, I think, is unassailable.

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H.M.JR: Let's get the speech. We will have a moot court here, and let you be Ruml. (Laughter)

MR. WHITE: I will go out and get a few drinks. (Laughter)

H.M.JR: They told me he came down there to Varadero alone Friday or Saturday, just for a week end, and he sat down there, with nobody there, particularly, with a full quart of Scotch, and in the afternoon it had just disappeared. (Laughter)

MR. WHITE: He is that good.

MR. SULLIVAN: Did he leave under his own power?

H.M.JR: They said it didn't seem to have any effect on him. He was there two days.

MR. WHITE: I have seen him drink a half a quart of Scotch in an hour and a half without any too obvious effects. He gets a little more loquacious. (Laughter)

MR. HAAS: But no forgiveness? (Laughter)

MR. BELL: All forgiveness. (Laughter)

MR. SULLIVAN: Mr. Secretary, on this broadcast they first offered us Tuesday night at ten-thirty, and Monday night from six-fifteen to six-thirty. Monday would have a hundred and twenty-one stations from coast to coast.

H.M.JR: What time?

MR. SULLIVAN: Six-fifteen to six-thirty.

MR. GASTON: That is a good time.

H.M.JR: It wouldn't be so good out on the West Coast.

MR. SULLIVAN: Here is where the income taxes are.

H.M.JR: That is when most of the people will be home, isn't it?

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MR. SULLIVAN: Six-fifteen to six-thirty.

H.M.JR: I think that is the best time.

MR. SULLIVAN: At ten-thirty most of the people who are working are in bed, anyway.

H.M.JR: Which night?

MR. SULLIVAN: Monday.

H.M.JR: Good. We could do it right in here.

MR. SULLIVAN: That will be fine.

MR. GASTON: The House Appropriations Committee on their own motion eliminated money for the seven Comptrollers of Customs - that old fight, you know. They said that the Treasury Department testified that the officers were unnecessary. As a matter of fact, there was nothing in this year's hearings at all, but they were going back to old hearings. We will probably have that old fight on our hands in the Senate, but I think it is a good idea.

MR. SULLIVAN: Take that job away from New Hampshire and you lose the job. (Laughter)

MR. GASTON: We just appointed John Curley, you know, up in Boston.

MR. SULLIVAN: After we had it seventy-eight years.

H.M.JR: We will get you a new one. (Laughter)

MR. SULLIVAN: I have been for abolishing these all along.

H.M.JR: New Hampshire from now on always has to have an Assistant Secretary of the Treasury. (Laughter)

MR. SULLIVAN: That is O.K. I have some friends who will be glad to spell me. (Laughter)

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MR. SULLIVAN: Six-fifteen to six-thirty.

H.M.JR: I think that is the best time.

MR. SULLIVAN: At ten-thirty most of the people who are working are in bed, anyway.

H.M.JR: Which night?

MR. SULLIVAN: Monday.

H.M.JR: Good. We could do it right in here.

MR. SULLIVAN: That will be fine.

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- 17 -

MR. GASTON: The President spoke to Dan on Friday. He wants Truman Cash to be collector for Internal Revenue at Baltimore. That is that old situation. Magruder is the collector. It has come up to the point--

H.M.JR: Has he stolen much? (Laughter)

MR. GASTON: Magruder?

H.M.JR: No, the man that the President wants.

MR. GASTON: No, I don't think so. He managed Radcliffe's campaign in 1940. It all goes back to this--

H.M.JR: Is he very crooked?

MR. GASTON: It is a case of having to get Magruder out. Sumner Welles and others have come to his defense.

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

MR. SULLIVAN: That is a good name for a collector. (Laughter)

H.M.JR: Is he all right?

MR. GASTON: We haven't investigated.

H.M.JR: I would investigate him. If it is all right I would go through with it if that is what the President wanted.

MR. BELL: Senator Radcliffe had recommended it. He would like to do it.

MR. GASTON: After all, it is right in their lap.

H.M.JR: No. What the heck - if he is perfectly honest, why not? If the President wants him, it is his responsibility.

MR. BELL: This is the third time, I think, that this has happened, isn't it, Herbert?

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MR. GASTON: Yes.

MR. BELL: I think on two previous occasions--

H.M.JR: If I were the President, I would say three times is twice too often.

MR. BELL: I think on two previous occasions Sumner Welles went to the President and got him to change his mind and keep Magruder.

MR. GASTON: That is right.

MR. BELL: So you may have the same thing happen this time.

H.M.JR: Listen! When we put Magruder in Marvin McIntyre said, "Henry, in the whole time I have been in the White House that is the worst appointment from the standpoint of ethics and the best appointment from the standpoint of politics that we have ever made." (Laughter) That is what he said to me. I fought Magruder's appointment tooth and nail.

MR. GASTON: He has had about nine years now on the job.

H.M.JR: Whoever does it, have him investigated. If he is all right and the President wants him, it is--

MR. GASTON: I think I will tell Marvin McIntyre just so he knows what is going on.

I have a memorandum of various points on the general front that I don't think you want to hear now. I will leave it with you if you want it, or take it up with you later.

H.M.JR: What I do with people who have memoranda - they are going to have to see me personally, then we go over them together.

MR. GASTON: This is on the general public relations front.

- 19 -

H.M.JR: All right, I am not going to take any memoranda home. If you want something, bring it in and I will read it with you.

All right. I want to thank everybody for carrying on while I was gone. You made it possible for me to get my health back.

Excerpt from statement made by Representative Ludlow in discussing the Treasury and Post Office Department Appropriation Bill. (Page 570 of the Congressional Record for February 3, 1943)

MORGENTHAU AN INTERESTING WITNESS

"One of the most interesting witnesses before our subcommittee was the Secretary of the Treasury, Mr. Morgenthau. He occupied the stand for a good half day. To those who enjoy entertaining reading I would commend perusal of his testimony, pages 1 to 49 of the hearings. He gave us a broad view of the banking situation, which he pronounced 'As sound, or more sound than at any time since 1933' and of the business of the country, over half of which, he ventured to say, is now devoted directly to the war effort. He told us of his plans to finance the war and to expand the revenue service to provide for the processing of 8,500,000 additional income-tax returns, due to lowered exemption features of the new legislation. He saw no danger of runaway inflation at present, but said that is something that has to be watched 'every single minute'. 'There are lots of ways of meeting inflation,' he said, 'but I do not know of any more effective way of meeting it than through taxation. We have not even begun to approach the tax burden in Canada.'"

Excerpt from statement made by Representative Ludlow in discussing the Treasury and Post Office Department Appropriation Bill. (Page 570 of the Congressional Record for February 3, 1943)

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Mrs. Klotz 21

The Secretary says
6:15 Monday, Feb 16
is OK for the broadcast
mentioned in the
attached memo.

Hmp. asked that the
memo be turned over
to you for your information.
Sullivan has been
advised that the Secretary
agrees to the time
dedicated

Fitz

From: Mr. Fitzgerald

MEMORANDUM

February 8, 1943.

TO: THE SECRETARY

JTS

FROM: Mr. Sullivan

This morning I saw Senator George and Congressman Doughton, and they both were happy to accept the invitation to speak with you on the radio February 15th or 16th.

Senator George expressed the hope that the broadcast could be held from your office.

The Columbia Broadcasting System, which is making its services available to us, advised me this morning that a difficulty had arisen about the February 15th date at 6:15. They are working on it today and will tell me tomorrow whether this date can be made available again. Congressman Doughton was agreeable with either date, but Senator George said he thought that the February 16th date at 10:30 P.M. was preferable because of reaching an audience on the West Coast.

Since dictating this memorandum, I have been advised by the Columbia Broadcasting System that the February 15th date at 6:15 is still available.

OK

February 8, 1943
11:47 a.m.

Speaker
Rayburn: Yes.

HMJr: Sam.

R: Yes.

HMJr: Henry talking.

R: Yes, Henry. How are you feeling?

HMJr: I'm - I'm all right, thank you.

R: Well, that's good.

HMJr: Just got back today.

R: Well, I'm mighty glad you're back.

HMJr: Sam, about this negro, William Pickens

R: Yes.

HMJr: a Treasury employee that's been struck off the books, so to speak.

R: Yes.

HMJr: It seems to me that that's a kind of a stupid thing to do.

R: Well, we're in here talking about things like that now, and

HMJr: Yeah.

R: Mr. Chairman Cannon and Mr. McCormack and Mr. Woodrum

HMJr: And

R: and seeing if we can fix some kind of a policy about these things. These fellows - a lot of them - have pretty bad records

HMJr: Well

R: and, unless we can do something, and the departments do something, why, they're going to strike them every one out, just as we come to

- 2 -

R: (cont.) them in the bills. There's no question about that. Cliff Woodrum's sitting here. He's bringing in a bill. There're seven of these cases in it in which the Dies Committee's got a big folder on....

HMJr: Yeah.

R:and some of them might be all right....

HMJr: Yeah.

R:and some of them might be pretty bad.

HMJr: Well, I don't think there's anything the matter with this fellow, Pickens, as far as I know.

R: I see. I see.

HMJr: And I just wanted to tell you that - that....

R: Yeah.

HMJr:that it seems to me that it's just straight discrimination - the fact that he's a negro.

R: Yeah. Well, that isn't the case though, Henry.

HMJr: No?

R: No, it's just these fellows - they developed something on them....

HMJr: Yeah.

R:and then they go to another department and get a job.

HMJr: Yeah.

R: And it's - it's going against the grain up here pretty strongly. We're going to try - we're just talking about it now. We're going to see what we can do about it as....

HMJr: Well....

R:as a general thing - then fix a forum or something for these fellows to be heard in or something of the kind, I don't know what.

- 3 -

HMJr: Well, I....

R: This fellow will go out on the roll call, if they have one, in my opinion.

HMJr: Yeah. Well, I wanted to put in my two bits.

R: Yeah, all right, Henry.

HMJr: Thank you.

R: Thanks.

February 8, 1943
11:52 a.m.

HMJr: Hello.

Harold
Thomas: Good morning, sir.

HMJr: Hello, Mr. Thomas. How are you?

T: Pretty good. How are you?

HMJr: I'm much better.

T: Are you?

HMJr: Yes, I am.

T: Had a good holiday?

HMJr: I had a good rest.

T: Well, that's fine. I'm delighted to hear it.

HMJr: Yeah.

T: Would it be possible for you to see us Wednesday
or Thursday?

HMJr: I think by Thursday I'd be all right.

T: By Thursday?

HMJr: Yeah.

T: Do you want to set the time?

HMJr: Yes, eleven o'clock Thursday.

T: Eleven o'clock Thursday morning.

HMJr: Right.

T: Nice to hear from you, and I'll be down.

HMJr: Now who is "us"?

T: Well, me and my friends. There's Henry Stevens....

HMJr: Yes.

- 2 -

T:and Harry Wood.

HMJr: Yeah. Who is Stevens? I don't know who these people....

T: Stevens with J. Walter Thompson Company.

HMJr: Yeah.

T: Vice president of J. Walter Thompson, and Wood is the vice president of the John Hancock Life Insurance.

HMJr: Oh, yes. Are you going to have some definite recommendations?

T: I think we'll have something for you.

HMJr: Good enough. I'll look forward to it.

T: All right, fine. We'll see you Thursday morning at eleven.

HMJr: Right.

T: Righto.

February 8, 1943.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

After discussing with Roy Blough and Stanley Surrey, and later with you over the telephone, the Harold Smith interview on pay-as-you-go that appeared in the afternoon papers today, and the violent storm that it had created in the Ways and Means Committee, at your suggestion I endeavored to get in touch with Elmer Davis. After finding that he was out of town I talked to Gardner Cowles, Jr., who is his assistant in charge of domestic information. I told Cowles about the story and the effect it created on Chairman Doughton and other members of the Ways and Means Committee. I repeated Doughton's statement to Roy Blough that if people at this end of the Avenue were going to sound off in this way while the Committee was attempting to deal with the Treasury on tax matters, the Committee would be inclined to tell the Treasury representatives to get out and that the Committee would write the tax bill without any representation from the Administration at all.

Cowles asked me if we were sure that Smith had not done this on the President's orders. I told him I thought it very unlikely that the President had given Smith any such direction and that Smith had not indicated this in explaining to us his reasons for giving the interview. Cowles then said that he agreed with our point of view and he could see the trouble it would cause us; that he would talk to Elmer Davis about it and that he thought Elmer Davis would want to talk to Harold Smith.

The excuses that Smith made to Roy Blough about giving out the interview were: (1) that the A.P. man had been hounding him for three weeks for a story; (2) that he thought the conflicting testimony of Randolph Paul and Beardsley Ruml had left the pay-as-you-go idea in such a confused state that it ought to be clarified.

MG

February 8, 1943

Memorandum to the Secretary

From: Mr. Blough

Subject: Associated Press story on Harold Smith's interview regarding pay-as-you-go tax legislation.

For your information I phoned Mr. Colm of the Budget Bureau as soon as I received the ticker story from you. He said he had not been present at the interview with the Associated Press reporter, but that the notes for the interview did not mention the question of approving cancellation up to three-fourths of 1942 taxes. He said he thought the purpose of the interview was to stimulate the Committee to make the effective date for collection at source April 1 instead of July 1, or later, which the Committee seems to be leaning toward. He said that Mr. Smith had made no reference to the White House, to the Treasury, or to the Ways and Means Committee and was very much irritated at the story.

Mr. Doughton's office called Mr. Smith to find out about the story and was told that the story was wrong. I understand that Mr. Smith is now endeavoring to get the story straightened out.

I am attaching a copy of the notes used by Mr. Smith in his press interview.

I have informed Mr. Paul of these developments.

RB

Attachment

Pay-as-you-go makes possible collection of the income tax at the source and also clears the way for further tax measures or compulsory saving if they become needed. This method will facilitate tax collection and also make the tax payment more convenient for many millions of taxpayers. The importance of this is indicated by the fact that under present tax laws 50 million individuals are subject to the income or Victory tax, compared to the six million who filed returns in 1939. It will also keep taxpayers on a current basis, and that is what most taxpayers desire.

The added burden which is placed on employers by collection at the source will become progressively lighter as experience with the administration of withholding taxes is gained. The present Victory tax, in any case, requires the development of such a collection system.

As an aid to the stabilization program, collection at the source has distinct advantages. People will adjust their spending to their available income more surely if the tax is paid out as they receive their incomes.

The shift to source collection for most taxpayers, without collecting two years' taxes in one year will require an adjustment of their present 1942 tax liability. It would be desirable if such a shift could be enacted so that collection at the source can start on April 1, 1943. No contemplated plan, however, would excuse the necessity of filing the usual tax returns on March 15 and of paying at least the first installment on the taxpayer's declaration. Those taxpayers who will file their returns earlier than March 15 and who will pay more than the legally required installment will not be disadvantaged no matter what plan is finally adopted, and at the same time, they will be helping their government.

Prompt adoption of a pay-as-you-go plan, therefore, will work out to the best interest of the taxpayer and the financial position of the Government, as well as aiding the stabilization program.

(Notes used by Budget Director Smith in press interview, submitted by G. Colm 2/8/43)

Bow Jones

February 8, 1943

9:45 a.m.

BUDGET DIRECTOR ASKS TREASURY AND CONGRESS TO GET TOGETHER ON PAY-AS-YOU-GO
PLAN -

Washington - A P - Budget Director, Harold D. Smith, who is President Roosevelt's personal fiscal adviser, appealed to Treasury and Congress today to get together "immediately" on pay-as-you-go tax legislation so that new plan can start functioning April 1.

Smith's statement, made in an interview as House Ways and Means Committee began another week of hearings on Ruml proposal to by-pass 1942 as an individual income tax year in order to put collections on a current basis, hinted of indirect White House intervention to end arguments over details of the legislation. He did not say what form the intervention might take.

Contrary to Treasury testimony before Ways and Means Committee, Smith indicated administration approval for cancellation of up to three-quarters of 1942 taxes to facilitate immediate operation of the plan.

"The switch to source collection for most taxpayers," he said, "without collecting two year's taxes in one year will require an adjustment of their present 1942 tax liability. It would be desirable if such a change could be enacted so that collection at the source can start on April 1, 1943.

"No contemplated plan, however, would excuse the necessity of filing the usual tax returns on March 15, and of paying at least the first installment on the taxpayers declaration."

Smith also said early enactment of pay-as-you-go proposal was necessary "to clear the way for further tax measure or compulsory saving if they become needed.

In this connection, he noted that President Roosevelt's budget message in January called for \$16,000,000,000 in additional taxes or compulsory savings. Smith said action on this request is being held up by the other tax matter.

Pay-as-you-go legislation he added "will work out to the best interest of the taxpayer and the financial position of the Government as well as aiding the stabilization program."

Several legislators asserted meanwhile that large numbers of people apparently had received erroneous impression that it already had been decided to skip 1942 taxes and expressed opinion privately that if some measure of abatement is not forthcoming there might be strong political repercussions in 1944.

In response to public demands for a more "painless" means of collecting taxes and Ways and Means Committee hoped to wind up public hearings this week and in executive session begin actual writing of pay-as-you-go legislation.

Sources of Funds for Federal Borrowing

Calendar Year 1943

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 8, 1943

TO Secretary Morgenthau
FROM Mr. Hagg

In that the sources of funds - the location of funds - has a very important bearing upon the type of drive which you undertake in April, I think you may wish to have Mr. Lindow and myself come in to discuss these tables with you.

The tables are not as formidable as they look, but your time will be economized, I am sure, by having an oral discussion. It would probably require about a half or three-quarters of an hour.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
FEB 8 1943

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Sources of Funds for Federal Borrowing
Calendar Year 1943

Introduction

During the calendar year 1943 the Treasury will have to sell \$71 billions of securities in order to finance the budget deficit and provide for net outlays to Government corporations. This estimate is based on data in the 1944 Budget for the fiscal years 1943 and 1944; no allowance has been made, however, for the new tax revenues requested by the President.

It is of the utmost importance that this \$71 billions of new securities be absorbed by non-banking investors as far as possible. Current personal savings and corporate accumulations provide by far the best source of funds for Federal borrowing. The amounts of such savings and accumulations are expected to aggregate about \$67 billions during 1943, of which about \$45 billions will be personal savings. These large amounts are estimated on the basis that purchasing power to this extent must be immobilized during the year if prices are to remain stable.

It will be noted that current savings and accumulations are of approximately the same magnitude as the amount of expected Federal borrowing. This is not a chance result but a requirement. The production of goods and services for the whole economy generates incomes to the full value of the goods and services produced. If the Government purchases half of the goods and services produced but taxes (both personal and business) absorb only a quarter of the incomes received, then the civilian part of the economy will have three-quarters of the incomes produced but will be able to buy only half of the goods and services. The Government will then have a deficit aggregating one-quarter of total incomes and civilians will have a corresponding surplus (current savings and accumulations) of the same amount. Minor adjustments, of course, keep the two figures from being absolutely identical.

Secretary Morgenthau - 2

How should the sights be set in planning a financing program during the year to absorb current savings and accumulations? This memorandum has been written to assist you in making your decision. The approach is to examine recent experience with respect to absorbing such savings and accumulations through sales of Federal securities, and to plan a series of goals for 1943 to improve progressively on this experience.

The analysis uses several tables, and for convenience the explanation of each table has been arranged to appear next to the table itself:

1. Past Experience
2. Goals for Absorbing Current Savings and Accumulations in the Calendar Year 1943
3. Additional Sales of Federal Securities Required to Provide Replacements to Offset Depletions in Existing Portfolios
4. Gross Sales of Federal Securities Required for New Money and Replacements
5. Classification of Required Gross Sales to Non-Banking Investor Groups by "Continuing" and "Periodic Special Effort" Categories
6. Personal Savings Analyzed by Income Groups
7. Personal Savings Available for Purchasing Federal Securities Analyzed by Income Groups

Secretary Morgenthau - 3

1. Past Experience

Table 1 compares for each of three six-months' periods, running from July 1941 to December 1942, current savings and accumulations received by various investor groups, and their net absorption of Federal securities.

The first group of investors shown comprises investors receiving or holding current personal savings. Insurance companies and mutual savings banks are thus listed at the beginning of this group. Recipients of debt repayment by individuals are then shown separately, but no attempt is made to follow these debt repayments through to the various investor groups which ultimately receive the funds.

Finally, individuals, partnerships and personal trust accounts are listed together. This group, of course, invests directly all funds which do not go to insurance companies, mutual savings banks or recipients of debt repayments. It will be noted that this group invested 45 percent of its available funds in Federal securities in the July-December 1941 period, 59 percent in January-June 1942, and 47 percent in July-December 1942. The spurt in the middle period is probably explained largely by "limit" purchases of savings bonds early in 1942. That portion of available funds which was not invested in Federal securities was placed almost completely in currency and bank deposits.

The next group of investors taken up in the table comprises investors receiving corporate accumulations. Recipients of debt repayment by corporations are listed first, although no separate figures are presented for this group. The group is shown, however, because corporate debt reduction will probably become more important in the calendar year 1943, and full provision should be made for such debt repayment in making our estimates.

Corporations other than banks and insurance companies are then listed in the table. The figures for this group show that in the first period large purchases of Federal securities were made although current accumulations were negative. This is explained largely by the fact that tax notes were first put on sale in this period and conversions of other assets were made in order to purchase these

Secretary Morgenthau - 4

securities. In the second period, 47 percent of funds available were invested in Federal securities while in the third period such investments aggregated 71 percent.

The next group of non-banking investors covers mainly governmental agencies and trust funds. These investors as a rule invest approximately the same amount as they accumulate.

Finally, banking sources are listed in the table and the figures are broken down between commercial banks and Federal Reserve Banks. The proportion of total funds received from banking sources increased greatly during the eighteen-month period. It should be noted, however, that in the July-December 1942 period the figure of \$18 billions bank borrowing includes the non-recurring item of building up the cash balance in order to reduce the number of periodic offerings of Federal securities.

Table 1.

Comparison by Investor Groups of Federal Securities Absorbed and Current Savings and Accumulations Received.
By Semi-annual Periods, July 1941 - December 1942

(In billions of dollars)

| Investor group | July - December 1941 | | | January - June 1942 | | | July - December 1942 | | |
|--|----------------------------------|--------------------------------|---------------|----------------------------------|--------------------------------|---------------|----------------------------------|--------------------------------|---------------|
| | Securi- ties ab- sorbed | Savings re- ceived 1/ | Percent 2/ | Securi- ties ab- sorbed | Savings re- ceived 1/ | Percent 2/ | Securi- ties ab- sorbed | Savings re- ceived 1/ | Percent 2/ |
| A. Nonbanking sources: | | | | | | | | | |
| 1. Investors receiving personal savings: | | | | | | | | | |
| a. Insurance companies..... | 1.0 | 1.1 | | .9 | 1.1 | | 2.1 | 1.2 | |
| b. Mutual savings banks..... | .3 | -.2 | | .2 | -.3 | | .7 | .3 | |
| c. Recipients of debt repay- ment by individuals..... | - | -.4 | | - | 1.4 | | - | 1.4 | |
| d. Individuals, partnerships, and personal trust accounts... | 2.5 | 5.6 | 45% | 4.4 | 7.5 | 59% | 5.8 | 12.4 | 47% |
| e. Total..... | 3.8 | 6.1 | | 5.5 | 9.7 | | 8.6 | 15.3 | |
| 2. Investors receiving corporate accumulations: | | | | | | | | | |
| a. Recipients of debt repayment by corporations..... | - | -3/ | | - | -3/ | | - | -3/ | |
| b. Corporations other than banks and insurance companies..... | 2.4 | -.7 | - | .9 | 1.9 | 47% | 6.7 | 9.5 | 71% |
| c. Total..... | 2.4 | -.7 | | .9 | 1.9 | | 6.7 | 9.5 | |
| 3. Other investors: | | | | | | | | | |
| a. Tax-exempt institutions..... | - | - | | .1 | - | | .1 | - | |
| b. U. S. Government agencies and trust funds..... | 1.0 | 1.0 | | 1.1 | 1.0 | | 1.6 | 1.3 | |
| c. State and local govern- ments, their agencies, and sinking and trust funds..... | .1 | .2 | | .1 | .1 | | .2 | - | |
| d. Total..... | 1.1 | 1.2 | | 1.3 | 1.1 | | 1.9 | 1.3 | |
| 4. Total for nonbanking sources.... | 7.3 | 6.6 | 111% | 7.7 | 12.7 | 61% | 17.2 | 26.1 | 66% |
| B. Banking sources: | | | | | | | | | |
| 1. Commercial banks..... | 1.6 | - | | 4.6 | - | | 14.4 | - | |
| 2. Federal Reserve Banks..... | .1 | - | | .4 | - | | 3.5 | - | |
| 3. Total for banking sources..... | 1.7 | - | | 5.0 | - | | 17.9 | - | |
| C. Total for all sources..... | 9.0 | 6.6 | | 12.7 | 12.7 | | 35.1 | 26.1 | |

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

February 2, 1943.

1/ Comprises current (1) personal savings, and (2) corporate accumulations.

2/ Computed only for (1) individuals, partnerships, and personal trust accounts, (2) corporations other than banks and insurance companies, and (3) total for nonbanking sources.

3/ Tentatively assume to be zero for want of adequate information.

Table 2.

Comparison by Investor Groups of Federal Securities Absorbed and Current Savings and Accumulations Received, Calendar Year 1943
(In billions of dollars)

| Investor group | January-April | | | May-July | | | August-October | | | November-December | | | Total Calendar Year 1943 | | |
|---|----------------------------------|---------------------------------|---------------|----------------------------------|---------------------------------|---------------|----------------------------------|---------------------------------|---------------|----------------------------------|---------------------------------|---------------|----------------------------------|---------------------------------|---------------|
| | Securi- ties ab- sorbed | Savings: re- ceived 1/ | Percent 2/ | Securi- ties ab- sorbed | Savings: re- ceived 1/ | Percent 2/ | Securi- ties ab- sorbed | Savings: re- ceived 1/ | Percent 2/ | Securi- ties ab- sorbed | Savings: re- ceived 1/ | Percent 2/ | Securi- ties ab- sorbed | Savings: re- ceived 1/ | Percent 2/ |
| A. Nonbanking sources: | | | | | | | | | | | | | | | |
| 1. Investors receiving personal savings: | | | | | | | | | | | | | | | |
| a. Insurance companies..... | 1.1 | .8 | | .8 | .6 | | .8 | .6 | | .6 | .5 | | 3.3 | 2.5 | |
| b. Mutual savings banks..... | .5 | .4 | | .4 | .3 | | .5 | .4 | | .4 | .4 | | 1.8 | 1.5 | |
| c. Recipients of debt repay- ment by individuals..... | - | 1.1 | | - | .7 | | - | .6 | | - | .3 | | - | 2.7 | |
| d. Individuals, partner- ships, and personal trust accounts..... | 6.1 | 9.6 | 64% | 8.7 | 10.6 | 82% | 11.3 | 11.3 | 100% | 6.6 | 6.6 | 100% | 32.7 | 38.1 | 86% |
| e. Total..... | 7.7 | 11.9 | | 9.9 | 12.2 | | 12.6 | 12.9 | | 7.6 | 7.8 | | 37.8 | 44.8 | |
| 2. Investors receiving corporate accumulations: | | | | | | | | | | | | | | | |
| a. Recipients of debt repa- yment by corporations.. | - | .6 | | - | .7 | | - | 1.0 | | - | .7 | | - | 3.0 | |
| b. Corporations other than banks and insurance companies..... | 4.5 | 5.6 | 81% | 3.8 | 4.2 | 91% | 3.9 | 3.9 | 100% | 2.6 | 2.6 | 100% | 14.8 | 16.3 | 91% |
| c. Total..... | 4.5 | 6.2 | | 3.8 | 4.9 | | 3.9 | 4.9 | | 2.6 | 3.3 | | 14.8 | 19.3 | |
| 3. Other investors: | | | | | | | | | | | | | | | |
| a. Tax-exempt institutions.. | .1 | - | | - | - | | - | - | | - | - | | .1 | - | |
| b. U. S. Government agencies and trust funds..... | .7 | .6 | | 1.1 | 1.1 | | .6 | .6 | | .9 | .8 | | 3.3 | 3.1 | |
| c. State and local govern- ments, their agencies, and sinking and trust funds..... | .1 | - | | .1 | - | | .1 | - | | .1 | - | | .4 | - | |
| d. Total..... | .9 | .6 | | 1.2 | 1.1 | | .7 | .6 | | 1.0 | .8 | | 3.8 | 3.1 | |
| 4. Total for nonbanking sources | 13.1 | 18.7 | 70% | 14.9 | 18.2 | 82% | 17.2 | 18.4 | 93% | 11.2 | 11.9 | 94% | 56.4 | 67.2 | 84% |
| B. Banking sources: | | | | | | | | | | | | | | | |
| 1. Commercial banks..... | 6.7 | - | | 3.5 | - | | 1.2 | - | | .5 | - | | 11.9 | - | |
| 2. Federal Reserve Banks..... | 1.4 | - | | .7 | - | | .2 | - | | .1 | - | | 2.4 | - | |
| 3. Total for banking sources... | 8.1 | - | | 4.2 | - | | 1.4 | - | | .6 | - | | 14.3 | - | |
| C. Total for all sources..... | 21.2 | 18.7 | | 19.1 | 18.2 | | 18.6 | 18.4 | | 11.8 | 11.9 | | 70.7 | 67.2 | |

January 30, 1943.

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

1/ Comprises current (1) personal savings, and (2) corporate accumulations.

2/ Computed only for (1) individuals, partnerships, and personal trust accounts, (2) corporations other than banks and insurance companies, and (3) total for nonbanking sources.

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2. Goals for Absorbing Current Savings
and Accumulations in the Calendar Year 1943

In working out goals for the sale of securities to non-banking investors during the calendar year 1943, the first step is to carry forward the analysis shown in the table on past experience (Table 1). The corresponding table for the calendar year 1943 (Table 2) is broken down into four periods, as follows: January-April, May-July, August-October, and November-December. The first period of four months was chosen because it has already been decided that the next "drive" is to be held in April.

Monthly Treasury cash requirements indicate that the second drive in 1943 will have to be made in July, unless it is decided to undertake further bank borrowing to meet July requirements and postpone the drive for non-banking funds perhaps until August. Accordingly, a May-July quota period was set up. Similarly the third period was set as August-October. November and December are shown to fill out the calendar year although it is contemplated that these months might well be carried forward into a drive in January 1944.

In the group of investors receiving personal savings, both insurance companies and mutual savings banks are expected to invest substantially more during the year than they receive in current savings. This expectation is based on the probability that liquidation of such assets as State and local securities, real estate mortgages, and other loans will release funds for purchasing Federal securities.

Recipients of debt repayment by individuals are estimated to receive \$2.7 billions during the year. No attempt has been made to follow through these funds to the ultimate investor group receiving them. The amounts are shown separately only in order to obtain the residual figure of personal savings which will be available for direct investment by individuals, partnerships and personal trust accounts.

In the case of such direct investments it was decided that the amount of absorption in Federal securities may be

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increased steadily during the year. It will be recalled that in the July-December 1942 period the percentage of absorption was 47 percent. It seems reasonable that in the first three quota periods of this year this percentage may be increased in three steps to 100 percent. On this basis individuals, partnerships and personal trust accounts would invest in Federal securities 64 percent of their funds available in the January-April period, 82 percent in the May-July period, and 100 percent thereafter. The total absorption of Federal securities by individuals, partnerships and personal trust accounts during the year would thus be almost \$33 billions. This would leave about \$5 billions of funds which would be placed in currency and bank deposits.

The realization of this large goal for sales of securities to individuals will be made considerably easier by the fact that recipients of debt repayment by individuals have not been scheduled in the table to use any of the funds they receive from individuals in debt repayment in order to purchase Federal securities. Individuals themselves will receive some of these debt repayments so that their funds available for investment will really be slightly larger than has been allowed for. This provides a special "kitty" in setting up the goals for absorption of Federal securities by individuals. Moreover, it should be remembered that the large volume of currency and demand deposits already held by individuals also provides a potential source for absorbing Federal securities. This will make it easier to achieve the goals which have been projected.

The next main group of investors shown in the table is composed of investors receiving corporate accumulations. Recipients of debt repayment by corporations are assumed to receive \$3 billions from them during the year. This estimate was based on the assumption that debt repayment would take up 10 percent of current accumulations in the first quota period, 15 percent in the second period, and 20 percent thereafter. Recipients of debt repayment by corporations have not been scheduled specifically to purchase Federal securities with the funds received in this manner. As in the case of individuals' debt repayment, this provides an extra margin in achieving the goals for other absorption of Federal securities.

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Corporations other than banks and insurance companies are then taken up in the table. It will be recalled that in the July-December 1942 period this group used 71 percent of its available accumulations to absorb Federal securities. Accordingly, it has been assumed that in the first three quota periods of 1943, this 71 percent may be increased in three steps to 100 percent. This will provide percentage goals of 81 percent in the January-April period, 91 percent in the May-July period and 100 percent thereafter. For the calendar year the absorption of Federal securities by corporations would thus be scheduled at almost \$15 billions.

For other investors, almost entirely governmental agencies and trust accounts, the absorption of Federal securities has been estimated almost entirely on the basis of the accumulation of funds. Extra allowance has been made for the fact that State and local governments are accumulating cash in sinking funds which may be partly invested in Federal securities.

The figures for non-banking sources, thus arrived at, provide an increasing proportion of the total borrowing required from one quota period to the next. Banks, accordingly, are scheduled to take decreasing amounts of Federal securities with the aggregate for the year running to only slightly over \$14 billions. It should be remembered that a considerable part of this \$14 billions will not be inflationary borrowing since it will be offset by reductions in other loans and investments, and by a portion of current savings and accumulations which investors deposit in bank accounts in preference to the purchase of Federal securities.

Table 3.

Redemptions, Maturities, and Market Sales and Purchases of Federal Securities
by Investor Groups, Calendar Year 1943

(In billions of dollars)

| | Jan.- Apr. | May- July | Aug.- Oct. | Nov.- Dec. | Total calendar year 1943 |
|---|---------------|--------------|---------------|---------------|-----------------------------------|
| A. Nonbanking sources: | | | | | |
| 1. Individuals, partnerships, and personal trust accounts: | | | | | |
| a. Redemptions of savings bonds: | | | | | |
| (1) Series A - E..... | .3 | .3 | .3 | .3 | 1.2 |
| (2) Series F - G..... | - | - | - | - | - |
| d. Redemptions of tax notes: | | | | | |
| (1) Series A..... | - | - | - | - | - |
| (2) Series B - C..... | .1 | .1 | .1 | .1 | .4 |
| c. Maturities except bills..... | - | .2 | .4 | .2 | .8 |
| d. Market sales (+) or purchases (-)..... | - | - | - | - | - |
| e. Total..... | .4 | .6 | .8 | .6 | 2.4 |
| 2. Corporations other than banks and insurance companies: | | | | | |
| a. Redemptions of savings bonds: | | | | | |
| (1) Series A - D..... | - | - | - | - | - |
| (2) Series F - G..... | - | - | - | - | - |
| b. Redemptions of tax notes: | | | | | |
| (1) Series A..... | .1 | - | - | - | .1 |
| (2) Series B - C..... | 1.2 | 1.1 | 1.1 | 1.1 | 4.5 |
| c. Maturities except bills..... | .2 | .6 | .4 | 1.4 | 2.6 |
| d. Market sales (+) or purchases (-)..... | - | - | - | - | - |
| e. Total..... | 1.5 | 1.7 | 1.5 | 2.5 | 7.2 |
| 3. U. S. Government agencies and trust funds: | | | | | |
| a. Maturities except bills (excluding special issues)..... | - | - | .1 | - | .1 |
| 4. Insurance companies: | | | | | |
| a. Maturities except bills..... | .1 | .1 | .2 | .1 | .5 |
| b. Market sales (+) or purchases (-)..... | +2 | +1 | +1 | +1 | +5 |
| c. Total..... | .3 | .2 | .3 | .2 | 1.0 |
| 5. Mutual savings banks: | | | | | |
| a. Maturities except bills..... | - | .1 | .1 | .1 | .3 |
| b. Market sales (+) or purchases (-)..... | +1 | - | +1 | - | +2 |
| c. Total..... | .1 | .1 | .2 | .1 | .5 |
| 6. Tax-exempt institutions: | | | | | |
| a. Maturities except bills..... | - | - | - | - | - |
| 7. State and local governments, their agencies, and sinking and trust funds: | | | | | |
| a. Maturities except bills..... | - | - | - | .1 | .1 |
| b. Market sales (+) or purchases (-)..... | +1 | - | - | - | +1 |
| c. Total..... | .1 | - | - | .1 | .2 |
| 8. Total for nonbanking sources..... | 2.4 | 2.6 | 2.9 | 3.5 | 11.4 |
| B. Banking sources: | | | | | |
| 1. Commercial banks: | | | | | |
| a. Maturities except bills..... | 1.0 | 1.9 | 1.8 | 4.1 | 8.8 |
| b. Market sales (+) or purchases (-)..... | +1.4 | +9 | +3 | +2 | +2.6 |
| c. Total..... | 2.4 | 2.8 | 2.1 | 4.3 | 11.6 |
| 2. Federal Reserve Banks: | | | | | |
| a. Maturities except bills..... | .4 | .3 | .3 | .2 | 1.2 |
| b. Market sales (+) or purchases (-)..... | -1.8 | -1.0 | -5 | -3 | -3.6 |
| c. Total..... | -1.4 | -7 | -2 | -1 | -2.4 |
| 3. Total for banking sources..... | 1.0 | 2.1 | 1.9 | 4.2 | 9.2 |
| C. Total for all sources: | | | | | |
| 1. Redemptions of savings bonds..... | .3 | .3 | .3 | .3 | 1.2 |
| 2. Redemptions of tax notes..... | 1.4 | 1.2 | 1.2 | 1.2 | 5.0 |
| 3. Maturities except bills..... | 1.7 | 3.2 | 3.3 | 6.2 | 14.4 |
| 4. Market sales (+) or purchases (-)..... | - | - | - | - | - |
| 5. Total for all sources..... | 3.4 | 4.7 | 4.8 | 7.7 | 20.6 |

Table J.

Redemptions, Maturities, and Market Sales and Purchases of Federal Securities
by Investor Groups, Calendar Year 1943

(In billions of dollars)

| | Jan.- Apr. | May- July | Aug.- Oct. | Nov.- Dec. | Total calendar year 1943 |
|---|---------------|--------------|---------------|---------------|-----------------------------------|
| A. Nonbanking sources: | | | | | |
| 1. Individuals, partnerships, and personal trust accounts: | | | | | |
| a. Redemptions of savings bonds: | | | | | |
| (1) Series A - E..... | .3 | .3 | .3 | .3 | 1.2 |
| (2) Series F - G..... | - | - | - | - | - |
| d. Redemptions of tax notes: | | | | | |
| (1) Series A..... | - | - | - | - | - |
| (2) Series B - C..... | .1 | .1 | .1 | .1 | .4 |
| c. Maturities except bills..... | - | .2 | .4 | .2 | .8 |
| d. Market sales (+) or purchases (-)..... | - | - | - | - | - |
| e. Total..... | .4 | .6 | .8 | .6 | 2.4 |
| 2. Corporations other than banks and insurance companies: | | | | | |
| a. Redemptions of savings bonds: | | | | | |
| (1) Series A - D..... | - | - | - | - | - |
| (2) Series F - G..... | - | - | - | - | - |
| b. Redemptions of tax notes: | | | | | |
| (1) Series A..... | .1 | - | - | - | .1 |
| (2) Series B - C..... | 1.2 | 1.1 | 1.1 | 1.1 | 4.5 |
| c. Maturities except bills..... | .2 | .6 | .4 | 1.4 | 2.6 |
| d. Market sales (+) or purchases (-)..... | - | - | - | - | - |
| e. Total..... | 1.5 | 1.7 | 1.5 | 2.5 | 7.2 |
| 3. U. S. Government agencies and trust funds: | | | | | |
| a. Maturities except bills (excluding special issues)..... | - | - | .1 | - | .1 |
| 4. Insurance companies: | | | | | |
| a. Maturities except bills..... | .1 | .1 | .2 | .1 | .5 |
| b. Market sales (+) or purchases (-)..... | +2 | +1 | +1 | +1 | +5 |
| c. Total..... | .3 | .2 | .3 | .2 | 1.0 |
| 5. Mutual savings banks: | | | | | |
| a. Maturities except bills..... | - | .1 | .1 | .1 | .3 |
| b. Market sales (+) or purchases (-)..... | +1 | - | +1 | - | +2 |
| c. Total..... | .1 | .1 | .2 | .1 | .5 |
| 6. Tax-exempt institutions: | | | | | |
| a. Maturities except bills..... | - | - | - | - | - |
| 7. State and local governments, their agencies, and sinking and trust funds: | | | | | |
| a. Maturities except bills..... | - | - | - | .1 | .1 |
| b. Market sales (+) or purchases (-)..... | +1 | - | - | - | +1 |
| c. Total..... | .1 | - | - | .1 | .2 |
| 8. Total for nonbanking sources..... | 2.4 | 2.6 | 2.9 | 3.5 | 11.4 |
| B. Banking sources: | | | | | |
| 1. Commercial banks: | | | | | |
| a. Maturities except bills..... | 1.0 | 1.9 | 1.8 | 4.1 | 8.8 |
| b. Market sales (+) or purchases (-)..... | +1.4 | +2 | +1 | +2 | +6.5 |
| c. Total..... | 2.4 | 2.8 | 2.1 | 4.3 | 11.6 |
| 2. Federal Reserve Banks: | | | | | |
| a. Maturities except bills..... | .4 | .3 | .3 | .2 | 1.2 |
| b. Market sales (+) or purchases (-)..... | -1.8 | -1.0 | -5 | -3 | -9.6 |
| c. Total..... | -1.4 | -7 | -2 | -1 | -9.4 |
| 3. Total for banking sources..... | 1.0 | 2.1 | 1.9 | 4.2 | 9.2 |
| C. Total for all sources: | | | | | |
| 1. Redemptions of savings bonds..... | .3 | .3 | .3 | .3 | 1.2 |
| 2. Redemptions of tax notes..... | 1.4 | 1.2 | 1.2 | 1.2 | 5.0 |
| 3. Maturities except bills..... | 1.7 | 3.2 | 3.3 | 6.2 | 14.4 |
| 4. Market sales (+) or purchases (-)..... | - | - | - | - | - |
| 5. Total for all sources..... | 3.4 | 4.7 | 4.8 | 7.7 | 20.6 |

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3. Additional Sales of Federal Securities
Required to Provide Replacements to Offset Depletions
in Existing Portfolios

Table 2 showed the net absorption of Federal securities by the various investor groups calculated for the calendar year 1943 in order to finance the total deficit. This means that the amount of absorption shown for each investor group represented a net increase in its combined portfolio of Federal securities. In planning its financing program, however, the Treasury must also take into account the amount of securities which must be sold to provide funds for paying off maturities and redemptions during the year.

A further allowance will have to be made for the fact that some investor groups, such as insurance companies, will undoubtedly sell some of their shorter term securities in the market and that these probably will be purchased by commercial banks. Such transactions would increase the ability of insurance companies to buy securities and thus reduce the amount of required sales to banks directly by the Treasury.

Table 3 shows, for each investor group, the amount of securities which will have to be purchased to take care of all of these replacements. In this table, calendar year figures are broken down into the same quota periods as were used in Table 2. For each investor group the amount of redemptions, maturities, and market sales or purchases are shown separately.

Estimated redemptions of savings bonds Series A-E are shown at \$1.2 billions for the year. Redemptions of Series F and G are assumed to be zero. Redemptions of tax notes are estimated at a total of \$5.0 billions. Redemptions of Series A are assumed to be zero for individuals and \$0.1 billions for corporations. Redemptions of Series B and C are assumed to be \$0.4 billions for individuals and \$4.5 billions for corporations.

Maturities are shown during the year for each class of investor as indicated by the latest information on ownership of Federal securities. Bill maturities are not

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included because they roll over automatically and their ownership is not significantly changed as a result. Certificate maturities are included, however, since it is quite likely that the ownership of a new certificate issue will be significantly different than that of a maturing issue.

Market sales by non-banking investors are shown only for insurance companies, mutual savings banks, and State and local governmental funds. For insurance companies and mutual savings banks, estimated sales are \$0.5 billions and \$0.2 billions, respectively, for the year. These amounts represent approximately 25 percent of Federal security holdings due or callable within 1-5 years. For State and local governmental funds the estimated sales of \$0.1 billions represent approximately one-fourth of their holdings of partially tax-exempt Federal securities. It is assumed that all of these securities sold in the market will be purchased by commercial banks.

In the case of banking investors a break-down between commercial banks and Federal Reserve Banks is again shown. Maturities except bills are shown for both groups of banks, and there are no redemptions since savings bonds and tax notes are not an important part of bank portfolios. It is assumed that the Federal Reserve Banks will buy in the market all of the securities needed to cover the net increase in their portfolio shown in Table 2, plus enough to cover maturities (except bills) shown in Table 3. It is also assumed that all securities purchased in the market by the Federal Reserve Banks will be bought from commercial banks. Such sales by commercial banks exceed their purchases from non-banking investors by \$2.8 billions during the year. It should be noted that to the extent the Federal Reserve System covers its needs by purchasing newly offered securities through brokers and dealers, these sources would also be considered with commercial banks in the table.

Adding together the non-banking and the banking investor groups provides a total amount of replacement sales of \$20.6 billions for the year. This consists of \$1.2 billions of redemptions of savings bonds, \$5.0 billions of redemptions of tax notes, and \$14.4 billions of maturities except bills. Market sales and purchases naturally offset themselves so that for all investor groups together the amount is zero.

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Table 4.
Constructive Figures for Gross Sales of Federal Securities by Investor Groups
Calendar Year 1943
(In billions of dollars)

| Investor group | January - April | | | May - July | | | August - October | | | November - December | | | Total calendar year 1943 | | |
|--|-----------------|--------------|-------|----------------|--------------|-------|------------------|--------------|-------|---------------------|--------------|-------|--------------------------|--------------|-------|
| | New absorption | Replacements | Total | New absorption | Replacements | Total | New absorption | Replacements | Total | New absorption | Replacements | Total | New absorption | Replacements | Total |
| A. Nonbanking sources: | | | | | | | | | | | | | | | |
| 1. Individuals, partnerships, and personal trust accounts..... | 5.1 | .4 | 6.5 | 8.7 | .6 | 9.3 | 11.3 | .8 | 12.1 | 6.6 | .6 | 7.2 | 32.7 | 2.4 | 35.1 |
| 2. Corporations other than banks and insurance companies..... | 4.5 | 1.5 | 6.0 | 3.8 | 1.7 | 5.5 | 3.9 | 1.5 | 5.4 | 2.6 | 2.5 | 5.1 | 14.8 | 7.2 | 22.0 |
| 3. U. S. Government agencies and trust funds..... | .7 | - | .7 | 1.1 | - | 1.1 | .6 | .1 | .7 | .9 | - | .9 | 3.3 | .1 | 3.4 |
| 4. Insurance companies..... | 1.1 | .3 | 1.4 | .8 | .2 | 1.0 | .8 | .3 | 1.1 | .6 | .2 | .8 | 3.3 | 1.0 | 4.3 |
| 5. Mutual savings banks..... | .5 | .1 | .6 | .4 | .1 | .5 | .5 | .2 | .7 | .4 | .1 | .5 | 1.6 | .5 | 2.3 |
| 6. Tax-exempt institutions..... | .1 | - | .1 | - | - | - | - | - | - | - | - | - | .1 | - | .1 |
| 7. State and local governments, their agencies, and sinking and trust funds..... | .1 | .1 | .2 | .1 | - | .1 | .1 | - | .1 | .1 | .1 | .2 | .4 | .2 | .6 |
| 8. Total for nonbanking sources.... | 13.1 | 2.4 | 15.5 | 14.9 | 2.6 | 17.5 | 17.2 | 2.9 | 20.1 | 11.2 | 3.5 | 14.7 | 56.4 | 11.4 | 67.8 |
| B. Banking sources: | | | | | | | | | | | | | | | |
| 1. Commercial banks..... | 6.7 | 2.4 | 9.1 | 3.5 | 2.8 | 6.3 | 1.2 | 2.1 | 3.3 | .5 | 4.3 | 4.8 | 11.9 | 11.6 | 23.5 |
| 2. Federal Reserve banks..... | 1.4 | -1.4 | - | .7 | -.7 | - | .2 | -.2 | - | .1 | -.1 | - | 2.4 | -2.4 | - |
| 3. Total for bank sources..... | 8.1 | 1.0 | 9.1 | 4.2 | 2.1 | 6.3 | 1.4 | 1.9 | 3.3 | .6 | 4.2 | 4.8 | 14.3 | 9.2 | 23.5 |
| 0. Total for all sources..... | 21.2 | 3.4 | 24.6 | 19.1 | 4.7 | 23.8 | 18.6 | 4.8 | 23.4 | 11.8 | 7.7 | 19.5 | 70.7 | 20.6 | 91.3 |

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

February 2, 1943.

Note: Figures for new absorption are taken from Step 1, and for replacements from Step 2.

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4. Gross Sales of Federal Securities Required for
New Money and Replacements

Table 4 brings together for the various investor groups the figures for net new absorption of Federal securities and for replacements to offset depletions in existing portfolios. It will be noted that non-banking sources are scheduled to purchase \$15.5 billions gross in the January-April period while banks are only scheduled to purchase \$9.1 billions. In the May-July period non-banking sources would be increased to \$17.5 billions with banking sources reduced to \$6.3 billions. In the August-October period non-banking sources would be increased further to \$20.1 billions, with banking sources reduced to only \$3.3 billions. For the year as a whole total gross sales of \$91.3 billions would be divided between \$67.8 billions from non-banking sources and \$23.5 billions from banking sources.

Table 5.

Analysis of Constructive Figures for Gross Sales of Federal Securities, by Nonbanking Investor Groups,
for Calendar Year 1943, Classified by "Continuing" and "Periodic Special Effort" Categories

(in billions of dollars)

| | Jan. | Feb. | Mar. | Apr. | Total 4 months | May | June | July | Total 3 months | Aug. | Sept. | Oct. | Total 3 months | Nov. | Dec. | Total 2 months | Total calendar year 1943 |
|--|------|------|------|------|----------------------|-----|------|------|----------------------|------|-------|------|----------------------|------|------|----------------------|-----------------------------------|
| 1. Individuals, partnerships, and personal trust accounts: | | | | | | | | | | | | | | | | | |
| a. Continuing: | | | | | | | | | | | | | | | | | |
| (1) Savings bonds: | | | | | | | | | | | | | | | | | |
| (a) Series E..... | .8 | .8 | .8 | .8 | | .8 | .7 | .7 | | .7 | .6 | .7 | | .8 | .8 | | 9.0 |
| (b) Series F - G..... | .3 | .4 | - | - | | - | - | - | | - | - | - | | - | - | | .7 |
| (2) Tax notes: | | | | | | | | | | | | | | | | | |
| (a) Series A..... | .1 | - | - | - | | .1 | - | - | | .1 | - | - | | - | - | | .3 |
| (b) Series C..... | - | .1 | - | .1 | | - | - | .1 | | - | - | .1 | | .1 | .1 | | .6 |
| b. Periodic special effort..... | - | - | - | 2.3 | | - | - | 6.9 | | - | - | 9.9 | | - | 5.4 | | 24.5 |
| c. Total..... | 1.2 | 1.3 | .8 | 3.2 | 6.5 | .9 | .7 | 7.7 | 9.3 | .8 | .6 | 10.7 | 12.1 | .9 | 6.3 | 7.2 | 35.1 |
| 2. Corporations other than banks and insurance companies: | | | | | | | | | | | | | | | | | |
| a. Continuing: | | | | | | | | | | | | | | | | | |
| (1) Savings bonds: | | | | | | | | | | | | | | | | | |
| (a) Series F - G..... | .1 | .1 | - | - | | - | - | - | | - | - | - | | - | - | | .2 |
| (2) Tax notes: | | | | | | | | | | | | | | | | | |
| (a) Series A..... | - | - | - | - | | - | - | - | | - | - | - | | .1 | - | | .1 |
| (b) Series C..... | .3 | .4 | .6 | .6 | | .6 | .6 | .6 | | .6 | .6 | .6 | | .5 | .5 | | 6.5 |
| b. Periodic special effort..... | - | - | - | 3.9 | | - | - | 3.7 | | - | - | 3.6 | | - | 4.0 | | 15.2 |
| c. Total..... | .4 | .5 | .6 | 4.5 | 6.0 | .6 | .6 | 4.3 | 5.5 | .6 | .6 | 4.2 | 5.4 | .6 | 4.5 | 5.1 | 22.0 |
| 3. U. S. Government agencies and trust funds: | | | | | | | | | | | | | | | | | |
| a. Continuing: | | | | | | | | | | | | | | | | | |
| (1) Increases in amount of special issues outstanding.. | .1 | .2 | .2 | - | | .3 | .5 | .2 | | .2 | .3 | - | | .3 | .4 | | 2.7 |
| b. Periodic special effort..... | - | - | - | .2 | | - | - | .1 | | - | - | .2 | | - | .2 | | .7 |
| c. Total..... | .1 | .2 | .2 | .2 | .7 | .3 | .5 | .3 | 1.1 | .2 | .3 | .2 | .7 | .3 | .6 | .9 | 3.4 |
| 4. Insurance companies: | | | | | | | | | | | | | | | | | |
| a. Periodic special effort..... | - | - | - | 1.4 | 1.4 | - | - | 1.0 | 1.0 | - | - | 1.1 | 1.1 | - | .8 | .8 | 4.3 |
| 5. Mutual savings banks: | | | | | | | | | | | | | | | | | |
| a. Periodic special effort..... | - | - | - | .6 | .6 | - | - | .5 | .5 | - | - | .7 | .7 | - | .5 | .5 | 2.3 |
| 6. Tax-exempt institutions: | | | | | | | | | | | | | | | | | |
| a. Periodic special effort..... | - | - | - | .1 | .1 | - | - | - | - | - | - | - | - | - | - | - | .1 |
| 7. State and local governments, their agencies, and sinking and trust funds: | | | | | | | | | | | | | | | | | |
| a. Periodic special effort..... | - | - | - | .2 | .2 | - | - | .1 | .1 | - | - | .1 | .1 | - | .2 | .2 | .6 |
| 8. Total for nonbanking sources: | | | | | | | | | | | | | | | | | |
| a. Continuing: | | | | | | | | | | | | | | | | | |
| (1) Public issues: | | | | | | | | | | | | | | | | | |
| (a) Savings bonds..... | 1.2 | 1.3 | .8 | .8 | | .8 | .7 | .7 | | .7 | .6 | .7 | | .8 | .8 | | 9.9 |
| (b) Tax notes..... | .4 | .5 | .6 | .7 | | .7 | .6 | .7 | | .7 | .6 | .7 | | .7 | .6 | | 7.5 |
| (2) Increases in amount of special issues outstanding.. | .1 | .2 | .2 | - | | .3 | .5 | .2 | | .2 | .3 | - | | .3 | .4 | | 2.7 |
| (3) Total..... | 1.7 | 2.0 | 1.6 | 1.5 | | 1.8 | 1.8 | 1.6 | | 1.6 | 1.5 | 1.4 | | 1.8 | 1.8 | | 20.1 |
| b. Periodic special effort..... | - | - | - | 8.7 | | - | - | 12.3 | | - | - | 15.6 | | - | 11.1 | | 47.7 |
| c. Total..... | 1.7 | 2.0 | 1.6 | 10.2 | 15.5 | 1.8 | 1.8 | 13.9 | 17.5 | 1.6 | 1.5 | 17.0 | 20.1 | 1.8 | 12.9 | 14.7 | 67.8 |

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5. Classification of Required Gross Sales to
Non-Banking Investor Groups by "Continuing" and
"Periodic Special Effort" Categories

Total gross sales of securities to the various non-banking investor groups will be partly satisfied by the sale of securities through efforts conducted continuously while the remainder will have to be satisfied through the use of "periodic special efforts". The regular campaign to sell savings bonds and tax notes will provide sales in the "continuing" category while periodic drives will provide both additional sales of savings bonds and tax notes and sales of securities offered especially for the "drive". Table 5 analyzes the sales scheduled for the various investor groups and classifies them into these two categories.

Gross sales of savings bonds are estimated at \$9.9 billions for the calendar year with \$9.0 billions in Series E. The other \$0.9 billions consists of sales of Series F and G bonds in January and February. It is assumed in the table that the sale of Series F and G bonds will be discontinued as of the end of February, with some earlier announcement to this effect.

Gross sales of tax notes are estimated at \$7.5 billions for the year, consisting of \$0.4 billions of Series A notes and \$7.1 billions of Series C notes.

These estimates of the sales of savings bonds and tax notes represent assumptions of what may be expected on the basis of the present outlook and without a significant change in the selling effort. The amount of sales of savings bonds and tax notes in the various series is allocated to individuals and to corporations other than banks and insurance companies on the basis of past experience.

Having thus estimated the amount of sales which may be expected in the "continuing" category, the remainder of the scheduled requirements is allotted to the "periodic special effort" category. For example, in the first quota period individuals, partnerships and personal trust accounts are scheduled to make gross purchases of Federal securities in the amount of \$6.5 billions. (See Table 4.) Monthly estimates of the sales of savings bonds and tax notes

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indicate that the continuing effort will provide \$1.2 billions in January, \$1.3 billions in February, and \$0.8 billions in March. This will leave a total requirement for April of \$3.2 billions. Of this amount \$0.9 billions would be provided by continuing sales, leaving a total of \$2.3 billions to be provided by the "periodic special effort".

A similar analysis for corporations other than banks and insurance companies indicates that total April sales would have to be \$4.5 billions of which \$3.9 billions would represent the "periodic special effort".

In the case of government agencies and trust funds total scheduled sales for the first quota period would be broken down into \$0.5 billions of "continuing effort" (special issues) and \$0.2 billions of market securities in the "periodic special effort". For the remaining non-banking investor groups, the entire scheduled sales during the quota period are assumed to be satisfied in the "periodic special effort".

The recapitulation at the bottom of Table 5 indicates that total sales of securities in April would be set at \$10.2 billions with \$8.7 billions classified under "periodic special effort" and \$1.5 billions under "continuing effort". It will be remembered that total sales of securities in December aggregated \$12.9 billions including the "continuing" category as well as the special "drive". The amount of securities estimated to have been purchased by non-banking investors in December was approximately \$7 billions.* Thus, the schedule for the month of April for non-banking investors would represent an increase of about \$3 billions over December.

While the figures for the April drive would thus exceed December totals for non-banking investors, the projected July drive would be on an even larger scale. The "periodic special effort" called for would be \$12.3 billions, with sales of all securities in the month set at \$13.9 billions. In the October drive total sales for the month would be \$17.0 billions with the "periodic special effort" calling for \$15.8 billions. For the entire calendar year total sales of securities to non-banking investors are scheduled at \$67.8 billions. Continuing sales at \$20.1 billions would amount to less than a third of this total. Sales through the "periodic special effort" would amount to \$47.7 billions.

* Excluding dealers and brokers.

Table 6. Analysis of Personal Incomes by Size Classes
Calendar Year 1943

| | Total | Distribution by net income groups ^{1/} | | | | | |
|---|-------|---|-------------------|-------------------|-------------------|-------------------|---------------------|
| | | \$ 0- 1,000 | \$1,000- 2,000 | \$2,000- 3,000 | \$3,000- 4,000 | \$4,000- 5,000 | \$5,000 and over |
| I. <u>Number of income recipients</u> ^{2/} | | | | | | | |
| Millions of persons..... | 63 | 19.6 | 27.9 | 9.2 | 3.6 | 1.6 | 1.6 |
| II. <u>Aggregates</u> (in billions of dollars) | | | | | | | |
| Gross incomes (total income payments)... | 132 | 14.9 | 46.9 | 25.8 | 14.7 | 8.6 | 21.3 |
| Less: Personal taxes ^{3/} | 13 | .6 | 2.9 | 1.8 | 1.5 | 1.0 | 5.6 |
| Equals disposable income..... | 119 | 14.4 | 44.0 | 24.0 | 13.2 | 7.6 | 15.7 |
| Less: Consumer spendings..... | 74 | 15.1 | 30.7 | 13.5 | 6.2 | 3.1 | 5.5 |
| Equals personal savings..... | 45 | -.7 | 13.3 | 10.4 | 7.1 | 4.5 | 10.2 |
| III. <u>Average per recipient</u> (in dollars) | | | | | | | |
| Gross income..... | 763 | 1,682 | 2,806 | 4,055 | 5,362 | 13,381 | |
| Less: Personal taxes ^{3/} | 28 | 104 | 195 | 401 | 612 | 3,512 | |
| Equals disposable income..... | 735 | 1,579 | 2,610 | 3,654 | 4,750 | 9,869 | |
| Less: Consumer spendings..... | 771 | 1,101 | 1,475 | 1,705 | 1,962 | 3,446 | |
| Equals personal savings..... | -36 | 478 | 1,136 | 1,949 | 2,788 | 6,423 | |

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

February 6, 1943.

Note: Figures do not add up to totals because of rounding.

- 1/ Classifications of gross income by net income classes naturally result in some average incomes exceeding the upper limit of the income bracket.
- 2/ Excluding young people under 18 required to report incomes as part of their parents' returns.
- 3/ State and local as well as Federal.

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6. Personal Savings Analyzed by
Income Groups

In an earlier stage in this analysis scheduled sales of Federal securities to individuals, partnerships, and trust accounts were placed at an aggregate of almost \$33 billions for the calendar year 1943 (Table 2). This figure represents the amounts of sales to individuals, partnerships and personal trust accounts scheduled to absorb personal savings during the year and does not include replacements to make up depletions in the existing portfolios of these investors.

In order to work out a detailed campaign to realize the objective of absorbing personal savings direct from individuals to the extent of \$33 billions during the year, the question is immediately raised as to the distribution of personal savings by income groups. If most of these savings are in the lower income groups, a different type of campaign will doubtless be called for than if the savings are located largely in the upper income groups.

Accordingly, an attempt has been made in Table 6 to break down personal income figures by net income classes. Gross personal incomes (income payments) of \$132 billions for the year are classified by \$1,000 brackets up to net incomes of \$5,000 a year. All incomes over \$5,000 are lumped together.

The table shows first of all the number of income recipients in each income class. About 90 percent of the total of 63 million income recipients fall in the brackets below \$3,000 a year. Of the remaining 10 percent, or about 7 million persons, less than one-fourth receive net incomes of \$5,000 a year or more.

Part II of the table shows first of all total gross incomes (income payments) by income classes. Next, personal taxes are deducted from gross incomes, bracket by bracket, leaving disposable incomes. Estimates of consumers' spendings in each income bracket are then subtracted from the corresponding figure for disposable incomes, leaving a residual amount of personal savings in each of the six income classes. A very large part of personal savings is found in the lower income groups, but this stems from the fact that these groups receive an even larger proportion of the total gross incomes.

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In part III of the table each figure shown in part II is divided by the number of income recipients in the designated class. Average gross income in each income group may thus be examined in relation to average spendings and average savings in that group.

In interpreting the high savings figures shown in the lower income brackets, it should be remembered that the figures relate to individuals and not to family units. Many families, particularly in these brackets, now have more than one person working. Family members who are new earners are able to save unusually large amounts of their incomes. Substantial savings in the lower income groups also result from the fact that many persons are benefiting from wage increases which have raised their incomes well above what they formerly spent for consumption, although many things which they would like to buy are now unavailable.

It should be emphasized that all figures shown in Table 6 are very rough and they should be read only as clues concerning the whereabouts of total personal savings. The next table pursues this question further.

Table 7. Analysis of Personal Savings by Categories
Calendar Year 1943

| | Total | Distribution by net income groups | | | | | |
|--|-------|-----------------------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| | | \$ 0- 1,000 | \$1,000- 2,000 | \$2,000- 3,000 | \$3,000- 4,000 | \$4,000- 5,000 | \$5,000 and over |
| I. <u>Aggregates</u> (in billions of dollars) | | | | | | | |
| Savings absorbed by life insurance, mutual savings banks and debt repayment..... | 6.7 | -.4 | 3.2 | 1.9 | .9 | .5 | .7 |
| Remainder available for absorption of Federal securities..... | 38.1 | -.4 ^{1/} | 10.1 | 8.5 | 6.2 | 4.0 | 9.6 |
| Total personal savings..... | 44.8 | -.7 | 13.3 | 10.4 | 7.1 | 4.5 | 10.2 |
| II. <u>Average per recipient</u> (in dollars) | | | | | | | |
| Savings absorbed by life insurance, mutual savings banks and debt repayment..... | | -18 | 114 | 206 | 242 | 281 | 408 |
| Remainder available for absorption of Federal securities..... | | -18 | 364 | 929 | 1,707 | 2,507 | 6,014 |
| Total personal savings..... | | -36 | 478 | 1,136 | 1,949 | 2,788 | 6,423 |

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

February 6, 1943.

Note: Figures do not add up to totals because of rounding.
^{1/} On assumption that this group will absorb \$.2 billions in Federal securities,
but will draw down currency and deposits by \$.6 billions.

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7. Personal Savings Available for Purchasing
Federal Securities Analyzed by
Income Groups

In Table 6 personal savings were analyzed by income groups. Some of these savings, however, are not available for the purchase of Federal securities because they are invested in life insurance, mutual savings banks and debt repayment. In Table 2 such deductions were listed and the residual amount which will be available for the purchase of Federal securities was estimated at \$38 billions for the calendar year. Of this total, it was assumed that about \$33 billions would be invested in Federal securities with the remainder placed in bank deposits and currency. The total of \$38 billions is the reservoir from which Federal securities are purchased and the objective is to obtain as much absorption as possible, thereby limiting the portion going into currency and bank deposits.

Table 7 breaks down by income classes the total funds available for investment in Federal securities. Part I of the table shows the aggregate amounts by income groups for total personal savings, investments in life insurance, mutual savings banks and debt repayment combined, and the residual amount of savings available for the purchase of Federal securities. Part II of the table shows the same figures as averages per income recipient. As in the case of Table 6, the figures in Table 7 are rough and should be interpreted as a reflection of general magnitudes rather than exact values.

It will be noted that the total amount of personal savings available for the purchase of Federal securities is divided about equally between income groups receiving less than \$3,000 per year and income groups receiving more than that amount. It was noted previously that 90 percent of the number of income recipients received less than \$3,000 per year and only 10 percent received more than this amount.

Three-quarters of the total amount of personal savings available for the purchase of Federal securities is held by the income groups under \$5,000. Table 6 shows that there are approximately 61 million persons in these groups. This would appear to be the area where mass campaigns will be needed to obtain the absorption of savings into Federal securities.

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Above the \$5,000 level there is about one-fourth of total personal savings available for the purchase of Federal securities. Approximately 2 million persons are in this group. The group is, of course, widely diverse. Some of the persons in it are extremely wealthy while others are salaried persons who have little more ability to purchase securities than the people in the income groups under \$5,000. In order to obtain the investment of savings of persons receiving more than \$5,000, it will probably be necessary to have a highly personalized campaign with some diversification in the securities offered.

Prepared by: Mr. Sandelin
Mr. Tickton
Mr. Lindow
Mr. Murphy
Mr. Haas

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE FEB 8 1943

TO Secretary Morgenthau
FROM Mr. Haas
Subject: April Financing

SUMMARY

1. The first section of this memorandum outlines a suggested financing program designed to yield \$15 billions during April 1943. This program should provide a volume of funds sufficient to carry the Treasury until summer, and is designed to tap the sources of funds set forth in our memorandum entitled "Sources of Funds for Federal Borrowing, Calendar Year 1943." A tabular summary of the program is set forth on page 2 of this memorandum. Its objectives and the details of its component parts are more fully described in the pages that follow.
2. The second section of this memorandum discusses a number of technical matters and policy decisions which require some attention during your consideration of the April financing program.

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I. General Outline of the Suggested Program

The financing program set forth below is designed to raise \$15 billions of new money during April. Inasmuch as the total amount required to finance the deficit and the other Treasury needs during this month will be only \$7 billions, this program will provide a margin of \$8 billions over cash requirements. This margin plus (1) the prospective working balance on April 1, (2) the amounts of new money acquired in connection with the regular bill refundings in May, June and July, and (3) the amounts derived from savings bonds and Tax notes sold in these months, should be sufficient to provide the Treasury with a comfortable working balance until funds become available as a result of a summer financing.

| Period and offering | Amount to be obtained | | |
|---|----------------------------|----------------------------|------------------------------|
| | From banking sources | From other investors | Total from all sources |
| April - Continuously (weekly) Regular bill program | .8 | | <u>.8</u> |
| April 5-7 Bank offering 7/8 percent certificates... | 2.1 | | <u>2.1</u> |
| April 5-30 Nonbank drive | | | |
| Tax notes*..... | | 2.2 | 2.2 |
| 7/8 percent certificates... | | 2.2 | 2.2 |
| 2 percent bonds..... | | 1.3 | 1.3 |
| 2-1/2 percent bonds..... | | 2.8 | 2.8 |
| E bonds*..... | | 1.5 | <u>1.5</u> |
| Subtotal - nonbank drive | | | <u>10.0</u> |
| April 26-28 Bank offering 2 percent bonds..... | <u>2.1</u> | | <u>2.1</u> |
| Grand total - April program | <u>5.0</u> | <u>10.0</u> | <u>15.0</u> |

* Amount shown includes the entire volume of sales during the month.

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The financing program set forth above has been designed with the intention that it should accomplish the following:

- (1) Raise \$15 billions of new money, of which only \$5 billions, or one-third, would be obtained from banking sources.
- (2) Confine Treasury borrowing from nonbanking investors who are beyond the E bond limit to periods of the periodic drive (except for Tax notes). This will permit a concentration of the approach and will enable you to obtain an economy in effort.
- (3) Step up the borrowing level from individuals (including partnerships and personal trust accounts) from the \$1.6 billions level in the December drive to a proposed level of \$3.2 billions in the April drive. This latter amount, when added to savings bonds and Tax notes sold to individuals in January and February, will succeed in acquiring for investment in Government securities about two-thirds of the personal savings during the first four months of the calendar year, as against 47 percent of similar savings during the six months ended December 31, 1942.
- (4) Emphasize again that the E bond is the "poor man's" bond, and that the Treasury is not promoting the sale of any other investment to him (except Tax notes) until he has acquired his E bond limit.
- (5) Introduce the first of a series of special E bond drives synchronized with Victory Fund campaigns which would attempt to lift the level of E bond sales substantially by door-to-door campaigns aimed at obtaining the investment of recently accumulated funds in E bonds. It is contemplated that these campaigns would be conducted by the War Savings Staff; would be superimposed on payroll savings and other E bond operations

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now being conducted; and would involve minute-man speeches, rallies, and as an extensive series of canvasses as could be arranged.

- (6) Amalgamate the efforts of the Victory Fund and War Savings organizations by channelizing their sales efforts in the April drive as follows:

Victory Fund Committees: All investors, both corporate and individual, with incomes of \$15,000 or more or with known bank accounts of \$7,500 or more. There are probably 400,000 persons and corporations in these categories. Their names would be placed on lists prepared by the local Victory Fund organizations as suggested some time ago by the Grant Committee.

War Savings Staff: All investors with incomes under \$15,000, which means everybody else in the country.

It is contemplated in connection with the channelizing of sales efforts that the entire basket be made available to both sales organizations.

- (7) Introduce the idea that in these special E bond drives the Treasury and the Federal Reserve will look with favor upon bankers' activities tending to encourage individuals to withdraw important portions of their bank accounts for E bond investment.

In order to carry out the aforementioned financing program, a basket of securities has been designed to appeal to those investors whose funds have been accumulating, and should be available for investment in Government securities. The basket, it might be pointed out, does not include a security such as F and G bonds, which, it is assumed, will have been discontinued prior to the drive. The securities suggested for the basket and their special characteristics designed to make them attractive to the owners of the funds desired by the Treasury are the following:

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- (1) A 7/8 percent certificate due April 1, 1944. It is proposed that this issue be offered to all investors on Monday, April 5, and be open to banks for three days. The amount to be raised from banks would be set at \$2 billions with subscriptions subject to allotment. The issue would be dated April 10 to eliminate the necessity of calculating interest on early subscriptions. The issue would be attractive to nonbanking investors primarily for the investment of corporation funds accumulating in depreciation reserves which cannot be reinvested in new equipment, tax reserves and funds arising from accounts receivable repayments which cannot be invested in new accounts.
- (2) A 2 percent bond of December 15, 1950-52. It is proposed that this be offered to nonbanking investors on April 5 and to banking investors April 26-28. On the basis of the present market, it would sell at a premium of 9/32 after the books were closed. This bond is offered in preference to a 1-3/4 percent issue so as to vary the menu from the last drive. It will appeal to individuals and corporations desiring a return higher than that obtainable from a certificate and will be acquired by them probably as a secondary cash reserve. It will also be attractive to those investors who do not want a bond as long as a 2-1/2 percent issue.
- (3) A new 2-1/2 percent "tap" bond, perhaps a 1960-70 or a 1965-75. It is proposed that this issue be restricted as heretofore and not be eligible for commercial bank ownership until 1953. The bond would be available in coupon as well as registered form. It is further proposed that the bond be made additionally attractive to individuals by the

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insertion of a new provision which would allow redemption at par in the case of the death of an owner who had held the bond for six months prior to his death. This repayment at death provision should be worth something marketwise, for it would impart a relative stability to the price of the issue on the down side. It will be discussed further in the second section of this memorandum.

- (4) E bonds. It is proposed that the E bonds offered during the campaign be changed from the present series only to the extent necessary to allow them to be acquired by all investors other than commercial banks, instead of merely individuals as at present. It is suggested that the prospective availability of E bonds to such investors be announced on the occasion of the announcement of the discontinuance of the F and G bonds.
- (5) Tax notes. It is proposed that these securities be offered as heretofore, unless pay-as-you-go tax legislation is enacted prior to the start of the drive. In that event, it is suggested that announcement be made that the A series of Tax notes will be discontinued.

The following table summarizes the results which might be obtained in the April drive based upon the funds available to different classes of investors and the assumptions with respect to the proportion of each class of such funds which might be obtained for investment in Federal securities, as set out in the memorandum on "Sources of Funds for Federal Borrowing, Calendar Year 1943". It should be emphasized that these funds will not be automatically invested, however, and can be obtained only by a major sales effort.

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Distribution of Securities During April Drive 1/
By Classes of Nonbanking Investors

(In billions of dollars)

| Issue | Individ- uals | Insurance companies and mutual savings banks | Other cor- porations | Federal, State and local Govern- ment agencies | Total |
|--------------|------------------|--|-------------------------|--|-------------|
| Tax notes... | .3 | | 2.0 | | 2.3 |
| 7/8's..... | .2 | .1 | 1.8 | | 2.1 |
| 2's..... | .5 | .3 | .4 | | 1.2 |
| 2-1/2's..... | .7 | 1.6 | .2 | .4 | 2.9 |
| E bonds..... | <u>1.5</u> | — | — | — | <u>1.5</u> |
| Total..... | <u>3.2</u> | <u>2.0</u> | <u>4.4</u> | <u>.4</u> | <u>10.0</u> |

1/ Data in this table are in agreement with data in the memorandum entitled "Sources of Funds for Federal Borrowing, Calendar Year 1943".

II. Technical and Policy Matters Which Will
Require Some Attention

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

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- (1) F and G bonds. It is assumed in this memorandum that F and G bonds will have been discontinued before April 1. This discontinuance, if it is to take place, should be made effective a full month prior to the opening of the campaign. Our comments with respect to the continuation of these securities have already been given you.*
- (2) E bond ownership. It is proposed that the E bond be opened to all investors other than commercial banks as of April 1, 1943. The limitation on the amount purchased would not be changed, however, from the present \$3,750 issue price. This proposal is in line with the objective of making the E bond the "poor man's" security, and of selling only E bonds to investors of this class until the limit of purchases has been reached. Many clubs, associations, unions, church organizations, women's groups, political organizations, benefit societies, and fraternal, foreign, and racial groups, as well as many corporations which are the personal businesses of small merchants, salesmen, and vendors have funds which can well be placed in small denomination E bonds. Many of the social and political groups are actively promoting E bonds, and their efforts are likely to be enlisted in the April drive. The availability of E bonds for purchase by their own organizations may do much to dispel confusion and to gain enthusiasm among salesmen taken from these groups.
- (3) E bond delivery. The amount set forth as the E bond goal in April -- \$1.5 billions -- is about twice the amount of bonds that might normally be expected to be sold during that month. This amount will involve the issuance of not less than double the number of pieces that might otherwise have been expected, and the Treasury must, accordingly, be prepared for an issuance of between 40 million and 45 million separate bonds in the 25 days of the drive or thereabouts. This is no small order

* In our memorandum of January 15, 1943.

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and it will be made no easier by the fact that door-to-door campaigns depend for their success on rapid delivery of bonds -- certainly delivery no later than 48 hours after the application has been made. It is likely that the operation will have to be entirely decentralized, and in large cities may have to be carried down as far as to the local neighborhood. This extension of the issuing operation, it is obvious, may involve some liberalization in the procedures now being followed.

- (4) Denomination of marketable issues. The philosophy of first selling an investor all the E bonds he can acquire, and then selling him marketable issues after he has acquired the E bond limit would be implemented mechanically, it would seem, if the minimum denomination of \$500 for marketable securities offered during the drive is continued. The salesman will not be tempted to set the E bond off against marketable issues if the latter do not appeal to small purchasers because of their \$500 minimum denomination.
- (5) Interest accrual on marketable securities. There was some complaint during the December drive about the complications arising from the computation of interest accruals from the day the security was dated to the day that payment was made. Each of the three issues carried a different interest rate, and there was a new amount of accrual for each issue each day. It is suggested that two improvements in procedure be made: (a) Date the marketable issues April 10 instead of the date they are first offered. (b) Change the amount of interest accruals only once a week using an average figure for the week. By means of the first change, interest calculations on all subscriptions tendered between April 5 and April 10 will thereby be eliminated. By means of the second change, there will be many less figures to be handled

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by the salesman. These two changes may slow up the reporting of subscriptions by large investors, to whom a day's interest may be a consideration. They are important enough, however, it would seem to make their adoption worth while for the Treasury.

- (6) Dealers' and brokers' subscriptions. During the December drive dealers and brokers subscribed to \$881 millions of the three marketable issues, of which \$115 millions went into the long 2-1/2's and the balance of \$766 millions went into certificates and 1-3/4 percent bonds. The latter securities were probably redistributed principally to commercial banks. There are three ways in which subscriptions of dealers and brokers might be handled during the April drive: (1) They might be included with those of commercial banks and subjected to the same percentage allotment; (2) they might be eliminated altogether; and (3) they might be accepted in liberal amount, as in the December drive. The first two methods would tend to confine the \$10 billions quota rigidly to nonbanking investors, while the third method would provide a "kitty" in this quota to the extent that securities subscribed for by dealers were subsequently sold to banks.
- (7) Optional repayment at par at death provision in the 2-1/2 percent bond. The optional repayment at par at death provision is proposed to insure small investors as well as large investors in the 2-1/2 percent bond against a price depreciation carried on beyond their lifetime. This provision is the same as is now carried by Series G savings bonds, which it is proposed to eliminate. It would have a much greater attractiveness than the provision in the December 2-1/2's which allows those bonds to be tendered at par for payment of estate taxes. The exemption for the Federal estate tax is \$60,000, and the tax is not an important item until an estate is substantially above this amount. If the sights on the volume of these securities to be placed with individuals are to be raised, it would be helpful to sweeten the issue wherever possible.

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The proposed repayment at par at death provision would be attractive to investors because it would have the long-run effect of imparting a relative stability to the price of the issue on the down side. Thus, if interest rates rose and the proposed issue dropped below par, elderly persons would acquire portions of it as rapidly as they were able in order to permit their estates to realize the assured capital gain on the date the obligation was tendered to the Treasury for repayment. Operations of this nature would serve to retard the decline in price of the proposed issue relative to declines in the prices of other Treasury issues in the market. This relative stability on the down side and not the actual matter of receiving par for the issue would, it might be noted, be the factor that would make the issue attractive to all investors in the market.

The suggestion for repayment at par at death is limited to the 2-1/2 percent bonds, and it is not proposed to apply it to the 2 percent issue.

- (8) Bill money. In suggesting that a \$15 billion financing in April will carry the Treasury until July, it has been assumed that the current practice of increasing bill issues over redemptions by \$200 millions each week will be continued. This will cause the volume of bills issued to rise to \$800 millions weekly starting on March 17; to \$900 millions weekly starting on April 21; and to \$1 billion weekly starting on June 16.
- (9) Tax notes. The offering of the A series of Tax notes during the drive is not entirely in accordance with the philosophy of first selling E bonds to the average man. Series A Tax notes have never filled a very important economic need because most small taxpayers cannot or will not save for taxes, and of those

Secretary Morgenthau - 12

that do, many do not find Tax notes particularly convenient to them. As has been indicated earlier, the passage of pay-as-you-go legislation will offer a convenient time for discontinuing the A Tax notes without irritating those people who have been buying them. The A series has been left in the basket therefore, but the volume of its sales is not expected to be very large.

UNITED STATES SAVINGS BONDS - SERIES B

Comparison of February sales to date with sales during the same number of business days in January 1943 and December 1942

(At issue price in thousands of dollars)

| Date | February | Cumulative sales by business days | | | | February as percent of January |
|---------------|-------------|-----------------------------------|-----------|----------|--|--------------------------------|
| | daily sales | February | January | December | | |
| February 1943 | | | | | | |
| 1 | \$ 6,746 | \$ 6,746 | \$ 12,810 | \$ 4,116 | | 52.7% |
| 2 | 15,068 | 21,814 | 15,621 | 8,605 | | 139.6 |
| 3 | 5,470 | 27,284 | 31,021 | 18,647 | | 88.0 |
| 4 | 25,646 | 52,930 | 47,128 | 58,337 | | 112.3 |
| 5 | 31,917 | 84,847 | 69,173 | 74,984 | | 122.7 |
| 6 | 31,665 | 116,513 | 101,696 | 121,408 | | 114.6 |

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

February 8, 1943.

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

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

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UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

Comparison of February sales to date with sales during the
same number of business days in January 1943 and December 1942

(At issue price in thousands of dollars)

| Date | February daily sales | Cumulative sales by business days | | | | February as percent of January |
|---------------|----------------------------|-----------------------------------|----------|----------|--|-----------------------------------|
| | | February | January | December | | |
| February 1943 | | | | | | |
| 1 | \$ 806 | \$ 806 | \$ 2,716 | \$ 197 | | 29.7% |
| 2 | 8,915 | 9,720 | 3,036 | 527 | | 320.2 |
| 3 | 1,570 | 11,290 | 6,137 | 3,214 | | 184.0 |
| 4 | 16,907 | 28,198 | 14,820 | 17,161 | | 190.3 |
| 5 | 20,067 | 48,264 | 18,428 | 29,464 | | 261.9 |
| 6 | 16,842 | 65,106 | 29,726 | 46,986 | | 219.0 |

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

February 8, 1943.

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

CONFIDENTIAL

DATE February 8, 1943

to Secretary Morgenthau
 FROM Mr. Haas
 Subject: The Business Situation,
 Week ending February 6, 1943.

Summary

Commodity prices: The general price level continues to move gradually higher, and the BLS all-commodity index is now 35.7 percent above the August 1939 pre-war level. After a brief reaction following the placing of a ceiling on corn prices, the BLS index of basic commodity prices has risen 0.5 percent above its previous high.

Living costs: The continued rise in the cost of living (now 22.1 percent above August 1939, according to the BLS index) is generating increasing demands from labor groups for a revision of the "Little Steel" wage formula. The BLS cost-of-living index showed a further rise of 0.5 percent in the month ended December 15, and food prices in January have shown a further rise of 0.2 percent. This contrasts with a subsidized decline of 4.1 percent in the Canadian food price index during December.

Farm parity: Prices received by farmers continued to rise in the month ended January 15, reaching 115 percent of parity as compared with 114 percent (revised) a month earlier. A bill has been approved by the House Agriculture Committee requiring the cost of farm labor to be included in computing farm parity prices.

Industrial production: Rising munitions output in December caused industrial activity to decline less than seasonally, and the FRB adjusted index of production rose to 196 from 194 in the previous month.

National income: Income payments in December rose to a new high annual rate of \$127.9 billions, as compared with \$125.2 billions in the previous month and with only \$102.0 billions in December 1942. Payments of salaries and wages in December were nearly 30 percent higher than a year earlier.

Department store sales: Sales in January declined less than seasonally but the gain over 1942 levels narrowed to 3 percent from 13 percent in December.

- - - - -

- 2 -

Prices continue upward

Upward pressure on the price level has been evident during the past month. Commodity prices have been moving higher, despite a brief reaction following the Government's efforts to stabilize grain prices by placing a ceiling on corn. Moody's index of spot prices in January reached the highest level since 1929, and the Dow-Jones futures index also made a new high, although both indexes have shown a slight downturn in the latest week. (See Chart 1.) The current buoyancy in commodity prices reflects in part the following influences:

- (1) The renewed congressional drive for higher returns to farmers;
- (2) A statement by OPA Administrator Brown (which was modified later) that a steady price rise of about 0.5 percent a month appears inevitable; and
- (3) Belief that wage rates will be increased in response to new demands, thereby contributing to an inflationary spiral.

Led by farm products and foods, the BLS all-commodity index of wholesale prices advanced 0.6 percent between the weeks ended January 2 and 30. At 101.8 percent, the index stands 35.7 percent above the pre-war level of August 1939.

The BLS index of 9 uncontrolled commodities (actually 7, since corn and butter are now also under control) has advanced 1.5 percent since January 3, carrying to a new high level the index of 28 basic commodities. Flaxseed, hogs, and wool tops showed the largest advance in this period. (See Chart 2.)

Ceiling on corn to aid food output

The price ceiling on corn, set as prices touched a dollar a bushel at Chicago, was designed to maintain continued production of livestock, milk, poultry, and eggs, by keeping adequate profit margins between livestock and feed prices. Except for certain types of tobacco, this was the first ceiling placed over any of the six basic crops in unprocessed form. Benefit payments were taken into account in establishing the ceiling at or above parity. Traders recognized the action as a precedent for possible ceilings on other unprocessed farm products, especially wheat and cotton.

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The corn ceiling has been criticized by Congress on the grounds that in using benefit payments to compute the parity price, Government officials have violated the principle of an act of Congress; and that farmers who have not chosen to comply with the soil conservation program are penalized, since they receive no supplementary benefit payments.

Canadian living costs decline sharply

A planned decline in Canadian living costs occurred in December. A decrease of 4.1 percent in the food component of the Canadian cost-of-living index was effected by reducing prices of milk, coffee, and tea through subsidies, and of oranges through import duty and tax elimination plus a subsidy. (See Chart 3.) From November 1941, the month before general price control was instituted, through November 1942, the cost-of-living index had risen 2.6 percent. At one stroke the Dominion Government has wiped out more than half of this advance, since the reduced costs brought a decline of 1.4 percent in the cost-of-living index.

This move was taken to avert a secondary inflationary spiral which might otherwise have resulted from an impending cost-of-living bonus, and from wage demands of employees not covered by the bonus. This bonus, paid by industry, aggregates \$25-\$30 million for each one point rise in the cost-of-living index. Such a burden, it was recognized, would have brought an intolerable pressure on industries operating under price ceilings. The new subsidies are expected to cost about \$40 million. Previously, about \$30 million had also been paid in Government subsidies to processors, wholesalers, and retailers to hold down living costs.

In contrast, it will be noted the United States cost-of-living and food indexes continue to rise. In January, according to confidential data from the Bureau of Labor Statistics, retail food prices averaged an advance of 0.2 percent, chiefly due to price increases for dairy products and meats.

Bread prices still held down

Some indication of the difficulty of avoiding an increase in retail bread prices is seen in a comparison of bread prices with the recent price trends for flour and wheat. In Chart 4, upper section, the average retail price of bread in 51 cities is shown in comparison with wholesale price quotations for standard grades of wheat and flour,

- 4 -

averaged for three leading markets. (The wheat price is adjusted to allow for the return which the miller gets from the sale of millfeed by-products). It will be noted that bread prices have held unchanged for the past 12 months, while both wheat and flour prices have recently risen to new high levels.

In the lower section of Chart 4 a direct comparison is made between bread and wheat prices. It will be observed that a period of 4 to 6 months has usually elapsed before a change in wheat prices is fully reflected in the price of bread, doubtless owing to the practice of mills and bakeries of buying their materials some months in advance of actual needs.

The Commodity Credit Corporation has taken action to provide an increased supply of wheat to millers by offering to release its wheat stocks at parity, and by paying part of the cost of moving Pacific Coast wheat to the eastern mills. Some CCG wheat will doubtless be sold under this program, but the release prices on the bulk of the wheat are substantially above current market levels.

Drive to raise farm product prices continues

The Pace bill, approved by the House Agriculture Committee, would tend to increase farm prices by incorporating in the parity formula the cost of farm labor, including hired workers, the farmer and his family. If the bill should be enacted, it would inevitably cause a rise in farm product prices and doubtless a substantial increase in retail food costs. Such an increase, superimposed on the rise in living costs which has already occurred, would strengthen demands for increases in industrial wages, and thereby operate to raise the parity index still higher. Thus the change in the formula could readily accelerate an inflationary spiral.

Prices received by farmers for agricultural commodities continued to increase in the month ended January 15. (See Chart 5.) The index of prices paid, interest and taxes, showed a relatively smaller advance. This resulted in an increase in the ratio of prices received to prices paid, which at 115 (commonly called the percent of parity) was above the revised December ratio, and the highest since June 1920.

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Meat situation critical

Widespread black markets for livestock products have been reported in the past month, as meat shortages have increased. Federally-inspected hog slaughter in January was substantially less than in January 1942. Hog prices again have risen close to the season's highest of early October, and packers' gross margins on pork, as computed by the Department of Agriculture, are below even the unprofitable levels of last summer.

Cattle slaughter also has fallen off, and for 2½ months has been less than in the corresponding period a year earlier. In December, total dressed weight of Federally-inspected cattle was less than in December 1941. (See Chart 6.) Since beef ceilings were imposed last May, moreover, the monthly average live weight of cattle slaughtered has been less than that of the year before. (Lower section of chart.)

Among the reasons ascribed for meat shortages and maldistribution are the following:

- (1) Inadequate quantities in proportion to the increase in civilian purchasing power;
- (2) Allocation of 25 percent for the armed forces and lend-lease;
- (3) Price ceilings on beef, which have discouraged cattle feeding to customary weights;
- (4) Reported heavier slaughtering by farmers and uninspected plants.
- (5) Since uncontrolled livestock prices at high levels preclude profitable operations, packers are processing just enough to enable maintenance of plants and labor forces;
- (6) Restaurants can afford to buy meat at black market prices since, as their menus are not subject to price ceilings, they can pass on high prices to customers;

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Government plans to remedy the situation include new and specific dollars-and-cents ceilings over retail meat prices by the end of February, and rationing of all meats to include restaurants, by April 1.

Programs to increase food supplies

Lend-lease and military requirements, according to Secretary Wickard, have absorbed 13 percent of our 1942 food production, with about 56 percent of this amount going to our armed forces and 44 percent for lend-lease. For 1943, he estimated that 25 percent of our food production will be needed for these uses, with an even division between the two.

In recognition of the need to augment food and fiber supplies, the following programs have been announced recently by the Secretary:

- (1) A plan to provide \$100 millions of incentive payments on essential crops, subject to Congressional appropriations;
- (2) The Government will buy the entire 1943 pack of four vegetables and will re-sell it to canners at lower prices;
- (3) "Special war-crop advances" in the form of non-recourse loans and additional credit to finance other production have been authorized through the Regional Agricultural Credit Corporation; and
- (4) Selective Service regulations have been amended to permit more farmers to remain on farms; and a county-by-county survey of the farm labor supply has been announced.

War output boosts production index to new high

During the past week the WPS revealed that munitions output in December was running nearly 500 percent higher than at the time of the attack on Pearl Harbor, with the index of munitions output for the month jumping to 497 from 435 in November.

Despite the rise in munitions output, total industrial production in December actually decreased about 1 percent due to lower output of nondurable goods and minerals.

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However, this small decline was less than seasonal, and as a result the FRB adjusted index of production rose to a new high of 196 as compared with 194 in the previous month. With results for the final month of the year now available, it is of interest to note that the FRB index of production for 1942 averaged 181 as compared with 156 in 1941 and only 108 in 1939.

Although data covering January industrial production are still incomplete, Barron's weekly index of business activity during the period forged ahead to a new high. On the other hand, merchant ship completions during the month dropped to 105 from 121 in December, due to shortages of steel and propulsion equipment and the retarding effects of severe weather conditions in northern shipyards.

Factory employment and payrolls at new peaks

The long upswing in factory employment and payrolls continues, with data recently released for December revealing further gains over the previous month of 1.5 percent in employment and 3.1 percent in payrolls. (See Chart 7.) Despite the fact that factory payrolls in our first year of war rose 45 percent as compared with a gain of only 15 percent in employment, the continued rise in the cost of living is bringing increasing pressure from labor organizations for higher wage rates.

Substantially higher wages are being demanded for coal miners, and railroad workers have demands pending for wage increases amounting to as much as 30 percent in the case of the operating unions. Moreover, the President of the United Automobile Workers recently urged the abandonment of the "Little Steel" wage formula and the adoption of "a realistic formula recognizing an advance of at least 30 percent in the cost of living since January 1, 1941." Under the "Little Steel" formula, the WLB has awarded wage increases sufficient to compensate for a 15 percent rise in the cost of living which occurred between January 1, 1941 and May 1942. Actually, as measured by the BLS index, living costs in December were 19.4 percent higher than in January 1941. However, by last November, average weekly earnings of factory workers as calculated by the NICB were nearly 39 percent higher than in January 1941.

National income payments show further expansion

With salaries and wages, the dominant factor in national income payments, continuing to rise, national income payments moved up to new high levels in December. During the month payments attained an annual rate of \$127.9 billions, as compared with \$125.2 billions in November and only \$102.0 billions

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In December 1941. Payments for salaries and wages in December were nearly 30 percent higher than a year earlier. It is of interest that cash farm income in that month (including Government payments) was 31 percent higher.

Department store stocks decline

In the face of mounting income payments, retail inventories have declined. Thus department store stocks, which had attained unusually high levels around the middle of last year, in December showed another substantial decline, and the FRB adjusted index of stocks dropped for the fifth consecutive month. (See Chart 5.) By the end of December department store stocks were only 11 percent above 1942 levels, in marked contrast to the extreme gain of 71 percent shown at the end of last July.

The decline in department store stocks during December reflected a record volume of Christmas buying. However, due to the unusually high level of sales already attained in November, the December sales gain was less than seasonal, and the FRB adjusted index of sales actually dropped during the month. (Refer to Chart 8.)

Department store sales gain narrows

Despite a less than seasonal decline, department store sales in January were only 3 percent above year-earlier levels, as compared with a gain of 13 percent in December. Moreover, since average prices of typical department store items at the beginning of January were 4.4 percent higher than a year earlier, the physical volume of goods sold actually fell slightly below January 1942 levels. However, it should be remembered that sales volume at the beginning of 1942 was swelled by heavy advance buying, thus recent sales figures have been compared with an unusually active period.

Consistent and substantial regional variation is revealed in recent weekly department store sales figures, with the western part of the country making a much stronger showing than in the North Atlantic coastal area, where gasoline and fuel oil shortages have been a contributory adverse factor. Thus in the 4 weeks ended January 30, sales in the San Francisco, Dallas and Kansas City Reserve Districts ran 15 to 26 percent above the corresponding period a year ago, whereas the Boston, Philadelphia and New York Districts showed declines of from 2 to 7 percent.

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Stock prices and trading activity rise

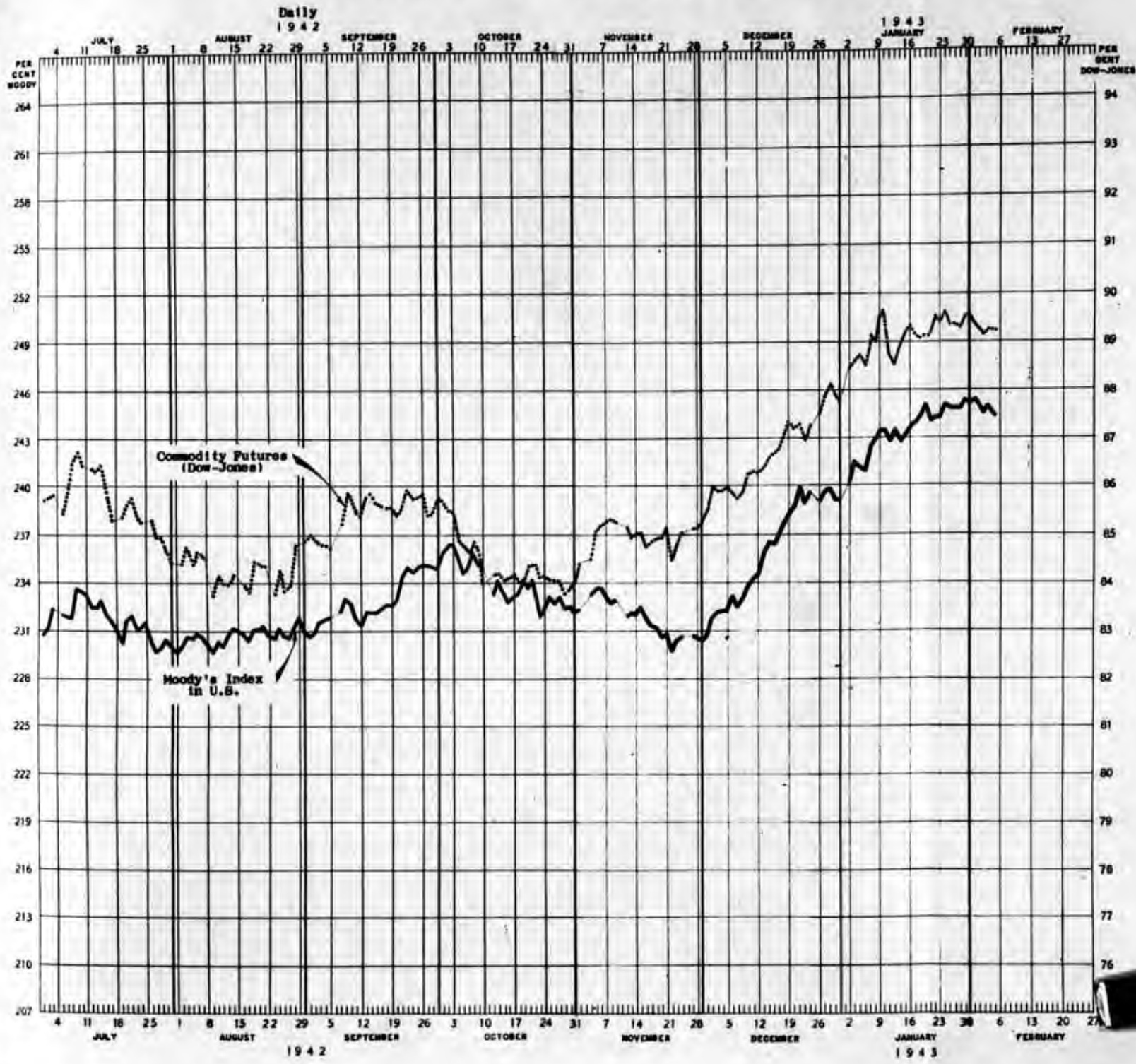
The stock market during the past month has shown increased activity with a rising price trend. After strengthening noticeably in the last week in January on an increased volume of trading, the Dow-Jones averages of industrial, railroad and utility stocks all reached new highs since 1941 at the beginning of last week. Subsequently a slight reaction ensued, but price declines were small and trading continued relatively active.

At the end of last week industrial stock prices, as measured by the Dow-Jones averages, were up 35 percent from the low touched in April 1942, and were about 8 percent above the level prevailing just before our entry into the war. Industrial stock prices in London also showed further strength in the latter part of January and attained a new high for the entire war period, although a slight recession occurred last week. (See Chart 9.) Prices in London at the end of the week were 25 percent higher than on the eve of the outbreak of war in Europe, while industrial stocks on the New York exchange were 6 percent below the pre-war level.

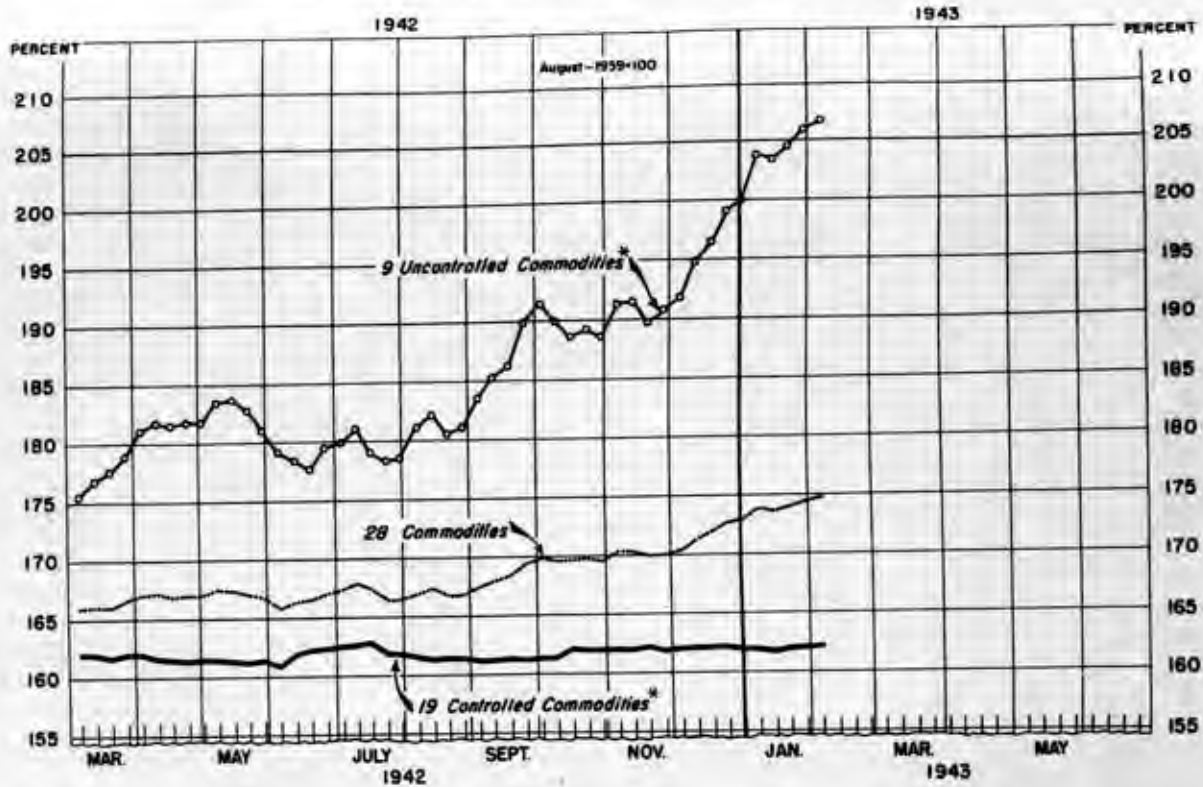
COMMODITY PRICE INDEXES IN U.S.

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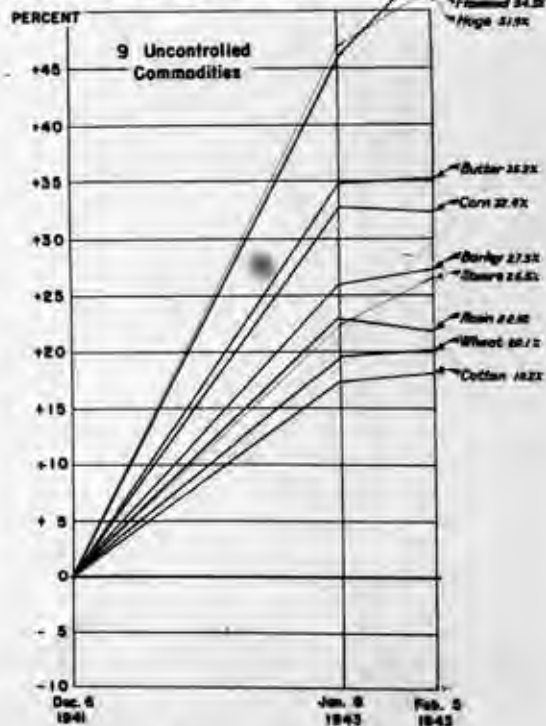
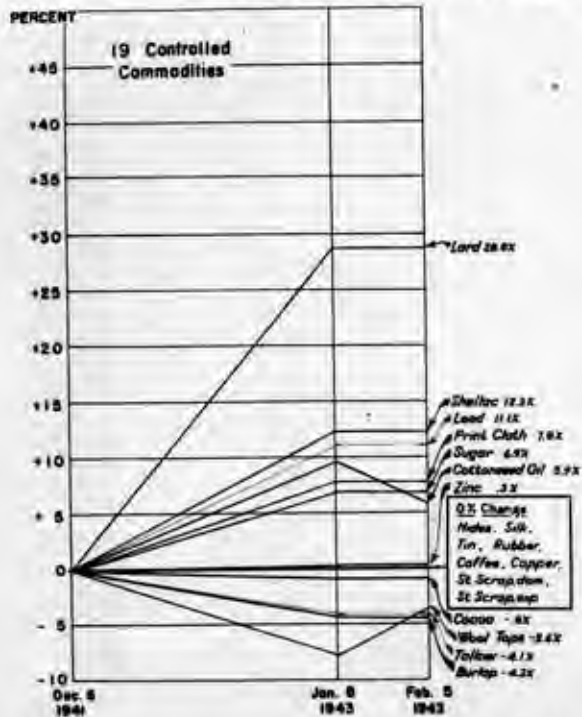
Chart 1



MOVEMENT OF BASIC COMMODITY PRICES

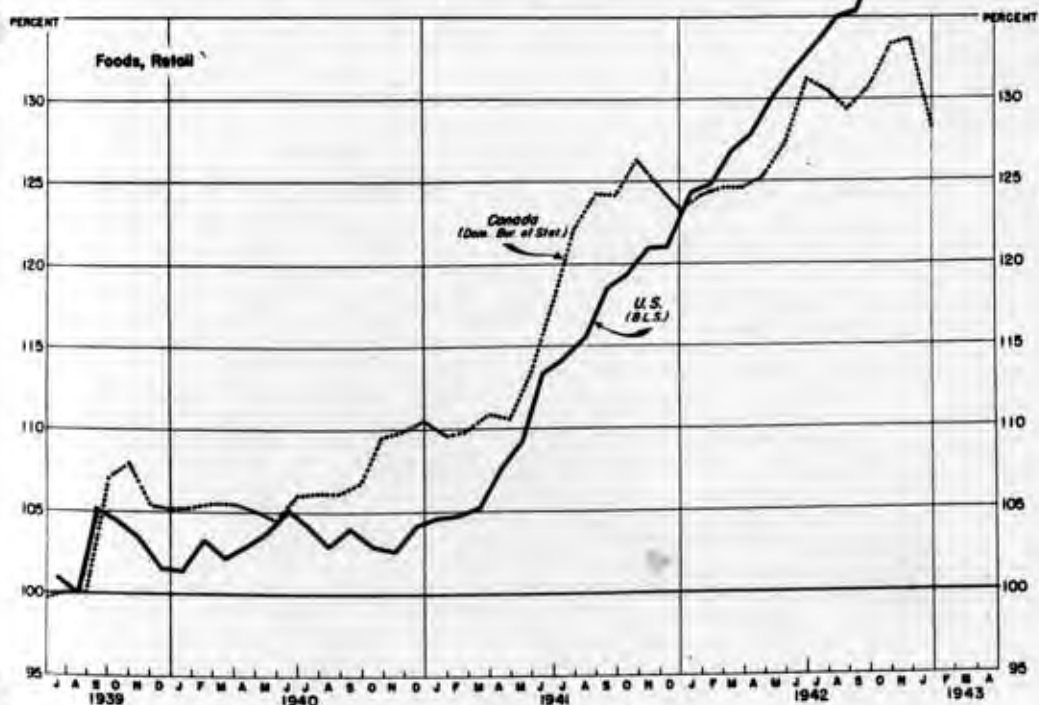
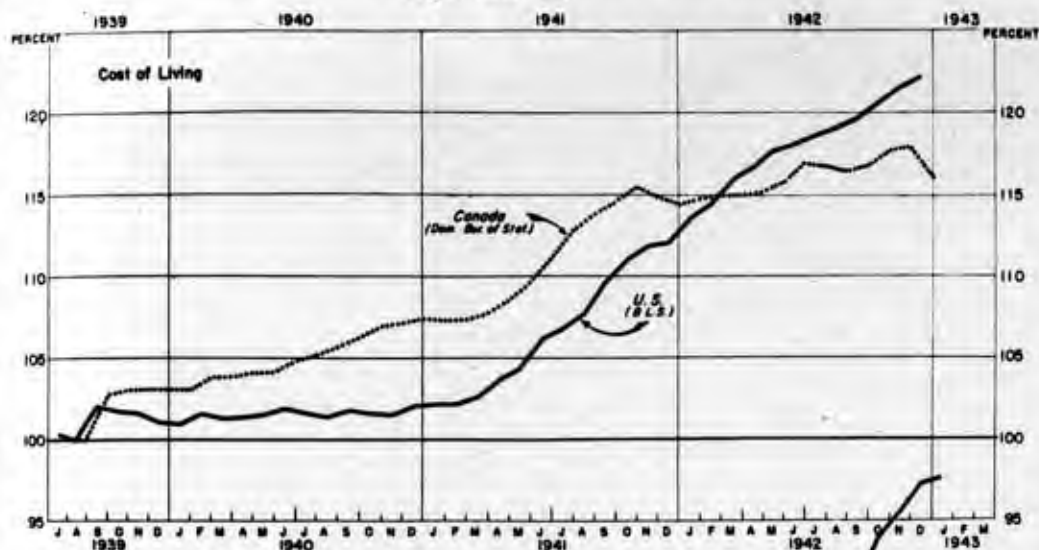


PERCENTAGE CHANGE DEC. 6, 1941 TO JAN. 8 AND FEB. 5, 1943

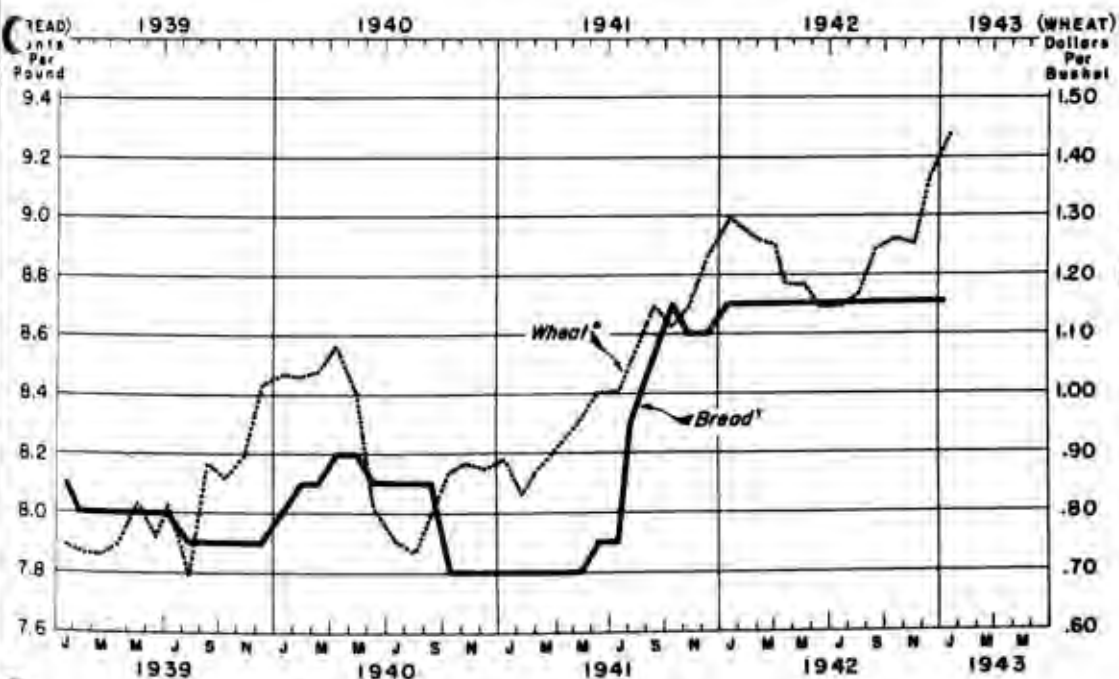
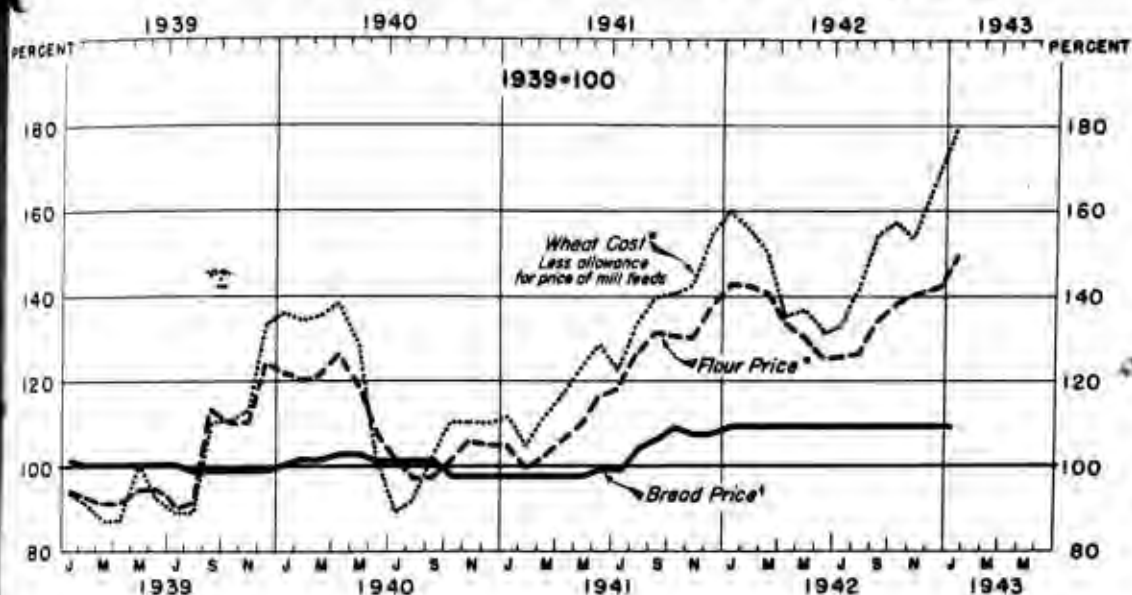


*20 Controlled and 8 Uncontrolled prices to June 26

COST OF LIVING, U.S. AND CANADA
August 1939 = 100



RELATIVE PRICES OF WHEAT, FLOUR AND BREAD



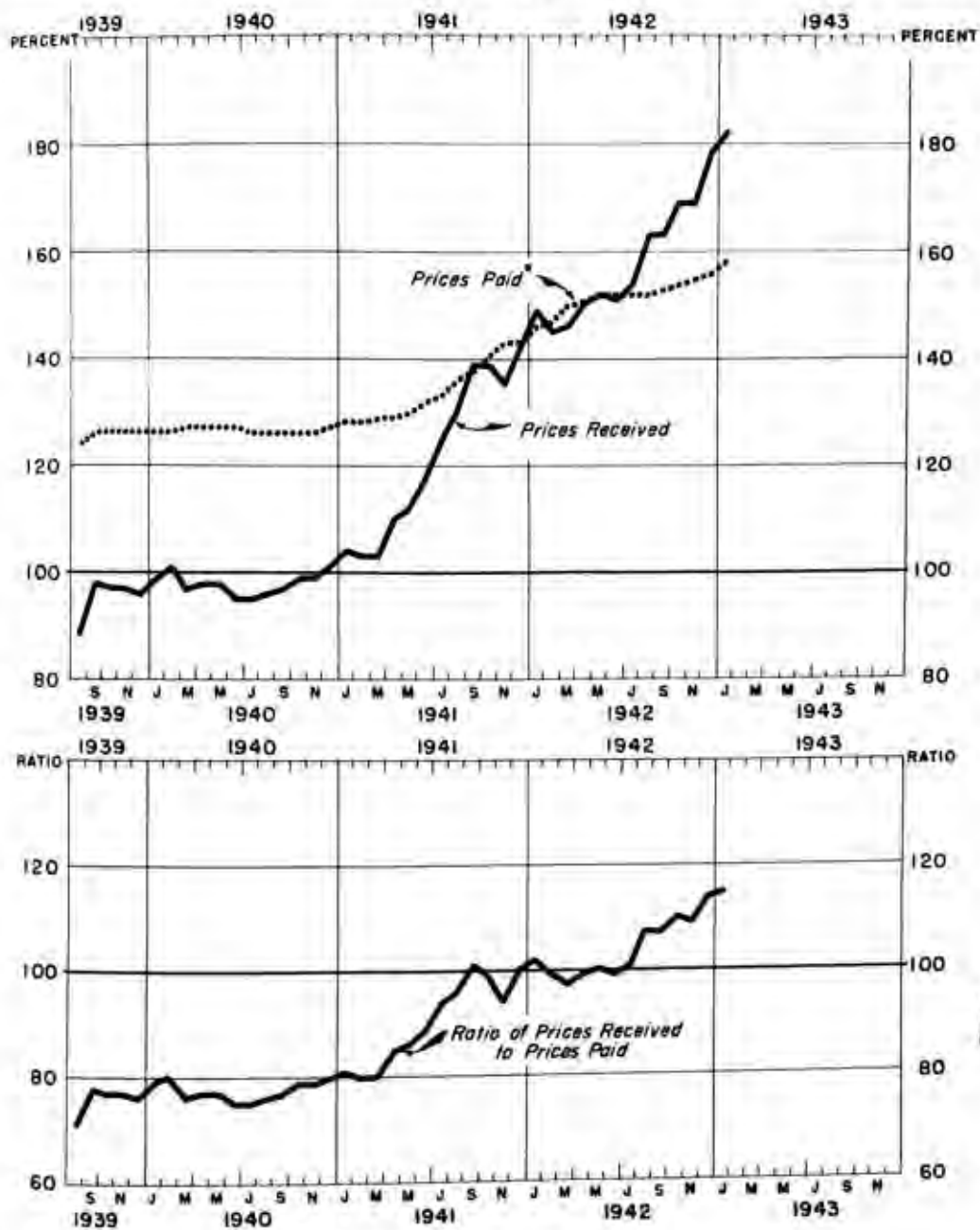
^{*} Wholesale, average 3 markets

¹ Retail, U.S. average

Source: Department of Agriculture and Bureau of Labor Statistics

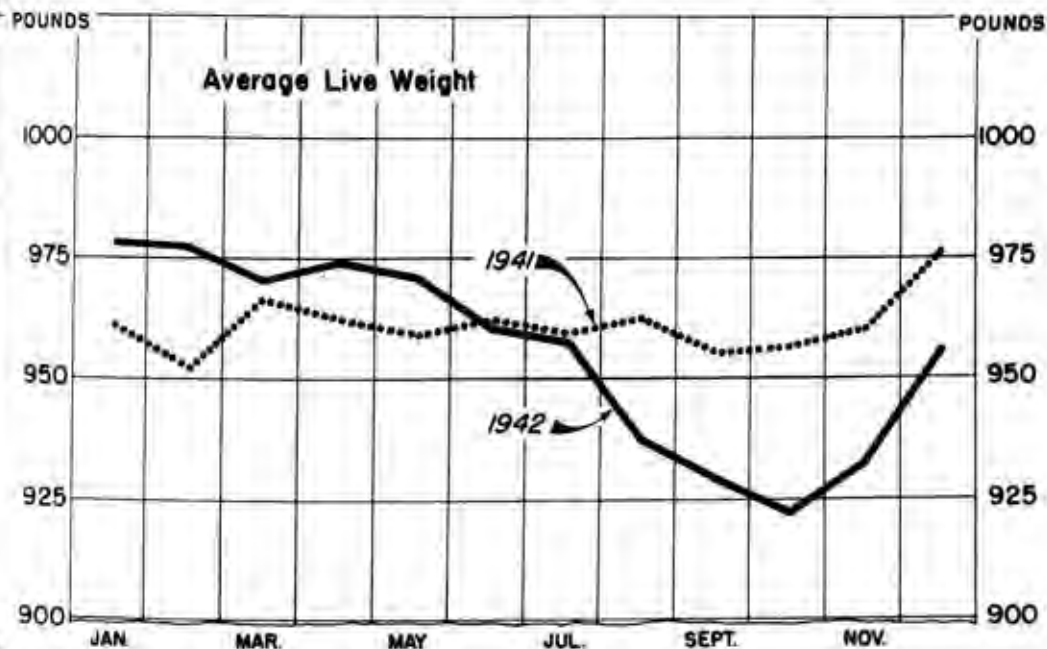
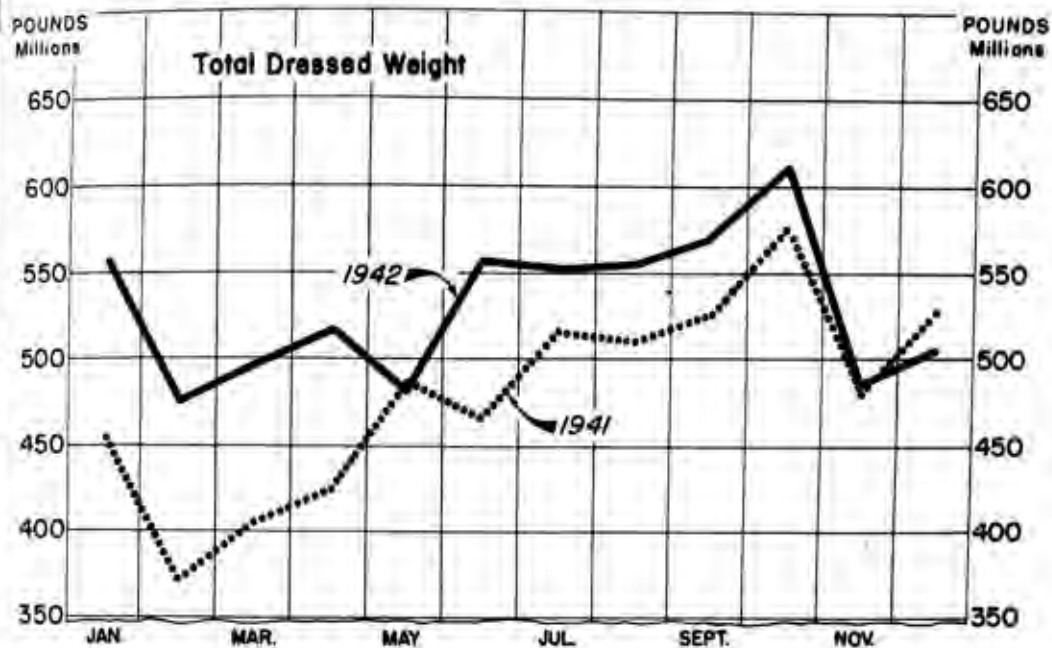
PRICES RECEIVED AND PAID BY FARMERS*

1909-'14 = 100



* Prices Paid, including interest and taxes

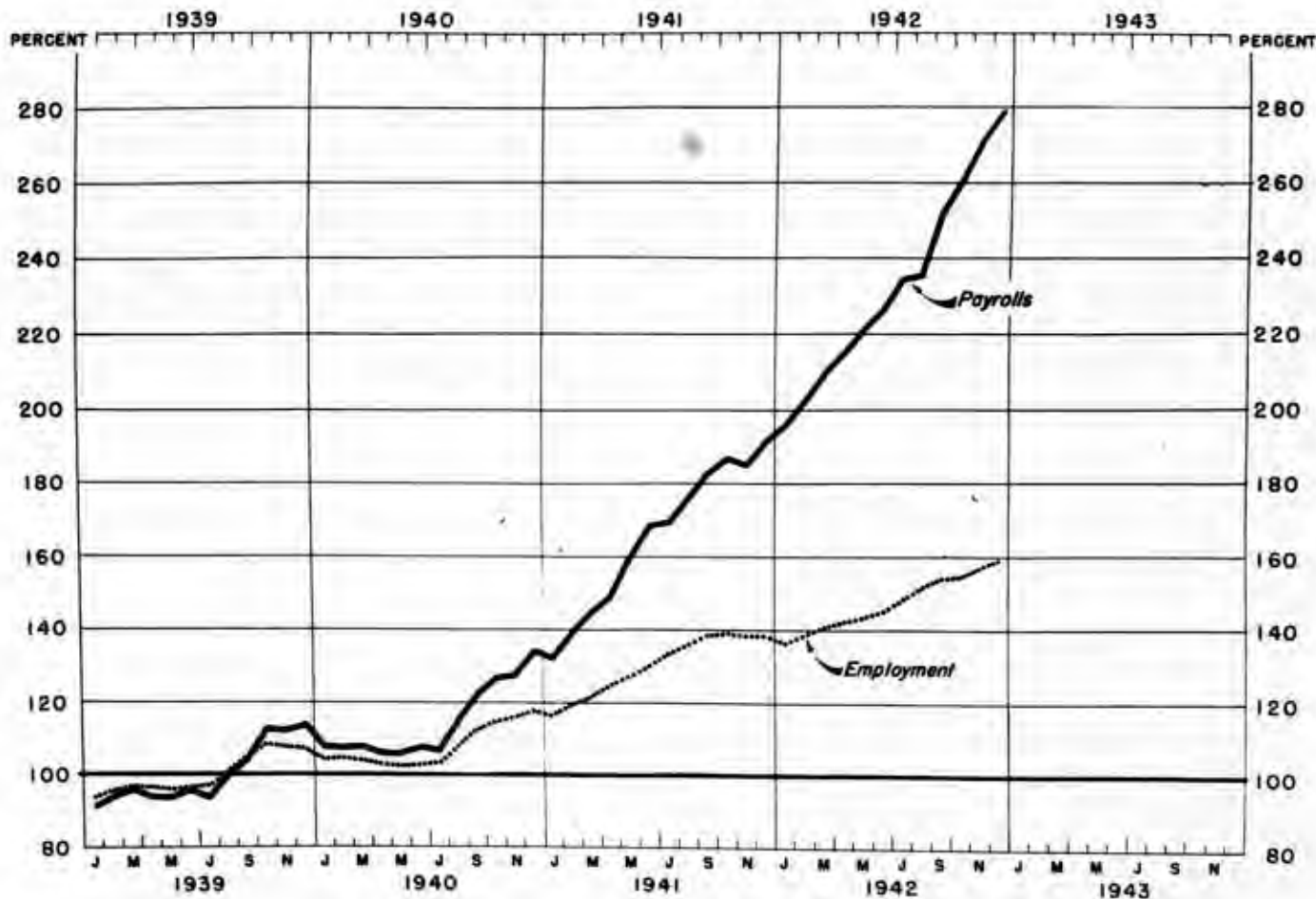
CATTLE SLAUGHTER UNDER FEDERAL INSPECTION



Source: U.S. Dept. of Agriculture

FACTORY EMPLOYMENT AND PAYROLLS

1939=100, Unadjusted



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

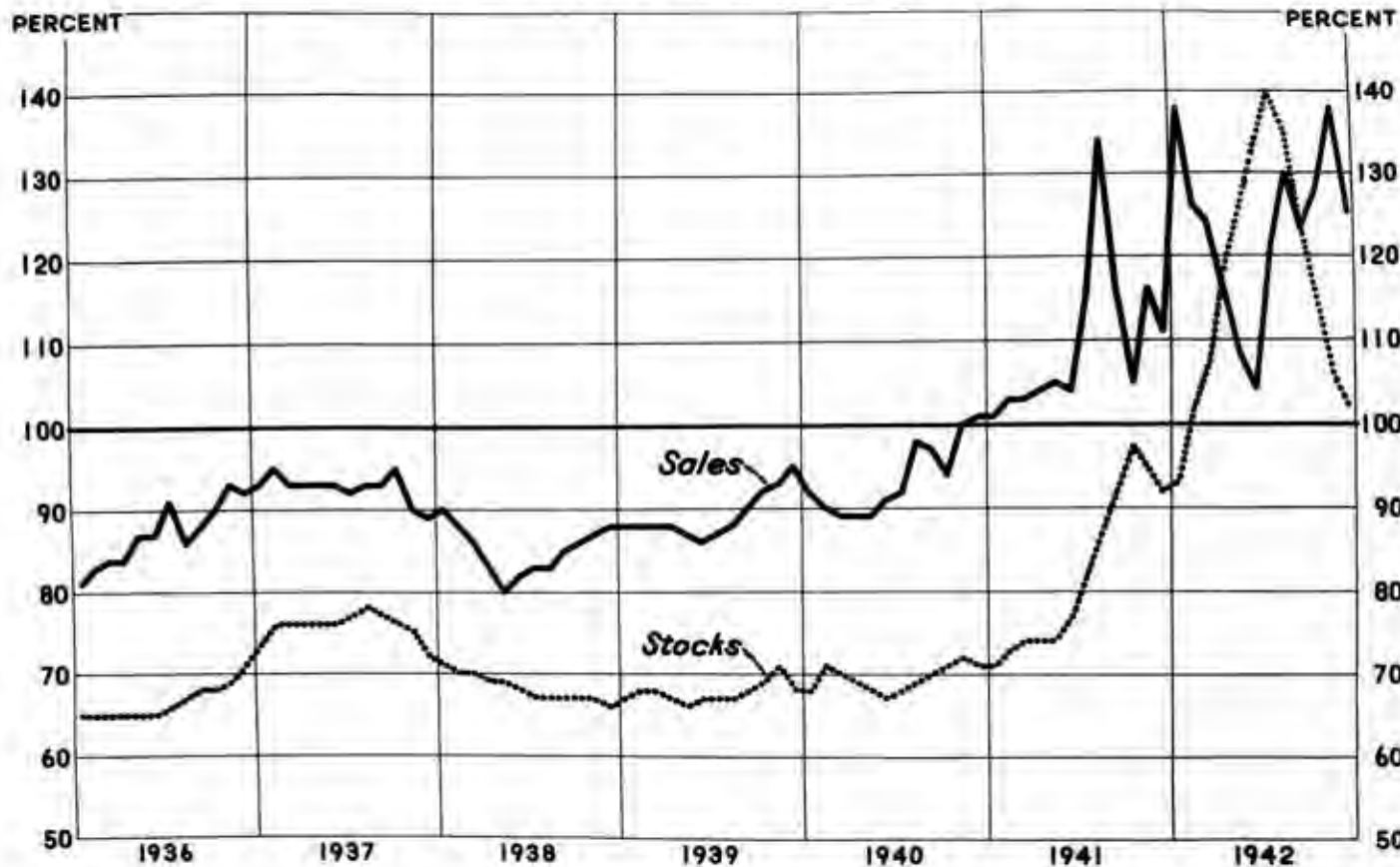
C-450

Chart
86

Regraded Unclassified

DEPARTMENT STORE SALES AND STOCKS

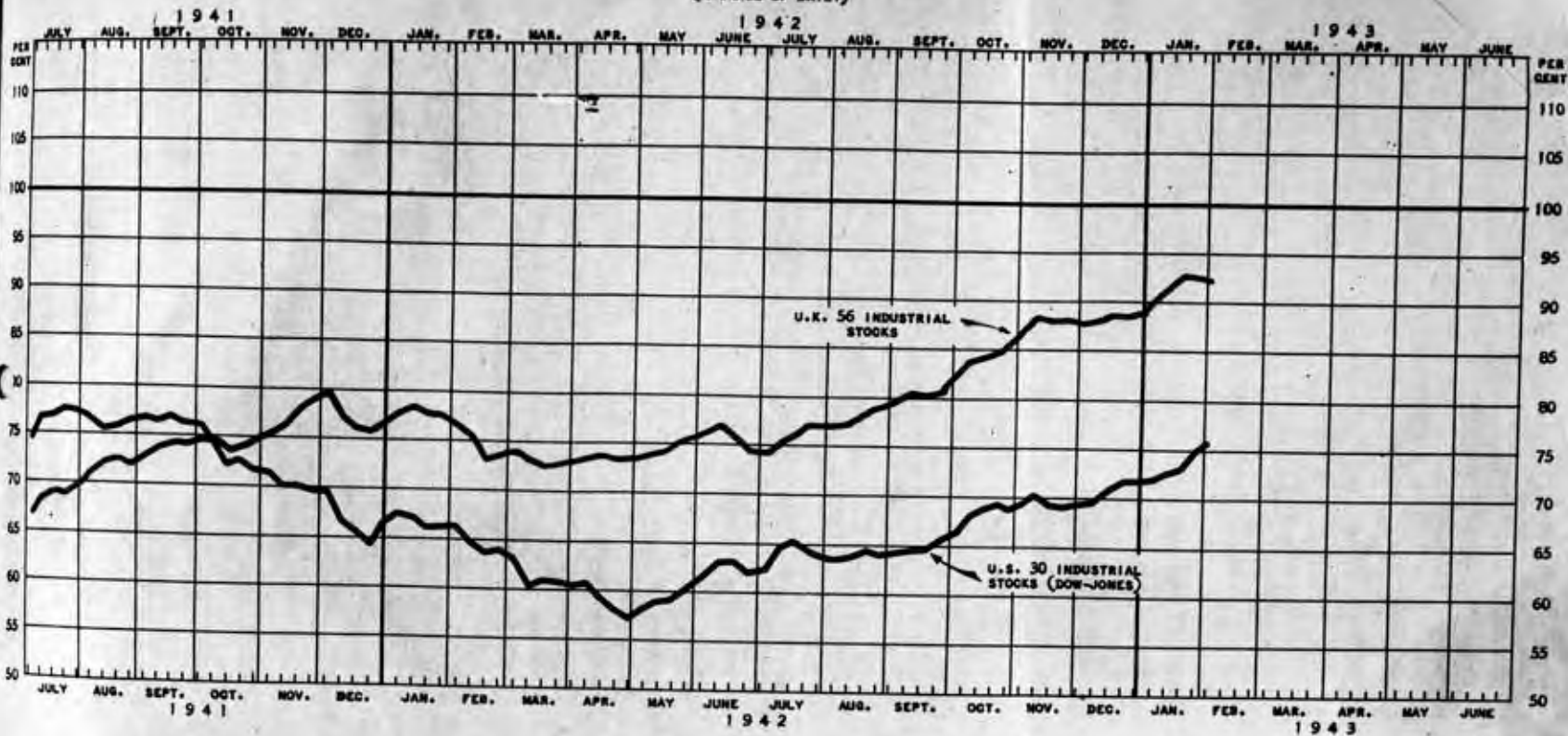
Dollar Values, 1923-25 = 100, Adjusted



Source: Federal Reserve Board

INDUSTRIAL STOCK PRICES IN U.S. AND U.K. AUGUST 1936=100

Weekly (AVERAGE OF DAILY)



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

FO - 156 - A

THE FOOD SITUATION AND OUTLOOK

Cornell Farm and Home Week - February 4, 1943

W. I. Myers

2/8/43

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Up to date in the present war, the food program of the United States has been consistently overoptimistic. Although definite improvement has occurred in recent weeks, there are as yet no convincing signs of the realism which the facts of the present situation require. The only reason that serious difficulties have not arisen sooner is the great good luck of a succession of record-breaking harvests. These great achievements have been made possible by extremely favorable weather but were only realized because farm families made up for the shortage of hired labor by long hours of hard work. In many cases they put in the equivalent of two forty-hour weeks every seven days.

The greatest single cause of this overoptimism is the psychology of surpluses, the widely publicized but erroneous belief in the existence of unusually surpluses of food. Even yet the public does not understand that the apparent surpluses of the thirties were due to the inability of consumers to buy even the subnormal per capita food production of that decade. As a result the nation failed to realize that maintenance of full production of food is as important as production of other vital war munitions.

The supply of skilled farm labor has declined to a dangerous point due in important measure to price controls which had the effect of freezing agriculture at a severe disadvantage in competing for labor with war industries not operating under ceiling prices. At the same time, the supply of new farm machinery was curtailed drastically. Government controls and government payments were continued to limit production of some important crops even in regions where there are no satisfactory alternative crops. The limitation of corn acreage was continued at least a year too long. As a result of slowness in developing effective rationing made inevitable by price control, we are letting up the largest food production in history as rapidly as possible instead of building reserves for less favorable years that are sure to come.

The superficial reasons for the present food situation are commonly known. As a result of the progressive demoralization of food production in warring countries, the requirements of our allies are increasing steadily. At the same time, with full employment at high wages, our civilian demands for choice foods have increased substantially above the depression levels of 1935-39. The per capita consumption of meat in our rapidly growing armed forces is about double the civilian rate. The combination of these increased demands has overtaken even present phenomenal production and resulted in shortages, which have been magnified by uneven distribution of supplies arising from price control.

The basic reason for the present food problem is that for more than two decades prior to the present war, United States food production did not keep pace with the growth of population. From 1914 to 1939, population increased about one third or 33 million persons, while food production rose at a slower rate. For the 4-year period 1935-38 just prior to the present war, production per capita of all foods was 8 per cent lower than during the period 1910-13 just prior to World War I. As a result, food exports declined, food imports

increased and for 16 years prior to the present war United States imports of food exceeded exports.

Again in response to our demands, food exports have increased since 1939. However, in 1942 lease-lend food shipments to our allies amounted to only about one half of the phenomenal increase in total 1942 food production above 1941, the best previous year in history. Any increase in food exports above the levels of 1942 will almost certainly have to come from reduced civilian consumption.

For six consecutive years, 1937 to 1942, the aggregate yields per acre of United States crops exceeded any year in history prior to this period. While hybrid seed corn, improved production practices and conservation measures contributed to this favorable result, the major factor was unusually favorable weather. These extremely high yields resulted in record-breaking crops in spite of an average somewhat below normal.

It has been asserted by an eminent authority that present shortages have occurred in spite of the fact that the United States is exporting only 1/2 as much meat and animal products to our allies as during World War I. The suggestion was made that this shortage should be corrected by increasing livestock numbers to take care of prospective needs.

Although in relation to population, livestock numbers declined severely from 1919 to 1938, they have increased sharply from those low levels, the largest gain, in hogs, being nearly 50 per cent. This extremely rapid acceleration in livestock (principally hogs) during the present war was made possible by a succession of phenomenal crops and stimulated by very favorable price ratios. It resulted in a more rapid increase in meat output than in World War I and brought our 1942 per capita meat production up to the level of 1918, the highest year since 1908. However, with high wages and ceiling prices, consumer demand has kept pace with this increasing supply.

In addition to record-breaking production of livestock products, farmers increased inventories of livestock about 10 per cent during 1942 and further expansion in hogs and poultry has been called for in 1943. It is probable that the livestock production now planned by farmers in 1943 will consume all of the enormous food production of 1942 and reduce the carryover in the fall of 1943 below present levels. Even if the production of food crops in 1943 is up to the high level of 1941, it will be necessary to liquidate some livestock, especially hogs, during 1944. Consequently there is little possibility of increasing livestock production above present levels and considerable probability of some reduction.

In addition to the requirements of our allies, which will continue to increase, every country regained from Axis control will bring increased demands for food. Hence, the food requirements which must be met largely by United States farmers are certain to increase during the remainder of the war and will reach a maximum after fighting ends. Any thought of feeding the starving millions of Europe on animal products is utter folly. Since any further increase in food exports must be met from reduced civilian consumption, it is apparent that a radical change in program has become imperative.

Constructive steps have recently been taken under the centralized control of the Secretary of Agriculture. The emphasis has been changed from rigid price control to the establishment of necessary prices to enable farmers to retain essential labor and maintain food production. A constructive attitude toward food problems is also shown by the deferment of essential skilled farm workers, by efforts to increase the output of new farm machinery and by plans for the recruitment and training of farm workers. Restrictions on farm acreage have been removed and favorable prices have been established to increase production of important crops for direct human consumption -- all crops, potatoes and sweet potatoes, beans and vegetables.

However, present plans still seem to call for a further overall increase in production of both livestock products and crops above the highest year in history. While a continuation of recent record-breaking crops is to be hoped for, it is not a safe basis for wartime planning, especially in view of shortages of farm labor and machinery and the extremely favorable yields of recent years. Now is the time to make plans for the best use of our productive resources and for necessary changes in civilian consumption in view of present and probable future requirements. After making generous provision for the special forces of ourselves and our allies, plans should be made for civilian consumption that are based on reasonable minimum requirements rather than on hopes that are not likely to be realized.

The only way to save much food is to reduce civilian consumption of livestock products severely and increase the use of grains and crop products. In addition to comprehensive and severe rationing of meat and other livestock products, the public should be told what it is to be called upon to do and why. Civilians will not be unwilling to make sacrifices that are necessary if they understand the reasons.

Other factors in a constructive program for the production and conservation of food are:

Prices should be established promptly at levels that will stimulate the desired production of essential foods. Guaranteed minimum prices that are easily understood are likely to be more effective than somewhat complicated incentive payments.

Every effort must be made to maintain the present force of skilled farm labor, to increase it if possible, and to supplement it with necessary seasonal labor.

Insure ample production of oil crops, potatoes, sweet potatoes, beans, vegetables and fruits by guaranteed favorable minimum prices. Use the remaining capacity for livestock production above the needs of our own and allied soldiers so as to supplement a grain and vegetable diet as effectively as possible. The continuation of present policies will probably result in too much pork in relation to dairy products, poultry and eggs. Raise ceiling price on high protein feeds and food grains to encourage their efficient use and to avoid the necessity of rationing, an impossible job. Increase the allotment of new farm machinery and make machines available when needed. Eliminate acreage controls and general government subsidies. There is no economic justification for the general use of subsidies and they increase the danger of inflation of farm values. Wheat stocks should be maintained at the limit of available storage capacity. The wheat stocks of North America are the only substantial reserves of human food that stand between European people and starvation when the war ends. Finally there should be public recognition of the vital importance and of the patriotic service of efficient food production in winning the war as well as the peace to follow.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE Feb. 8, 1943

TO Secretary Morgenthau
FROM Mr. D. W. Bell *DWB*
Subject: Principal Treasury Activities in International Field
During Your Absence.

Stabilization Agreements

- 1. Liberian Agreement: The first purchases of United Kingdom and West African coin in Liberia by the Stabilization Fund were made in January. Purchases during January totaled 31,250 pounds sterling, valued at \$125,000. Arrangements are being made with the British for the disposal of these coins.
- 2. Proposed Agreement with Iran: Pursuant to your luncheon conference with the Iranian Minister of Finance in December, Iran has asked for a financial agreement under which Iran would supply our rial needs against dollars and we would sell gold to Iran. We have informed Sir Frederick Phillips of the request, and of the arrangement we propose to submit to the Iranians next week.

Gold Transactions

1. Gold sales during January: During January, the Stabilization Fund sold about \$46 million in gold to foreign countries for earmark. The largest buyer was Argentina which acquired about \$18 million in gold. The Fund did not purchase any gold from foreign countries during January.

Argentina is contemplating shipping about \$100 million of gold from its earmarked account at the Federal Reserve Bank of New York to Argentina. No specific request to export has been received from Argentina, but Argentina has requested information from the Federal Reserve Bank of New York on the cost of shipping gold.

2. Gold sale to Cuba: An additional \$5 million in gold was sold to Cuba under our gold sale agreement with them. This gold was paid for with United States currency deposited at the National City Bank, Havana.

3. Gold sale to China: On February 1, \$20 million in gold was sold to China. They asked for \$50 million but settled for \$20 million. This gold was paid for from the credit of the Chinese Government at the Treasury under the agreement of March, 1942.

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4. Mexican purchases of gold from Canada: During January, Mexico purchased with U.S. dollars, \$30 million in gold from Canada. This gold was shipped to the Federal Reserve Bank of New York to be added to the earmarked account of the Bank of Mexico. On February 4 the Federal Reserve Bank of New York received instructions to receive an additional \$20 million in gold in the same manner. This transaction was made at \$35 an ounce straight. Mexico thereby saved our 1/4 percent charge.

Foreign Exchange

1. Stabilization Fund transactions in Swiss francs: On December 24, the Stabilization Fund disposed of its one million Swiss francs by selling them to the State Department for \$232,650, leaving a small profit to cover cable charges. The Stabilization Fund then acquired about 4,300,000 Swiss francs from Sweden at about \$.2330. On February 5, an additional four million Swiss francs were acquired from Portugal against gold at the effective rate of \$.2312. The holdings of Swiss francs by the Fund now total about \$1,925,000. These francs have been acquired by the Stabilization Fund to supplement the Swiss Franc Option Fund, which now has a balance of only \$326,000, in supplying the needs of the United States Government and of friendly countries for Swiss francs.

Pursuant to your conversation with the Apostolic Delegation last April, we are now selling \$243,000 of Swiss francs to the Vatican.

2. New York market: The New York foreign exchange market has been quiet and steady. The only significant movements have been in free Swiss francs and Canadian dollars. The free Swiss franc has declined from a high of over \$.37 around the first of December to about \$.25 at the end of January. The Canadian dollar has been strong recently, approaching the official rate of 90.91 cents, primarily because of U.S. Treasury and Post Office purchases.

Silver

1. The British Treasury has formally requested us to Lend-Lease 14.5 million ounces of silver for both coinage and industrial purposes. We are taking it up with the Lend-Lease Administration.

2. The Australian Government has transmitted to us an inquiry on the possibilities of obtaining, under a Lend-Lease Arrangement, silver for Australian coinage to be minted here. They are going to submit more data to us before we take it up with Lend-Lease Administration.

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3. The Dutch Minister of Colonies has requested us to mint Dutch East Indies silver coins to be used by our occupation forces.

4. A number of bills have been introduced in the new Congress to repeal or modify the existing silver legislation.

It is reported that an amendment sponsored by Celler -- to the Treasury-Post Office Supply Bill prohibiting use of Treasury funds in connection with the purchase of silver under the Acts of 1934 and 1939 was tentatively adopted 166 to 103.

North Africa

1. Six Treasury men have just left (or are now on board ship) for North Africa in response to cabled requests for more men. Groups from other agencies are also going.

2. French African currency is being printed in the United States at the urgent request of North African authorities.

3. Arrangements are being made to license the French African accounts permitting payments of funds from these accounts under a ten-day notification procedure which would allow the Treasury that period in which to consult with the French authorities if desired. Facilities are being set up for remittances to and from French Africa, particularly for our armed forces.

4. While the new exchange rate has already gone into effect in French North and West Africa the adjustment to this rate has apparently not yet been made in the de Gaulle areas.

5. The President offered to have the United States guarantee the pay and pensions of the French armed forces, but the French authorities did not accept this offer for fear it would impair their sovereignty. However, the French authorities are looking to this country for financial aid. The official French budget calls for aggregate expenditures of about 27.5 billion francs with receipts of less than 2.5 billion francs.

6. A committee of the Combined Boards has been formed in Washington to handle North African economic and financial matters comparable to the North African Economic Board in Algiers. This new committee may be replacing the old group under Mr. Paul Appleby. A cable has recently been sent to Algiers informing American authorities as to the organization of this committee. The Treasury Department is not represented.

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7. The Belgian and Dutch Governments have informed the State Department and the Treasury that they would like to see local currency used when American armed forces undertake a reoccupation of their territories. The Treasury has replied that we are prepared to discuss the matter with them.

Latin America

1. The Treasury Department on February 4 issued regulations barring all legal and other proceedings which might interfere with the free and unrestricted use and operation of Mexican railroad equipment within the United States. These regulations, taken at the request of the Government of Mexico, the State Department, the Board of Economic Warfare, and other interested Government agencies, are intended to remove an important bottleneck in the transportation of materials from Mexico to the United States, by enabling Mexico to send freight cars loaded with war materials direct to United States destinations, without reloading at the border and without fear that the cars would be seized by old creditors.

2. The Treasury is sending a member of the Bureau of Accounts to Costa Rica to aid in their budget accounting problems.

3. Honduras has requested us, through the State Department, to send a Mission to Honduras for the purpose of investigating their banking and monetary position with a view to making recommendations particularly with respect to the establishment of a Central Bank.

Spain

1. We received a communication January 23 from the Combined Chiefs of Staff asking us to assist in maintaining Spanish neutrality in the interests of Allied strategy. Such quantities of oil, raw materials and other supplies as are necessary to maintain a reasonable wartime economy should be made available to Spain subject to all proper safeguards.

2. On February 1 we received a note from the President stating as follows: "I have discussed further with the Secretary of State the matter of the United States currency held by the Spanish Government. His views, in which I concur, are expressed in the attached memorandum." The attached memorandum mentioned recommends that the request of the Spanish Government be granted without requiring a prior agreement by the Spanish Government to furnish a quid pro quo.

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China

1. Chinese exchange rate and reciprocal lend-lease agreement.
 - (a) Further discussions have been held with representatives of interested agencies regarding possibility of reciprocal lend-lease agreement with China.
 - (b) Chinese have been reported to be giving sympathetic consideration to a reverse lend-lease agreement. Dr. Kung has requested Treasury's position on reverse lend-lease in China before submitting plan to Treasury.
 - (c) Chinese Government is refusing to accept payment for supplies and services of the United States Army because payment at the official rate might appear to be exorbitant.
 - (d) Information received from Adler would seem to indicate that there is no objection to Treasury's doing nothing with regard to black market operations by American soldiers in China until the matter is raised with the United States Government by the Government of China.

2. United States dollar-backed Chinese certificates.
 - (a) The Chinese Government has requested that the Treasury amend its Foreign Funds Control regulations so as to permit the proceeds of the U.S. dollar-backed certificates which have been issued by the Government of China to be paid into free accounts, although the purchasers are blocked Chinese nationals.
 - (b) Treasury is indicating its unwillingness to amend its Foreign Funds Control regulations to permit such unfreezing. The State Department has been consulted and agrees with the Treasury.
 - (c) Treasury has also indicated its disapproval of purchases of certificates by foreigners and foreign business houses in China.

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3. Mission from China on post-war questions.

- (a) Dr. Kung has received invitation from the Chinese Ambassador in Washington to send fiscal experts to Washington to participate in discussions regarding post-war economic questions.
- (b) In reply to query raised through Adler, Dr. Kung has been informed that the problems to be discussed are related to possible international monetary arrangements among the United Nations.

4. Lend-Leasing silver to China.

- (a) The Chinese have raised with the Treasury question of the possibility of lend-leasing silver to China for coins.
- (b) The difficulties inherent in such request were pointed out to the Chinese.

5. Request by Government of China for \$20 million from \$500 million credit to meet payments for banknotes.

- (a) The Chinese have requested the Treasury to allow China to draw from the unearmarked portion of the \$500 million financial aid US\$20 million to meet payments for banknotes ordered from United States.
- (b) The Chinese have been informed that the Treasury is agreeable to acquiescing to this request but that the Treasury finds it hard to understand why the Chinese should request an additional \$20 million when they still had idle funds on which to draw.

Mr. White discussed
orally with Leg. on
2/27/43

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE
February 8, 1943

TO Secretary Morgenthau

FROM Mr. White

Subject: Recent Developments Concerning the Extension of Financial Assistance to our Allies.

1. The President has approved the January 1 report of the Cabinet Group on Policy Decisions Relating to the Dollar Position of Lend-Lease Countries. (A copy is attached.)
 - a. The British Treasury has made two suggestions concerning the decision to hold U.K.'s gold and dollar balances at \$600-\$1,000 million. (They did not get the figures from the Treasury.) They are
 - (1) It should be the subject of common discussion and exploration before any decision is made.
 - (2) No statement be made to Congress of any policy relating to British gold and dollar balances until it has been discussed between the two governments and is a matter of common agreement.

We have replied to both these requests that we will be glad to discuss them with Sir Frederick. Our position so far has been that the decision involves no new policy, that the range is merely a guidepost for the implementation of our present policy. (A copy of the message from the Chancellor of the Exchequer of January 19, 1943 is attached.)

 - b. We are waiting to see what the outcome of these discussions will be before initiating conversations with representatives of the other British areas.
 - c. Our information is that negotiations are going forward with South Africa for a lend-lease agreement incorporating the recommendations of the Cabinet Group.
 - d. Representatives of the Belgian, Dutch and Norwegian Governments and Free French have been asked to give information on their respective gold and dollar positions and are collecting the necessary data from London.
2. In pursuance of your understanding with Mr. Currie and Mr. C. E. Wilson, we have discussed the subject of a reasonable reserve

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for Canada with Dr. Clarke of Canada and have placed the matter before the Interdepartmental Subcommittee. There is attached a draft of the report to be submitted to the President relating to Canada's U.S. dollar reserve. With the exception of the range, the recommendations embody the suggestions made by Dr. Clarke. We have reduced his suggested range of \$400-\$430 million to \$300-\$350 million.

Canada held \$319 million of gold and U.S. dollar balances on January 1, 1943. According to present estimates they will rise to almost \$500 million by June 30. This anticipated rise includes \$129 million to be received from the British Government in payment for supplies delivered between the exhaustion of the \$900 million (U.S.) Canadian gift and the initiation of lend-lease arrangements.

3. There is also attached the material drawn up for presentation to Congress at the forthcoming lend-lease appropriation hearings. The tables show that the British Government held \$930 million in gold and U.S. dollars on January 1, 1943, against which are specific dollar liabilities of about \$240 million.

Report to the President on Policy Decisions
Relating to Dollar Position of
Lend-Lease Countries

A committee consisting of representatives of the Department of State, Treasury and War, the Office of Lend-Lease Administration and the Board of Economic Warfare, undertook to consider the following four problems:

1. The appropriate level of the gold and dollar balances of the United Kingdom. Should these balances be allowed to increase further or should an effort be made to hold them at approximately the present level or should they be reduced?
2. The desirability of continuing lend-lease exports to South Africa in view of the present size and rate of increase of the gold holdings of that country.
3. The extent to which in the formulation of lend-lease policy for sterling area countries the gold and dollar position of each of these countries should be considered as separate from that of the United Kingdom.
4. In granting lend-lease assistance to countries outside the British Empire, should their holdings of gold and dollar balances be taken into consideration?

Recommendations made in this report are based on the recognition that the purpose of the Lend-Lease Act is to provide our Allies with the goods and services that they need for the most vigorous prosecution of the war. They are based on the assumption that our arrangements with lend-lease countries should be so conducted as to maintain their gold and dollar balances at a level consistent with the above objective.

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1. The United Kingdom

The United Kingdom held, as of November 30, 1942, an aggregate of \$928 million of gold and dollar balances as follows:

| (In millions) | |
|-----------------------|------------|
| Gold | \$702 |
| Dollar balances | <u>226</u> |
| Total | \$928 |

This total of \$928 million represents an increase of \$770 million from the low point of May 1941 and an increase of \$430 million since January 1942. Whether or not these holdings will increase in the near future depends on a number of factors within the control of the United States Government such as the volume of lend-lease aid, the volume of United States purchases and the dollar expenditures of and for our troops. It also depends on certain factors largely beyond our control, of which an example is the proposed substantial payment by the United Kingdom to Canada.

Judging the total British position at this time, we conclude that the balances now held by United Kingdom are adequate. In this connection, it will be recalled that in the Spring of 1941 the British suggested that they should have a "minimum working balance of \$600 million required to meet contingencies everywhere".

Recommendation

It is recommended, in the light of present circumstances, that the United Kingdom's gold and dollar balances should not be permitted to be less than about \$600 million nor above about \$1 billion.

2. The Union of South Africa

Gold holdings of South Africa have risen from approximately \$220 million in September 1939 to more than \$600 million in November 1942. In addition, South Africa has repurchased about \$160 million of government securities formerly held in the United Kingdom, as well as substantial amounts of gold mining securities.

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South Africa's gold production is not expected to diminish greatly below the present all time high of \$500 million per year. Even if gold production were to be drastically curtailed, South Africa would scarcely be hindered in her prosecution of the war because of any shortage of foreign exchange.

Lend-Lease exports to South Africa were unimportant until May 1942. Since then they have increased steadily. In October, 76 percent of United States exports to South Africa were on lend-lease account and 45 percent of the non-military items exported under lend-lease. These goods are lend-leased to Great Britain for the Union of South Africa, but they are shipped directly to the latter country. In the case of non-military goods, a large part is distributed by South African Government through normal commercial channels.

In view of the large gold balances of South Africa, lend-lease aid to that country, considered by itself, cannot be justified on foreign exchange grounds. It has been urged that political considerations make it important that lend-lease aid should be extended. There is, however, evidence to indicate that the Union Government is willing and eager to finance the purchase of war materials with its own resources.

Recommendations

a. It is recommended, as long as South African balances remain at or near their present high levels, lend-lease non-military exports to South Africa on a credit basis, either directly or indirectly through the British, be discontinued and that negotiations to this end be started at once.

b. It is further recommended that a Lend-Lease Agreement with South Africa be negotiated providing for lend-lease military aid to that country and reciprocal aid to the United States in the form of strategic materials.

5. The British Empire and its Parts

The present financial arrangements with the British appear to be rather inconsistent. When the British request that additional lend-lease aid be granted and that they be relieved of the necessity of making various dollar payments, they count only the United Kingdom's gold and dollar balances and most of the dollar receipts of the sterling area as being available.

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They exclude the gold and dollar holdings of South Africa, Australia, New Zealand and India which together are at least as large as those of the United Kingdom. When, however, they compute the dollar expenditures which must be made, the British scout not only the payments which the United Kingdom must make, but also the payments which their Dominions and Possessions, including South Africa must make.

It would seem that the correct procedure is to make lend-lease arrangements either with any part, or with the whole of the sterling area, and to vary the arrangements so as to fit the ability of the part, or the whole, to pay for goods and services. If Great Britain is to act for the whole Empire, the assets of all the members of the Empire should, it seems, be considered as well as their aggregate net need for foreign exchange. The same would hold for any part of the Empire for which Britain makes lend-lease arrangements.

Recommendation

It is recommended that the United States Treasury initiate and continue discussions with the Financial representatives of South Africa, Australia and New Zealand concerning their respective gold and dollar positions. Whether or not similar procedure should be adopted with British India rests upon the decision of the State Department concerning the expediency of such procedure with India at this time.

4. Non-British Countries Receiving Lend-Lease Aid

Thirty-six non-British Empire countries received \$1.5 - \$2 billion of lend-lease assistance through November 1942. Among them are countries with substantial gold and dollar holdings.

Recommendation

It is recommended that consideration in the determination of lend-lease policy should be given to the gold and dollar position as well as to all of the relevant factors.

5. Continuing Review

In order to implement the policy decided upon concerning the appropriate amount of gold and dollar balances to be held by various countries receiving lend-lease aid, it is necessary to have a closer degree of coordinated effort by the various departments making decisions affecting the dollar position of these countries and to give consideration to the ways in which that policy shall be implemented. It is also necessary to be informed concerning the countries to which lend-lease aid is being granted, either directly or indirectly.

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If the balance rises above the upper limit decided upon by the policy committee, the most feasible method of reducing the contribution of the United States seems to be the following:

- (a) Reduction in lend-lease exports of non-military goods.
- (b) Procurement of strategic materials and other non-military supplies as reciprocal aid.
- (c) Receipt as reciprocal aid of sterling to finance expenditures of American Armed Forces abroad.

Recommendation

It is therefore recommended that the Cabinet group appoint a permanent subcommittee under the chairmanship of the Treasury charged with the responsibility of making recommendations to this Cabinet group with respect to the implementation of policies relating to the above problems, and that the Secretary of the Treasury take the necessary steps to obtain from each of the United Nations the information on their foreign exchange resources needed for the work of the subcommittee.

Vice President

Secretary of State

Secretary of Treasury

Secretary of War

Lend-Lease Administrator

If you approve of these recommendations we shall be glad if you will so indicate below.

The White House

Approved: _____

January 1, 1943

MESSAGE FROM THE CHANCELLOR OF THE EXCHEQUER TO MR. MORRIENTHAU
DATED JANUARY 19TH, 1943.

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Sir Frederick Phillips has told me of the proposal that Lend-lease might be restricted if our reserves should rise above their present level. This raises a major issue, which should, I suggest, be the subject of common discussion and the exploration of the alternatives before any decision is taken. The position of our reserves cannot be dissociated from the inescapable growth of our overseas liabilities against which they are held. We, alone of the United Nations, are incurring external indebtedness on a vast and growing scale. It is essential for the successful prosecution of the war that we should continue to do so, but our ability to carry this burden depends on our possessing external reserves as adequate as possible in relation to these liabilities. We are under an obligation to provide dollar purchasing power for the rest of the sterling area and the adequacy of our reserves affects our eventual power to carry out this obligation and therefore to cooperate effectively in policies designed to promote the stability of international monetary relations and the expansion of trade.

I know you fully agree with me on the principle of prior consultation and agreement on matters of common interest as important as this. I can assure you that I appreciate the immediate troubles confronting you. Mine will not be less. We had hoped that the fact of reciprocal aid being now on such a scale that it is as high in proportion to our war expenditures and resources as the

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Lend-Lease aid you give us is to yours would be a sufficient reply to the critics of the present basis of Lend-Lease.

You have often come to my aid in difficult circumstances and on this matter I should hope we could find a reasonable solution.

I am sending Sir Frederick Phillips instructions to hold himself at your disposal.

Washington, D.C.,
January 21, 1943.

**Report to the President on Policy Decisions
Relating to Canada's U.S. Dollar Reserve**

A committee consisting of representatives of the Department of State, Treasury and War, the Office of Lend-Lease Administration, and the Board of Economic Warfare, undertook to consider the following two problems relating to Canada.

1. The appropriate level of the U.S. dollar exchange reserve for Canada in the light of the Hyde Park Arrangement for assistance to Canada.
2. The Hyde Park policy of continuing to lend-lease to the United Kingdom component parts obtained in the United States for Canada and required for the execution of British contracts in Canada.

Recommendations made in this report are based on the recognition that one of the purposes of the Hyde Park Arrangement is to assure Canada sufficient U.S. dollar exchange to facilitate vigorous prosecution of the war. They are made on the assumption that our arrangements with Canada should be so conducted as to maintain Canada's gold and dollar balances at a level consistent with the above objective.

Canada's U.S. Dollar Position

As of January 1, 1943, the Canadian Government held \$319 million of gold and U.S. dollars as follows:

| | (In millions) |
|---------------------------|---------------|
| Gold..... | \$155 |
| U.S. dollar balances..... | <u>164</u> |
| Total... .. | \$319 |

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This represents a reduction of \$72 million in Canada's available gold and U.S. dollar balances since the beginning of war. In addition, Canada has used \$224 million of proceeds from net sales of U.S. securities and other investments to Americans, bringing the total drain on Canada's U.S. dollar exchange resources since the beginning of war to \$296 million.

Practically all of this drain took place during the first two years of hostilities--i.e., before the effects of the Hyde Park Arrangement became apparent. Transactions consummated in pursuance of the Hyde Park Arrangement made a net contribution of \$418 million to Canada's U.S. dollar resources by the close of 1942.

Current expectations are for a continued rise in Canada's holdings of gold and U.S. dollars. According to present estimates they will rise \$172 million during the current six-month period or to almost \$500 million by June 30, 1943. This would mean that by the close of June, Canada will have lost only about \$100 million of her pre-war dollar exchange resources as compared to an improvement in her sterling position of over \$1 billion.

In view of these facts, it was deemed advisable to re-examine Canada's U.S. dollar position and our policy of financial assistance.

The Canadian Proposal as to a Reasonable Reserve

The proposal was made to the Canadian Ministry of Finance that a range for Canada's U.S. dollar exchange reserve be established and the financial accounting between the Governments of Canada and the United States be so conducted as to maintain the reserve at the agreed-upon level. The proposal met with the approval of the Canadian Government, and at the request of the Treasury, Dr. Clarke, Deputy Minister of Finance for Canada, submitted the following suggestions:

1. Consideration be given to agreeing upon a range of \$400-\$450 million.
2. All U.S. dollar receipts from the net sale of securities in the United States be considered outside this reserve to be utilized to retire maturing or callable securities payable in U.S. currency.

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3. "Can-ex" requisitions be discontinued. These requisitions are for materials which are lend-leased to the United Kingdom but which are actually exported to Canada and turned over to the Dominion Government for use in that country. They are designed to compensate Canada for expenditures made in the United States for those materials used in the manufacture of munitions and equipment for Great Britain which lose their identity through the process of production.

The reasons presented by the Canadian Government for the range suggested are Canada's vulnerable international trading position, heavy external debt largely owed to the United States, and desire for adequate foreign exchange resources in the immediate post-war period.

The Conclusions of the Subcommittee

1. The range suggested by the Canadian Government would be difficult to defend in view of the following considerations:
 - a. Canada's over-all international financial position can hardly be said to have deteriorated since the outbreak of war. The relevant consideration is not Canada's U.S. dollar exchange position but her over-all international financial situation. Although Canada has increased her net indebtedness to the United States since the outbreak of war by almost \$300 million, she has repatriated Canadian securities held in the United Kingdom with a value of over twice this amount and has lent the British Government \$670 million. (This latter is in addition to the \$900 million gift.)
 - b. The minimum figure suggested is higher than the U.S. dollar exchange reserve of Canada at the outbreak of war. This amounted to \$390 million--\$260 million of gold and dollars held by the Canadian Government and \$130 million of U.S. dollar balances held by private Canadian residents in excess of minimum working needs.

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- c. A liquid reserve of \$400-\$450 million is substantially more than Canada needs to prosecute the war. There does not seem to be any authority to extend financial assistance in excess of war needs for purely post-war considerations.
 - d. The \$600-\$1,000 million range decided upon for the United Kingdom would make it difficult to justify a range of \$400-\$450 million for Canada.
2. It does not seem inappropriate to permit Canada to repay Canadian Government obligations payable in U.S. dollars out of proceeds from net security sales. Such an arrangement would prevent further impairment of Canada's capital position vis-a-vis the United States.
 3. The Canadian Government's suggestion that materials supplied to Canada and charged to the United Kingdom under lend-lease be limited to those goods which retain their identity through the process of production seems a reasonable one. Such a limitation would involve a U.S. dollar exchange loss to Canada of less than \$20 million. A loss of this magnitude could easily be repaired, possibly in more acceptable ways.

Recommendations

1. It is recommended, in the light of present circumstances, that Canada's gold and U.S. dollar balances should not be permitted to be less than about \$300 million nor more than about \$350 million.
2. It is recommended that for the present, Canada's net U.S. dollar proceeds from security sales be considered outside her U.S. dollar exchange reserve provided they are to be used within a year to redeem maturing or callable securities payable in U.S. currency.

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3. It is recommended that materials supplies to Canada and charged to the United Kingdom under lend-lease be limited to those goods which retain their identity through the process of production.

HDS:TMK:ALN:ef 2/6/43

Review of Canada's U.S. Dollar Position Since September 1939

The Canadian Government reports that at the outbreak of war Canada had \$390 million of available gold and U.S. dollar balances as follows:

| (In millions) | |
|---|-----------------|
| Gold held by the Canadian Government..... | \$205 |
| U.S. dollars held by the Canadian Government..... | <u>56</u> \$261 |
| U.S. dollar balances held by Canadian residents in excess of minimum working needs..... | <u>130</u> |
| Total..... | \$391 |

In addition, Canadian individuals and concerns other than banks and insurance companies held about \$720 millions of U.S. securities and other U.S. assets, and Canadian financial institutions held another \$700 million of U.S. dollar balances and U.S. securities. These holdings of financial institutions were and still are considered by the Canadian Government as unavailable to it.

Between the outbreak of war and July 1, 1941, about the time the implementation of the Hyde Park Arrangement was undertaken, Canada had a net cash deficiency vis-a-vis the United States of over \$500 million. This cash deficiency was met to the extent of \$273 million by gold and dollar receipts from third countries and to the extent of \$177 million by drawing on Canada's U.S. dollar exchange reserve, as follows:

| (In millions) | |
|--|-------|
| Reduction of private Canadian U.S. dollar balances..... | \$130 |
| Reduction in gold and U.S. dollar reserves of the Canadian Government..... | 6 |
| Net sale of securities and other assets to Americans..... | 41 |

The net decrease of \$6 million in the Canadian Government's holdings of gold and U.S. dollars during the first twenty-one months of war reduced Canada's official reserve on June 30, 1941 to \$255 million.

The absence of any probable gold transfers from the United Kingdom, and a cash deficiency of U.S. dollars during the early part of 1941 of roughly \$20 million monthly gave the Canadian Government concern and led to discussions which terminated with the Hyde Park Arrangement, announced on April 20, 1941. Under this Arrangement the U.S. Government undertook to repay Canada's U.S. dollar cash deficiency by the following two devices:

- (1) To provide the United Kingdom under Lend-Lease the component parts obviously purchased by Canada in the United States for use in the execution of British contracts;
- (2) To purchase munitions, strategic materials, aluminum and ships, urgently required in the United States and for the production of which existing and potential capacity existed in Canada. It was hoped at the time the agreement was reached that these purchases would total \$200 to \$300 million during the first twelve months of the Arrangement and, together with the Lend-Leasing of component parts, would eliminate Canada's cash deficiency vis-à-vis this country.

Aside from the aluminum deal, operations under the Hyde Park Arrangement were slow in getting under way and little was accomplished during 1941. The net contribution of the Arrangement to Canada's U.S. dollar reserve through December 1941, was only \$61 million, \$50 million of which represented capital resources made by Defense Plant Corporation to the Aluminum Company of Canada.

The drain on Canada's U.S. dollar exchange reserve continued during the latter half of 1941, and the Canadian Government ended the year with \$188 million of gold and U.S. dollars -- the smallest amount to date.

During 1942, Canada's official gold and U.S. dollar reserve increased steadily and at the close of year amounted to \$319 million, or \$130 million more than on December 31, 1941, and \$72 million less than the amount of gold and U.S. dollars available to the Canadian Government at the outbreak of war.

The net contribution of Hyde Park transactions to Canada's U. S. dollar reserve during 1942 amounted to \$357 million, of which net receipts on Hyde Park exports accounted for over \$300 million. Goods obtained by the United Kingdom under Lend-Lease for the execution of British orders in Canada accounted for the remainder \$50 million.

Canadian Government officials point out, however, that the increase in official reserves during 1942 would not have occurred if there had not been the sale of substantial amounts of Canadian-owned assets to the United States. Net imports of U.S. capital into Canada during 1942 on private account amounted to \$150 million. There were receipts of \$32 million from the sale of U.S. dollar assets, and \$138 million from the sale of Canadian assets, offset in part by capital repayments of \$22 million. The sales of assets during 1942 brought the total import of capital into Canada on private account from the United States since July 1, 1941 to \$215 million. However, the \$62 million increase in Canada's official U.S. dollar reserve coupled with the \$34 million of capital repayments reduced the net import in Canada's U.S. dollar position since July 1, 1941 to \$119 million, and since the outbreak of war to \$296 million.

It is expected, in the absence of any deliberate action by this Government, that the Canadian Government's holdings of gold and U.S. dollars will rise \$172 million during the first six months of the current year, or to \$500 million by June 30, 1943. Of the expected net increase of \$172 million, \$129 million represents expected payments to be made by the British Government to the Canadian Government on deliveries of Canadian-produced goods to Britain. These payments are being made during the interval between the exhaustion of the \$900 million (U.S.) Canadian fits to the United Kingdom and the initiation of the contemplated lend-lease arrangements.

Report of Subcommittee on the Question of an
Appropriate U.S. Dollar Exchange Reserve for Canada

The Cabinet-Group Subcommittee on the Dollar Position of the United Nations, met on January 13 and January 27, 1943, to consider the following two questions relating to Canada:

1. The appropriate level of the U.S. dollar exchange reserve for Canada in the light of the Hyde Park Arrangement for assistance to Canada.
2. The Hyde Park policy of continuing to lend-lease to the United Kingdom component parts obtained in the United States for Canada and required for the execution of British contracts in Canada.

Recommendations made in this report are based on the recognition that one of the purposes of the Hyde Park Arrangement is to assure Canada sufficient U.S. dollar exchange to facilitate vigorous prosecution of the war. They are made on the assumption that our arrangements with Canada should be so conducted as to maintain Canada's gold and dollar balances at a level consistent with the above objective.

The immediate origin of these problems is a proposal discussed by the top-ranking members of the Canadian-U.S. Joint War Production Committee for revising the procedure of exercising control over Canada's U.S. dollar receipts.

Under an understanding reached in July 1942, between the Treasury and other U.S. Government agencies placing contracts in Canada, all large contemplated Government contracts are called to the attention of the Treasury. It was hoped in this way to avoid an undue increase in Canada's U.S. dollar receipts.

Under the proposed procedure, instead of considering Canada's need for U.S. dollars as one factor in deciding whether or not to place a particular contract in Canada, joint Canadian-U.S. control will be exercised over Canada's U.S. dollar receipts through a flexible allocations procedure by shifting deliveries of finished munitions, particularly deliveries of British-type munitions, which comprise the bulk of Canada's war production, from the account of one government to the account of another, according to the desired effect on Canada's U.S. dollar position.

No change in the volume or composition of war production in Canada is contemplated, merely a change in the bookkeeping involved and the currency in which payments are made. It is hoped that this revision of procedure will permit the exercise of closer and more immediate control over Canada's U.S. dollar position.

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A prerequisite to the successful operation of the above plan is an agreement between the two Governments as to the appropriate level of U.S. dollar exchange reserves to be maintained by Canada.

Canada's U.S. Dollar Position

As of January 1, 1943, the Canadian Government held \$319 million of gold and U.S. dollars as follows:

| (In millions) | |
|--------------------------------|------------|
| Gold | \$ 155 |
| U.S. dollar balances | <u>164</u> |
| Total | \$ 319 |

This represents a reduction of \$72 million in Canada's available gold and U.S. dollar balances since the beginning of war. In addition, Canada has used \$224 million of proceeds from net sales of U.S. securities and other investments to Americans, bringing the total drain on Canada's U.S. dollar exchange resources since the beginning of war to \$296 million.

Practically all of this drain took place during the first two years of hostilities—i.e., before the effects of the Hyde Park Arrangement became apparent. Transactions consummated in pursuance of the Hyde Park Arrangement made a net contribution of \$48 million to Canada's U.S. dollar resources by the close of 1942.

Current expectations are for a continued rise in Canada's holdings of gold and U.S. dollars. According to present estimates, they will rise \$172 million during the current six-month period or to almost \$500 million by June 30, 1943. This would mean that by the close of June, Canada will have lost only about \$100 million of her pre-war dollar exchange resources as compared to an improvement in her sterling position of over \$1 billion.

In view of these facts, it was deemed advisable to reexamine Canada's U.S. dollar position and our policy of financial assistance.

(There is appended a more detailed review of changes in Canada's U.S. dollar position since the outbreak of war.)

The Canadian Proposal as to a Reasonable Reserve

The Canadian Ministry of Finance has given its approval to the suggestion of establishing a range for Canada's U.S. dollar exchange reserve and of maintaining the reserve at the agreed-upon level. At the request of the Treasury, Dr. Clarke, Deputy Minister of Finance for Canada, submitted the following suggestions:

1. Consideration be given to agreeing upon a range of \$100-4130 million.
2. All U.S. dollar receipts from the net sale of securities in the United States be considered outside this reserve to be utilized to retire maturing or callable securities payable in U.S. currency.
3. "Can-ex" regulations be discontinued. These regulations are for materials which are lend-lease to the United Kingdom but which are actually exported to Canada and turned over to the Dominion Government for use in that country. They are designed to compensate Canada for supplies made in the United States for those materials used in the manufacture of munitions and equipment for Great Britain which lose their identity through the process of production.

The Canadian-suggested maximum and minimum figures are explained in terms of the following origins:

1. The lower figure approximates the sum of the \$860 million of gold and U.S. dollars held by the Canadian Government in September 1939 plus the \$130 million of private Canadian U.S. dollar balances requisitioned and used up by the Dominion Government in the early months of the war.
2. The higher figure represents the sum of \$119 million, the amount of gold and dollars held by the Canadian Government on December 31, 1942, and \$119 million, the net increase in Canada's debtor position vis-a-vis the United States since July 1, 1941, about the time the implementation of the Hyde Park Arrangement was undertaken.

The considerations which the Canadian Government brought forward as basis for Canada's need for a liberal U.S. dollar reserve are summarized below:

1. Canada's international trading position is highly vulnerable, due to (a) the importance of foreign trade in the national economy, and (b) the preponderance of agricultural and raw materials in her exports.
2. Canada has heavy external debt, owed largely to the United States, and involving fixed interest and dividend payments to Americans of \$800-950 million gross per year.
3. Canada may require foreign exchange resources to meet post-war reconstruction needs.

4. Canada will desire to restore parity of exchange between the Canadian currency and the U.S. dollar, to eliminate various restrictions on trade and other international transactions, and to maintain a liberal commercial policy.

The Conclusions of the Subcommittee

1. The range suggested by the Canadian Government would be difficult to defend in view of the following considerations:
 - a. Canada's over-all international financial position can hardly be said to have deteriorated since the outbreak of war. The relevant consideration is not Canada's U.S. dollar exchange position, but her over-all international financial situation. Although Canada has incurred her not insubstantial losses to the United States since the outbreak of war by about \$500 million, she has repatriated Canadian securities held in the United Kingdom with a value of over twice this amount and has lent the British Government \$650 million. (These are in addition to the \$900 million G.T.F.)
 - b. The minimum figure suggested is higher than Canada's U.S. dollar exchange reserves at the outbreak of war. This amounted to \$390 million -- \$260 million of gold and dollars held by the Canadian Government and \$130 million of U.S. dollar balances held by private Canadian residents in excess of minimum working needs.
 - c. A liquid reserve of \$400-450 is substantially more than Canada needs to prosecute the war. There does not seem to be any authority to extend financial assistance in excess of war needs for purely post-war considerations.
 - d. There appears to be no justifiable basis for special treatment of Canada's post-war needs. The United States is the only country which does not have a highly vulnerable balance-of-payments position and whose foreign exchange resources do not appear to be inadequate to meet currently-anticipated post-war requirements.
 - e. The \$600-61,000 million range decided upon for the United Kingdom would make it difficult to justify a range of \$400-450 million for Canada.
2. The Canadian Government's request that not proceeds from security sales be considered outside the reserve would prevent further impairment of Canada's capital position vis-a-vis

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the United States. This would be the result whether the net proceeds were allowed to accumulate or whether they were used, as seems to be contemplated by the Canadian Government, to retire maturing or callable securities payable in U.S. currency. It does not seem inappropriate to permit Canada to repay Canadian Government obligations payable in U.S. dollars out of proceeds from net security sales.

3. The Canadian Government's suggestion that materials supplied to Canada and charged to the United Kingdom under lend-lease be limited to those goods which retain their identity through the process of production seems a reasonable one. Such a limitation would involve a U.S. dollar exchange loss to Canada of less than \$20 million. A loss of this magnitude could easily be repaired in more definable ways.

Recommendations

1. It is recommended, in the light of present circumstances, that Canada's gold and U.S. dollar balances should not be permitted to be less than about \$300 million nor more than about \$350 million.
2. It is recommended that for the present, Canada's net U.S. dollar proceeds from security sales be considered outside her U.S. dollar exchange reserve provided they are to be used within a year to redeem maturing or callable securities payable in U.S. currency.
3. It is recommended that materials supplied to Canada and charged to the United Kingdom under lend-lease be limited to those goods which retain their identity through the process of production.

British Gold and Dollar Exchange Assets
as of December 31, 1942

Except where noted, these are British Treasury figures

(In millions of dollars)

| | |
|--|--------|
| 1. Gold..... | \$ 688 |
| <p>The British Government reports that against this gold foreign countries hold Sterling funds carrying specific rights of conversion into gold amounting to approximately \$190 million. (In addition, the British hold \$105 million of gold borrowed from Belgium. This gold is not included in the British assets since it involves a definite gold liability of like amount.)</p> | |
| 2. Official dollar balances..... | 243 |
| <p>The British Government reports that against these balances are held U.S. registered sterling accounts, carrying the right of conversion into dollars on demand and that these accounts on November 30, 1942, the latest date available, amounted to \$53 million.</p> | |
| 3. U.S. Securities..... | 135 |
| <p>Of these securities, the British estimate that only \$80 million are readily marketable.</p> | |
| 4. Private dollar balances..... | 280 |
| <p>(This figure is taken from U.S. Treasury data. The British state that dollar balances in the hands of British banks acting as authorized dealers in foreign exchange increased by \$26 million between January 31, 1942, when they were reduced to an extremely low level owing to the stringency of the dollar position, and December 31, 1942.)</p> | |
| 5. Assets pledged against R.F.C. loan..... | 500 |
| <p>U.S. securities..... \$205 Direct investments..... 295</p> | |
| 6. Branches of British insurance companies..... | 200 |
| <p>(The earnings of these companies are assigned to R.F.C. loan.)</p> | |
| 7. Trusts in U.S. held for U.K. beneficiaries..... | 290 |
| <p>(These trusts are established under United States law and hence the assets may be unavailable to the British Government. Together with the direct investments pledged or to be pledged against the R.F.C. loan, including branches of British insurance companies whose earnings are assigned to R.F.C. loan, and with Viscose and Brown and Williamson, they account for the estimate of \$900 million submitted to Congress in January 1941. There are in addition some small investments in U.S. enterprises which, because of their size, the British regard as virtually unsalable.)</p> | |

Note: In connection with the foregoing data, the British state: "British holdings of gold and United States dollars are not held specifically against our liabilities in the United States, but constitute a partial cover for obligations and responsibilities of great magnitude and worldwide character. Gold currently acquired differs from our original stocks in that it can be acquired only by further increasing our overseas indebtedness. The growth of \$432 million during 1942 in our gold and official dollar balances must be looked at against the background of a deterioration of nearly \$3 billion, or over six times as great, in our net overseas capital position in all other respects."

Estimated Dollar Expenditures and Receipts of British
Empire, Excluding Canada and Newfoundland,
January 1, 1943 to March 31, 1943 1/

(these are British Treasury estimates)

(In millions of dollars)

Dollar Expenditures

| | | |
|--|------|-----|
| A. Payments to the United States by the United Kingdom: | | |
| 1. On British Supply Missions commitments (including administrative expenses) - net..... | \$30 | |
| (In addition \$113 will fall due after March 31, 1943 on B.S.M. commitments now outstanding, payment of \$84 million of which, however, is doubtful.) | | |
| 2. For shipping, interest, film remittances, etc... | 40 | |
| 3. For other goods and services, urgent or ineligible for Lend-Lease..... | 50 | 120 |
| B. Payments to the United States by the rest of the Sterling Area (principally Empire countries)..... | | 75 |
| C. Payments to areas outside the United States re- quiring gold or dollars..... | | 175 |
| Total dollar requirements..... | | 370 |

Dollar Receipts

| | | |
|--|------|-------|
| A. Receipts from the United States by the United Kingdom: | | |
| 1. From merchandise exports..... | \$20 | |
| 2. From shipping and interest..... | 15 | |
| 3. From other items..... | 105 | 140 |
| B. Receipts from the United States by rest of Sterling Area: | | |
| 1. From merchandise exports..... | 70 | |
| 2. Other items..... | 85 | 155 |
| C. Dollar receipts from Areas outside U.S..... | | 20 |
| Total dollar receipts, excluding newly-mined gold..... | | 315 |
| Total dollar deficit of Sterling Area (principally British Empire), January 1 to March 31, 1943..... | | 55 |
| Total dollar requirements..... | | \$370 |

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Note:

In presenting these figures, the British Treasury made the following statement with respect to the acquisition of gold: "No close estimate of our probable purchases of gold can be made even for the current quarter. The output of gold in the Sterling Area is likely to decline to an extent depending on the demand of manpower and on the availability of mining plants and stores." If production is maintained at the level prevailing in September 1942, the gold output of the Sterling Area, January through March 1943, will be \$150 million.

Treasury Department, Division of
Monetary Research

January 13, 1943

- 1/ These figures also include the dollar expenditures and receipts of non-British members of the Sterling Area -- namely, Egypt, Anglo-Egyptian Sudan, Iraq, Belgian Congo and Ruandi-Urundi, Iceland, the Faroe Islands, and Fighting French territories in Africa and Oceania, Syria, and Lebanon. The net dollar expenditures and receipts of these areas are small.

NET GOLD AND DOLLAR ASSETS
On Last Day of Each Month

(Provisional Estimate)

December 31, 1941 to December 31, 1942.

| <u>In millions</u> | <u>Dec. 1941</u> | <u>Jan. 1942</u> | <u>Feb.</u> | <u>Mar.</u> | <u>Apr.</u> | <u>May</u> | <u>June</u> | <u>July</u> | <u>Aug.</u> | <u>Sept.</u> | <u>Oct.</u> | <u>Nov.</u> | <u>Dec.</u> |
|-------------------------------|------------------|------------------|-------------|-------------|-------------|------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|
| Total gold (incl. Belgian) | 515 | 570 | 617 | 649 | 676 | 714 | 738 | 747 | 773 | 804 | 793 | 807 | 793 |
| Less: | | | | | | | | | | | | | |
| Belgian gold | 105 | 105 | 105 | 105 | 105 | 105 | 105 | 105 | 105 | 105 | 105 | 105 | 105 |
| Other gold liabilities | <u>98</u> | <u>104</u> | <u>117</u> | <u>123</u> | <u>131</u> | <u>137</u> | <u>144</u> | <u>151</u> | <u>157</u> | <u>167</u> | <u>175</u> | <u>180</u> | <u>190</u> |
| Net Gold assets | <u>312</u> | <u>361</u> | <u>395</u> | <u>421</u> | <u>440</u> | <u>472</u> | <u>489</u> | <u>491</u> | <u>511</u> | <u>532</u> | <u>513</u> | <u>522</u> | <u>498</u> |
| Official dollar balance | 88 | 55 | 54 | 71 | 52 | 106 | 140 | 144 | 195 | 223 | 237 | 226 | 243 |
| Less: | | | | | | | | | | | | | |
| Registered sterling | <u>6</u> | <u>7</u> | <u>6</u> | <u>8</u> | <u>8</u> | <u>14</u> | <u>23</u> | <u>21</u> | <u>33</u> | <u>44</u> | <u>37</u> | <u>53</u> | <u>47</u> |
| Net dollar assets | <u>82</u> | <u>48</u> | <u>48</u> | <u>63</u> | <u>44</u> | <u>92</u> | <u>117</u> | <u>123</u> | <u>162</u> | <u>179</u> | <u>200</u> | <u>173</u> | <u>196</u> |
| <u>Summary:</u> | | | | | | | | | | | | | |
| Net gold assets | 312 | 361 | 395 | 421 | 440 | 472 | 489 | 491 | 511 | 532 | 513 | 522 | 498 |
| Net dollar assets | <u>82</u> | <u>48</u> | <u>48</u> | <u>63</u> | <u>44</u> | <u>92</u> | <u>117</u> | <u>123</u> | <u>162</u> | <u>179</u> | <u>200</u> | <u>173</u> | <u>196</u> |
| <u>Total</u> | <u>394</u> | <u>409</u> | <u>443</u> | <u>484</u> | <u>484</u> | <u>564</u> | <u>606</u> | <u>614</u> | <u>673</u> | <u>711</u> | <u>713</u> | <u>695</u> | <u>694</u> |

Notes: (1) The figures for gold liabilities are tentative and subject to confirmation from London (except for the figure for December 31, 1942, which was supplied by London for the statement for Congress). So also is the figure for registered sterling for December 31, 1941. The error should not exceed \$5 millions or so in any month.

(2) A further dollar liability of which we have not monthly figures are Australian accounts transferable into dollars. These amounted at the end of December, 1942, to \$22 millions--the only figure we have. Being a result of the presence of U.S. forces in Australia, this has presumably risen from nil to this figure during 1942.

Prepared by Mr. D. W. Bell by Sir Frederick Phillips.

EXTERNAL ASSETS AND LIABILITIES OF THE U.K.

Liabilities at December 31st, 1942.

U.K. banking and other short term liabilities may be summarized as follows. (Net means that banks' working balances, retained profits, etc., to a total of some \$500 million have been deducted from the figures of liabilities were arrived at).

TOTAL U.K. NET LIABILITIES (Figures in \$ million)

| | |
|---------------------------------|--------------|
| India | 1,644 |
| Egypt and the Sudan | 700 |
| Rest of the Sterling Area | 2,540 |
| Countries outside Sterling Area | 516 |
| Allied Govt. in London | 528 |
| Enemy & Occupied countries | 156 |
| Total | <u>6,084</u> |

2. Assets at December 31st, 1942.

Net gold and dollar balances freely available at the same date came to some \$700 million. However, the total of liabilities set out above included some sterling funds carrying specific rights of conversion into gold and some registered sterling carrying the right of conversion into dollars on demand, the two together coming to a total of \$229 million. As gold and dollars to this amount were set aside before the above figure of \$700 million for assets was arrived at, a corresponding deduction must be made for the liabilities.

The picture which emerges is that of liabilities of \$5,855 million, against which we hold only \$700 million.

Debts represented in this total of \$5,855 million are of varying degrees of urgency and importance. Debts to the enemy and occupied countries, or to Allied Governments in London are of lesser importance. As regards the countries outside the Sterling Area, we have already in reaching our net gold and dollar figure deducted debts specifically payable in gold on demand or at a settled time, and the remaining \$516 million is not in itself a problem of great magnitude. As regards the figure for the rest of the Sterling Area, partly this represents sterling held against note issues (e.g. Eire and many of the Colonies), and in a number of other cases such as Sterling balances owned by Australia and New Zealand there is little to worry about. The existence of Sterling balances on this scale will, however, be an embarrassment after the war in view of the fact that many parts of the Empire will no doubt wish to convert some part of their balances in London into foreign currencies for reconstruction purposes. This is likely to be an important factor in Burma and Malaya especially.

Substantially however, the great danger is from India and Egypt. The figure of \$1,644 million representing the sterling balances held in India is, it must be emphasized, a net figure. We have already used up the whole of our marketable sterling investments in India, some \$1,200 million, and but for this latter fact the Indian sterling balances would now be nearly \$3,000 million. Whatever arrangements were made with India would have to be extended to Egypt.

3. Future Movements of Liabilities

Estimates of the future movement of liabilities over 1943 show the following:

| <u>U.K. LIABILITIES: ANTICIPATED INCREASE IN 1943</u> | |
|---|--------------|
| <u>Increase: \$ Million</u> | |
| India | 1,280 |
| Egypt | 320 |
| Rest of Sterling Area | 720 |
| Allied Governments | 120 |
| Other | 260 |
| | <u>2,700</u> |

British Gold and Dollar Assets on Selected Dates,
 August 31, 1939 -- December 31, 1942
 (except where noted the figures
 are British Treasury data)

(In millions of dollars)

| | Aug. 31, 1939 | Dec. 31, 1940 | Aug. 31, 1941 | Dec. 31, 1942 |
|--|------------------|------------------|------------------|------------------|
| Gold..... | 2,038 | 292 | 151 | 688 |
| Official dollar balances..... | 50 | 54 | 54 | 243 |
| U.S. securities..... | 950 | 616 | 372* | 340* |
| Direct and miscellaneous investments in U.S., including trusts for U.K. beneficiaries..... | <u>900</u> | <u>900</u> | <u>785**</u> | <u>785**</u> |
| Total..... | 3,938 | 1,862 | 1,362 | 2,056 |
| Deduct securities and direct investments lodged against \$390 million received by the British on the R.F.C. loan..... | - | - | <u>145</u> | <u>450</u> |
| Total, adjusted for collateral lodged against amount received on R.F.C. loan..... | 3,938 | 1,862 | 1,217 | 1,606 |
| Private dollar balances..... (This is taken from U.S. Treasury data) | 545 | 305 | 310 | 280 |

* This figure includes the \$205 million of securities pledged against the R.F.C. loan.

** This figure includes the \$295 million of direct investments pledged against the R.F.C. loan and the \$200 million of branches of British insurance companies whose earnings are assigned to the R.F.C. loan. Of the \$500 million of securities and direct investments covered by the pledge agreement, \$50 million remain to be deposited with the Reconstruction Finance Corporation. This will be done only if and when the British Government takes up the remaining \$35 million available to it under the loan.

Anticipated increase is completely dominated by our Eastern measures: 1600 out of 2700 comes from India and Egypt, and a considerable part of the remainder is swollen by expenditure in other countries, such as Iraq, Iran and Palestine.

Measures of this character are necessarily rough and ready, but they are unlikely to prove exaggerated. During 1942, making allowance for non-recurrent capital transactions, the corresponding increase would have been 2,420. In the estimate it has been put up to 2,700 for the coming year, and this seems modest since increasing prices and increasing military commitments will have to be taken care of.

The very heavy accumulation of debt to India has so far been due in large part to our paying for the employment of Indian forces and Indian supplies in the Near East. * It would be likely to rise to even greater dimensions as active operations against Japan based on India are expanded.

4. Future Movements of Assets.

There is no prospect of our net gold and dollar balances increasing during 1943 by more than \$525 million, making a total of \$1,225 with the \$700 million which we already hold.

This estimate is reached ^{for the first quarter} as follows:

| | <u>\$ Million</u> |
|---|-------------------|
| Net balances at Jan. 1, 1943, say | 700 |
| Add gold received against South African securities | 150 |
| U.K. receipts of new gold | 55 |
| Deduct adverse balance as estimated for U.S. Treasury | -55 |
| Deduct growth in gold obligations | -25 |
| Level at March 31, say | 825 |

For the next three quarters it is assumed the total will increase by a further \$400 million, made up of a further \$10 million through repatriation of South African securities, plus an average quarterly increase of \$130 million for each of the remaining quarters. Their average growth is arrived at as follows:

| | <u>\$ Million</u> |
|--|-------------------|
| New gold receipts | 50 |
| Troops in U.K. # | 75 |
| Troops elsewhere | 45 |
| Deduct gold payments | -20 |
| Deduct growth of gold obligations | -25 |
| Deduct purchasing Missions net payments | -15 |
| Add net surplus of dollar earnings on all other heads ## | 30 |
| Net average quarterly growth | 130 |

This figure is highly speculative; it has been greatly written up over the current quarter.

Figure written down by 15 for Tobacco and 10 for other things removed from Lend-Lease.

The ultimate picture is therefore that during the year our liabilities may rise \$2,700 million and our assets by \$525 million or under 20 per cent. With increasing overseas prices and activities our experience may prove even more unfavourable.

.....

* Under an agreement arrived at early in the war, the burden of defence expenditure falling upon India was to be limited to the normal cost of India's pre-war forces, adjusted upwards for increases in prices and rates of pay plus the cost of special defence measures undertaken by India in Indian interests.

In general, the main features to be taken into account are:

- (1) Our difficulties arise almost entirely from our expenditure in what might be described as the Eastern war areas.
- (2) These vast expenditures pile up liabilities which may prove embarrassing because of the post-war political background in those parts: sooner or later we may be faced with a refusal to accept further sterling except on conditions.
- (3) No unilateral action on our part could deal effectively with such refusal, and its consequences would be disastrous whether in wartime or in the immediate post-war period when political feeling is bound to be running high.
- (4) The fact of the existence of these huge sterling balances is known, and will attract more and more attention.
- (5) Any concession to e.g. India will almost certainly call for parallel concessions to Egypt (and probably also Iraq where a similar problem presents itself on a lesser scale).
- (6) The last increments in the balances are, in a sense, the most dangerous. A refusal to make what may be thought by the Indians, etc. to be proper provision for them would provoke a demand that balances which otherwise would never be touched (e.g. backing for note issues) should be changed from sterling to gold.
- (7) Once we got out of the stormy waters of the post-war political settlement with India and have met reconstruction needs, the position will be easier; but it is essential that the problem should be prevented from coming up in its most dangerous form.

9.15.1943.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

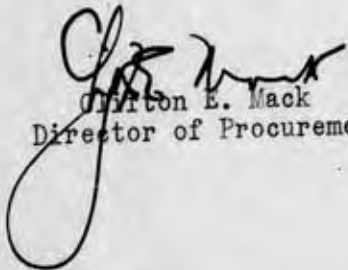
February 8, 1943

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MEMORANDUM TO THE SECRETARY:

Supplementing my report to you of February 1, 1943, the purchases against the North African Rehabilitation Program from February 1, 1943, to February 7, 1943, totaled \$890,493.07, or a total of purchases for the program thus far of \$13,513,928.21.

Attached is report giving status of shipping against these purchases.


Milton E. Mack
Director of Procurement



SHIPPING REPORT AS OF FEBRUARY 8, 1943

| Commodity | Shipped to Date | Under Load | On Hand At Port | En Route |
|--|-----------------|------------|-----------------|-----------|
| | From U. S. A. | At Port | Waiting Vessels | To Port |
| New & used clothing | 923 Tons | 663 Tons | 309 Tons | 117 Tons |
| Cotton piece goods | 1750 " | 1858 " | 220 " | 1230.25 " |
| Shoes | | 214 " | 6 " | 40 " |
| Refined sugar | 4196.5 " | | | |
| Raw sugar | 1545 " | | | |
| Powdered milk | 119.5 " | | | |
| Tea | 171.5 " | | | |
| Matches | 188.75 " | 177.75 " | | |
| Copper sulphate | 2488.5 " | 1611.5 " | | |
| Drugs | 6.067 " | | | |
| Books & booklets | 2. " | | | |
| Nails | | 105 " | | |
| Lamp chimneys | | | 17 " | |
| Newsprint | 8.5 " | 353.5 " | 100 " | |
| Printer's ink | .045 " | .044 " | | |
| Mach. finished book paper | | 2 " | | |
| Cordage & twine | 37.25 " | 192.75 " | 70 " | 5 " |
| Cotton thread | 19 " | 12 " | 81 " | |
| Lactose | 1 " | 1 " | | |
| Cotton hose | | 17 " | 28 " | |
| Nipples, nursing bottles, eye cups | | | 9 " | |
| Phonograph records | | | 1000 Each | |
| Tooth brushes | | | .75 Tons | |
| Wash basins | | | 7 " | |
| Spark plugs | | | 2 " | |
| Storage batteries | | | 10 " | 35 " |
| Acetone | | | 14 " | |
| Benzol | | | 44.5 " | |
| Tires & tubes | | 86 " | | |
| Parts for autos, tractors & harvesters | | 4 " | | 332.75 " |
| Tin plate | | | | 946 " |
| Coal cutters | | | | 12 " |
| Totals | 11,456.612 | 5,297.544 | 918.25 | 2718 |

130

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO.....

With the compliments of British Air Commission
who enclose Statement No. 71 - Aircraft Despatched
- for week ended February 2, 1943.

The Honourable Henry Morgenthau, Jr.
Secretary of the Treasury
WASHINGTON, D.C.

February 8, 1943.

SECRETSTATEMENT NO. 71Aircraft Despatched from the United StatesWeek Ended February 2nd, 1943

| <u>TYPE</u> | <u>DESTINATION</u> | <u>ASSEMBLY POINT</u> | <u>BY SEA</u> | <u>BY AIR</u> | <u>FLIGHT DELIVERED FOR USE IN CANADA</u> |
|---|--------------------|-----------------------|---------------|---------------|---|
| <u>BREWSTER</u> Bermuda | U.K. | U.K. | 6 | | |
| <u>BOEING</u> Fortress II | U.K. | Canada enroute | | 1 | |
| <u>CONSOLIDATED</u> Liberator GR V | U.K. | Canada enroute | | 7 | |
| Liberator III (A) | Bahamas | Nassau | | 1 | |
| <u>DOUGLAS</u> Boston III A | U.K. | U.K. | | 4 | |
| Boston III A | U.K. | Canada enroute | | 10 | |
| <u>FAIRCHILD</u> Cornell PT 26 | Canada | Canada | | | 16 |
| <u>GLENN MARTIN</u> Baltimore IIIA | Middle East | Middle East | | 2 | |
| <u>LOCKHEED</u> Hudson VI (B) | West Africa | Freetown | | 1 | |
| Hudson III A | U.K. | Canada enroute | | 1 | |
| Ventura | S' Africa | S' Africa | | 1 | |
| <u>NORTH AMERICA</u> Mitchell II (B) | Bahamas | Nassau | | 1 | |
| Mitchell II | Bahamas | Nassau | | 3 | |
| Mitchell I | Bahamas | Nassau | | 1 | |
| Harvard | S' Rhodesia | Durban | 19 | | |
| Harvard | India | Bombay | 2 | | |
| <u>NORTHROP</u> Vengeance | Australia | Melbourne | 9 | | |
| <u>VULTURE</u> Vengeance | India | Bombay | 8 | | |
| | | <u>Total</u> | <u>44</u> | <u>33</u> | <u>16</u> |

(A) Exported week ended January 19, 1943

(B) Exported week ended January 26, 1943

British Air Commission
Movements Division
February 6th, 1943.

TOP SECRET

STATEMENT NO. 71

Aircraft Despatched from the United States

Week Ended February 2nd, 1943

| <u>TYPE</u> | <u>DESTINATION</u> | <u>ASSEMBLY POINT</u> | <u>BY SEA</u> | <u>BY AIR</u> | <u>FLIGHT DELIVERED FOR USE IN CANADA</u> |
|---|--------------------|-----------------------|---------------|---------------|---|
| <u>BREMSTER</u> Bermuda | U.K. | U.K. | 6 | | |
| <u>BOEING</u> Fortress II | U.K. | Canada enroute | | 1 | |
| <u>CONSOLIDATED</u> Liberator GR V | U.K. | Canada enroute | | 7 | |
| Liberator III (A) | Bahamas | Nassau | | 1 | |
| <u>DOUGLAS</u> Boston III A | U.K. | U.K. | | 4 | |
| Boston III A | U.K. | Canada enroute | | 10 | |
| <u>FAIRCHILD</u> Cornell PT 26 | Canada | Canada | | | 16 |
| <u>GLENN MARTIN</u> Baltimore IIIA | Middle East | Middle East | | 2 | |
| <u>LOCKHEED</u> Hudson VI (B) | West Africa | Freetown | | 1 | |
| Hudson III A | U.K. | Canada enroute | | 1 | |
| Ventura | S' Africa | S' Africa | | 1 | |
| <u>NORTH AMERICA</u> Mitchell II (B) | Bahamas | Nassau | | 1 | |
| Mitchell II | Bahamas | Nassau | | 3 | |
| Mitchell I | Bahamas | Nassau | | 1 | |
| Harvard | S' Rhodesia | Durban | 19 | | |
| Harvard | India | Bombay | 2 | | |
| <u>NORTHROP</u> Vengeance | Australia | Melbourne | 9 | | |
| <u>VULTURE</u> Vengeance | India | Bombay | 8 | | |
| | | Total | 44 | 33 | 16 |

(A) Exported week ended January 19, 1943
 (B) Exported week ended January 26, 1943

British Air Commission
 Movements Division
 February 6th, 1943.

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO.....

With the compliments of British Air Commission
who enclose weekly Statement No. 89 covering
Aircraft Flight Delivery as at February 2, 1943.

The Honourable Henry Morgenthau, Jr.
Secretary of the Treasury
WASHINGTON, D. C.

February 8, 1943.

SECRET

U. S.

BRITISH
MOST SECRETNAV. MIL. R-51
WEEKLY REPORT NO. 29NUMBER OF CRASHES AND AIRCRAFT
(Crashes Reported through February 28, 1943)

February 2, 1943

| | MEX | | MID-Y | | WEST. | FL. BOAT | | BOAT. | RAIL. | DIVER. | A.S. | | | | TOTAL | |
|----------------------------------|-----|------|-------|------|-------|----------|------|-------|-------|--------|------|------|-----|------|-------|-------|
| | NO. | PER. | NO. | PER. | | NO. | PER. | | | | NO. | PER. | NO. | PER. | | NO. |
| UNITED KINGDOM | 20 | 96 | 174 | 298 | 140 | 253 | 283 | 72 | 133 | 99 | 21 | 3 | 90 | 48 | 31 | 1,530 |
| MIDDLE EAST | | 5 | | | | | 94 | | | | | | | | | 311 |
| SOUTH AFRICA | | | | | 125 | | | | | | | | | | | 125 |
| FRANTON | | | | | | | 78 | | | | | | | | | 78 |
| AUSTRALIA | | | | | | | 27 | | | | | | | | | 27 |
| SINGAPORE | | | | | | | 9 | | | | | | | | | 9 |
| BERMUT | | | 42 | 3 | | | 165 | | | | | | | | | 210 |
| DARTMOUTH | | | | | | | 16 | | | | | | | | | 16 |
| PENFIELD RIDGE | | | | | 56 | | | | | | | | | | | 56 |
| MASSON | | | | | | | | | | | | 1 | 13 | 17 | | 31 |
| FERRY SERVICE | | 7 | | | | | | | | | | 3 | | | | 10 |
| LOST AT SEA (in flight) | | | 1 | 5 | 2 | 1 | 8 | 2 | 1 | | | 1 | | | | 22 |
| Gibraltar | | | | | | | 3 | | | | | | | | | 3 |
| En route U.K. (via So. Atlantic) | | | | | | | | | 14 | | | | | | | 14 |
| Island or Greenland | | | | | 1 | | | | 1 | | | | | | | 2 |
| En route Middle East | | | | | | | 2 | | | 17 | | | | 1 | 1 | 21 |
| En route South Africa | | | | | 6 | | | | | | | | | | | 6 |
| En route France | | | | | | | 4 | | | | | | | | | 4 |
| Gander or Goose | | | | | | | 1 | 1 | | | | 1 | | 1 | | 4 |
| En route Gander | | | | | | | 2 | | | | | | | | | 2 |
| Bermuda or Masson (en route) | | | | | | | 13 | | | | | | | | | 13 |
| R.A.F.V.C. Establishment | | 2 | 1 | | 15 | 4 | 12 | | | | | | | | | 34 |
| Montreal (en route) | | 2 | 1 | | 7 | | 16 | 26 | 2 | | 3 | 12 | 1 | 6 | 1 | 77 |
| Ottawa | | | | | 1 | | 2 | | | | | | | | | 3 |
| CRASHED AFTER REPORT | | | 2 | 9 | 15 | 5 | 18 | 7 | 9 | | | | | 6 | | 67 |
| En route Montreal (in U. S.) | | | | | | | 1 | 34 | | | | 2 | | | | 37 |
| Miami or West Palm Beach | | | | | | | 1 | 2 | 15 | | | | | | 2 | 20 |
| En route Miami or W. P. B. | | | | | | | 1 | | 1 | | | | | 2 | | 4 |
| Houston, Tex. | | | | | | | | | | | | | | | 5 | 5 |
| Detroit | | | | | 3 | | 20 | 35 | | 2 | | | | 4 | | 64 |
| En route Detroit | | | | | | | | 2 | | | | | | | | 2 |
| Nashville or Memphis | | | | | 2 | | 11 | | | | | 2 | 3 | | 2 | 22 |
| En route Nashville or Memphis | | | | | | | 2 | | | | | | | | | 2 |
| Long Beach or Newcastle | | | | | | | 1 | | | | | | | | | 1 |
| Elizabeth City | | | | | | 24 | | | | | | | | | | 24 |
| Modification Centers | | | | | | | | | | | | | | | | |
| San Antonio | | | | | | | | | | | | | | | | |
| Special duty | | 2 | | | 2 | 1 | 1 | | | 3 | | | | | | 7 |
| Under repair | | 1 | 2 | | | | 4 | | | | | | | | | 7 |
| CRASHED IN U. S. | | | 2 | | 5 | | 19 | 1 | 7 | | | | | | | 33 |
| DIVERTED TO U. S. | | 50 | | 20 | 280 | 10 | | | | | | | | | | 360 |
| TOTALS | 20 | 165 | 225 | 295 | 660 | 397 | 746 | 197 | 272 | 64 | | | | | | 2,728 |

*Including one transferred to U. S. after delivery to U. K.

PLANNING AND AIRFRAME SUPPLY, BRITISH AIR

Regraded Unclassified

REF. NO. D-55
WEEKLY REPORT NO. 89

LOCATION OF OCEAN GOVT RECEIVED AIRCRAFT
(Covering Movements through February 2, 1943)

February 3, 1943

| | BAC | | DAS | | VEN. | | FL. BOAT | | HND. | | POST. | | BALT. | | RIVE. P. | | A.R. | | A.R. | | A.R. | | A.R. | | L/L | | TOTAL |
|----------------------------------|------|------|--------|----------|-------|----------|----------|-------|-------|----------|-------|------|-------|------|----------|--|------|----|------|---|------|----|------|----|-----|-------|-------|
| | B270 | LTR. | HND. V | HND. III | VENT. | FL. BOAT | HND. | POST. | BALT. | RIVE. P. | B2AD | B2SB | B2SC | B2SA | TRANS. | | | | | | | | | | | | |
| UNITED KINGDOM | 20 | 96 | 174 | 258 | 140 | 253 | 283 | 72 | | | | | | | | | 81 | 3 | 90 | | | 4 | | 31 | | 1,533 | |
| MIDDLE EAST | | 5 | | | | | | | 94 | | | | 133 | | | | | | | | | 48 | | | | 311 | |
| SOUTH AFRICA | | | | | 125 | | | | | | | | | | | | | | | | | | | | | 125 | |
| FREETOWN | | | | | | | | | 78 | | | | | | | | | | | | | | | | | 78 | |
| AUSTRALIA | | | | | | | | 27 | | | | | | | | | | | | | | | | | | 27 | |
| SINGAPORE | | | | | | | | 9 | | | | | | | | | | | | | | | | | | 9 | |
| DEBERT | | | 42 | 3 | | | | | 165 | | | | | | | | | | | | | | | | | 210 | |
| DARTMOUTH | | | | | | | | 16 | | | | | | | | | | | | | | | | | | 16 | |
| PENNFIELD RIDGE | | | | | 56 | | | | | | | | | | | | | | | | | | | | | 56 | |
| NASSAU | | | | | | | | | | | | | | | | | 1 | 13 | 17 | | | | | | | 31 | |
| FERRY SERVICE | | 7 | | | | | | | | | | | | | | | 3 | | | | | | | | | 10 | |
| LOST AT SEA (in flight) | | | 1 | 5 | 2 | 1 | 8 | 2 | 1 | | | | | | | | 1 | | 1 | | | | | | | 22 | |
| Gibraltar | | | | | | | 3 | | | | | | | | | | | | | | | | | | | 3 | |
| En route U.K. (via So. Atlantic) | | | | | | | | | | | | | 14 | | | | | | | | | | | | | 14 | |
| Iceland or Greenland | | | | | 1 | | | | | | | | 1 | | | | | | | | | | | | | 2 | |
| En route Middle East | | | | | | | | 2 | | | | | 17 | | | | | | | | | 1 | 1 | | | 21 | |
| En route South Africa | | | | | 6 | | | | | | | | | | | | | | | | | | | | | 6 | |
| En route Freetown | | | | | | | | 4 | | | | | | | | | | | | | | | | | | 4 | |
| Gander or Goose | | | | | | | | 1 | 1 | | | | | | | | 1 | | 1 | | | | | | | 4 | |
| En route Gander | | | | | | | | 2 | | | | | | | | | | | | | | | | | | 2 | |
| Bermuda or Haspen (en route) | | | | | | | 13 | | | | | | | | | | | | | | | | | | | 13 | |
| R.A.F.C. Establishment | 2 | | 1 | | 15 | 4 | 12 | | | | | | | | | | | | | | | | | | | 34 | |
| Montreal (en route) | 2 | | 1 | | 7 | | 16 | 26 | 2 | 3 | 12 | 1 | 6 | 1 | | | | | | | | | | | | 77 | |
| Ottawa | | | | | 1 | | 2 | | | | | | | | | | | | | | | | | | | 3 | |
| CRASHED AFTER EXPORT | | | 2 | 9 | 15 | 5 | 18 | 7 | 3 | | 2 | | 6 | | | | | | | | | | | | | 67 | |
| En route Montreal (in U. S.) | | | | | | | 1 | 34 | | | 2 | | | | | | | | | | | | | | | 37 | |
| Miami or West Palm Beach | | | | | | | 1 | 2 | | | | | 2 | | | | | | | | | | | | | 20 | |
| En route Miami or W. P. B. | | | | | | | 1 | | | | | | 1 | | | | | | | | | | | | | 4 | |
| Boulton, Me. | | | | | | | | | | | | | | | | | | | | | | | 5 | | | 5 | |
| Detroit | | | | | 3 | | 20 | 35 | | | | | 4 | | | | | | | | | | | | | 64 | |
| En route Detroit | | | | | | | | 2 | | | | | | | | | | | | | | | | | | 2 | |
| Nashville or Memphis | | | | | 2 | | 11 | | | | 2 | | 3 | | | | | | | | | | 2 | | | 55 | |
| Narrower Nashville or Memphis | | | | | | | 2 | | | | | | 12 | | | | | | | | | | | 8 | | 22 | |
| Long Beach or Newcastle | | | | | | | 1 | | | | | | 43 | | | | | | | | | | | | | 51 | |
| Elizabeth City | | | | | | 24 | | | | | | | | | | | | | | | | | | | | 24 | |
| Modification Centers | | | | | | | | | | | | | | | | | 19 | 2 | | | | | | | | 21 | |
| San Antonio | | | | | | | | | | | | | | | | | 3 | | | | | | | | | 3 | |
| Special city | | 2 | | | 2 | 1 | 1 | | 3 | | | | | | | | | | | | | | | | | 9 | |
| Under repair | | 1 | 2 | | | | 4 | | | | | | | | | | | | | | | | | | | 7 | |
| CRASHED IN U. S. | | | 2 | | 5 | | 19 | 1 | 7 | | | | | | | | 2 | 1 | 1 | 7 | | | | | | 45 | |
| DIVERTED TO U. S. | | 50 | | 20 | 280 | 1* | | | | | | | | | | | | | | | | | | | | 351 | |
| TOTALS | 20 | 165 | 225 | 295 | 660 | 397 | 746 | 197 | 272 | 64 | 129 | 23 | 124 | 83 | 83 | | | | | | | | | | | | 3,511 |

*Including one transferred to U. S. after delivery to U. K.

Regraded Unclassified

SECRET

MOST SECRET

U. S.

BRITISH

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTel No. 44

Information received up to 7 A.M., 8th February, 1943.

1. NAVAL

MEDITERRANEAN. 5th. A minesweeping trawler was mined or torpedoed off PHILLIPEVILLE. 6th. One of H.M. Canadian Corvettes escorting an eastbound convoy was sunk by aircraft. 3 officers and 47 ratings were rescued.

Enemy attack on shipping. During 6th and 7th repeated attacks were made by U-boats on a homebound Atlantic convoy, a rescue ship, 1,500 tons, has been sunk and 5 ships (including 2 tankers) with a total tonnage of 35,000 have been torpedoed.

2. MILITARY

TUNISIA. Enemy casualties in recent fighting south west of PONT DU FAHS now estimated at 300.

BURMA. 3rd/4th. 2 heavy Japanese counter attacks north of DOMEBAIK were repulsed with loss.

3. AIR OPERATIONS

WESTERN FRONT. 7th. Our fighters, one of which is missing, attacked trains and barges in N. FRANCE and BELGIUM. 5 enemy aircraft crossed south coast. Some damage at EASTBOURNE. 7th/8th. Aircraft were despatched - LORIENT 323, (7 missing), ESSEN and HAMBURG 2, Intruders 3, pamphlets 5. Early reports indicate a successful attack on LORIENT in good visibility. A few enemy aircraft flew over south ENGLAND. One destroyed. Damage slight.

SICILY. 5th/6th. PALERMO and other targets bombed by 4 Hellfighters and 12 Wellingtons.

TUNISIA. 6th. Fighter bombers attacked troops and M.T. in PUN GARDANE, PONT DU FAHS and SFAX areas.

BURMA. U.S. Mitchells (B. 25) damaged railway bridge at MYITNGE (5 miles west of MANDALAY) on 4th and 5th. Hurricanes destroyed or damaged several locomotives in MANDALAY and AKYAB areas on 6th.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

February 8, 1943.

TO Secretary Morgenthau
FROM Harold Mager *Hm*

The following discussion of inflation in Intelligence Report 61 should be of interest to you:-

The anti-inflation program faces its most severe test since its inception. Farm organizations are exerting pressure to revise the parity formula to include the increase in labor costs; organized labor is displaying impatience with the Little Steel formula by which wage increases have been held to the 15% limitation of January 1, 1941 to May, 1942. United Mine Workers, Railway brotherhoods, and the International Ladies' Garment Workers have demanded that the formula be revised.

These labor demands have been given point by the increases, sometimes hidden, in the cost of living. However, there have been other contributing causes. The interpretation put on Prentiss Brown's statement about the inevitability of a 6% annual price rise confirms the fears of many that his appointment as Administrator of the O.P.A. meant some relaxation in the Government's efforts to control prices. In addition, there has been a decreased sense of urgency about the war and a wave of popular feeling that we are sure to win it anyway; that sacrifices are unnecessary.

The Bureau of Intelligence suggests that an intensified informational campaign, employing some new approaches, seems imperative if the present pressure of workers for higher wages is to be reduced. The ABC's of inflation must be made concrete, and most important of all, workers must be convinced that the war can't be won on the basis of living-as-usual. This campaign will be ineffectual, however, if it gives workers the impression that they have been singled out for special attention or if the fundamental conditions responsible for their dissatisfaction are neglected. Steps must be taken

- 2 -

in individual plants and in the nation at large to strengthen the workers' identification with the national cause; and these efforts must be part of a still broader program to give the nation as a whole a renewed sense of urgency about the war. Most observers are agreed that dissatisfaction, apathy and cynicism are on the increase among workers. Many labor papers have harped on the continued retreat of the New Deal, the "abandonment," even the "betrayal," of workers by the Administration. (Pages 13 through 16)

2-5-43

INTELLIGENCE REPORT 61

CONFIDENTIAL

This document contains information relating to the national defense of the United States within the meaning of the Espionage Act, as amended, U. S. Code 50, Sections 31 and 32. Its transmission or communication in any manner to any unauthorized person is prohibited by law.

OFFICE OF
WAR INFORMATION

BUREAU OF
INTELLIGENCE

COPY No. 7

Henry Morgenthau, Jr.

CONTENTS

PRESS AND RADIO COMMENT

CASABLANCA AFTERMATH

Page 1

The prevailing enthusiasm over the Roosevelt-Churchill meeting was somewhat tempered by regrets that Stalin and Chiang Kai-Shek failed to attend and by doubts regarding the reality of the Giraud-De Gaulle reconciliation. A number of commentators remained critical of political arrangements in North Africa.

PRIORITIES

Page 3

A majority of newspapers defended William Jeffers in speaking out against "Army and Navy loafers" — but tended to argue that civilian demands for synthetic rubber must yield to military and naval needs.

NAZI ANNIVERSARY

Page 4

Despite warnings that Nazi admissions of defeat might be hokum, the press celebrated Hitler's tenth anniversary gleefully. The RAF raids on Berlin and the Russian recapture of Stalingrad occasioned high optimism.

POPULAR REACTIONS

CASABLANCA CONFERENCE

Page 5

Bureau correspondents report that announcement of the Roosevelt-Churchill meeting proved a "let-down" for people whose hopes had been raised extravagantly by the advance build-up.

BEVERIDGE REPORT

Page 6

Although knowledge of it is not yet widespread, the Beveridge social security plan has evoked keen enthusiasm among most people who know of it. According to the Bureau's labor and social worker correspondents, there's a prevailing belief that it can be, and ought to be, adapted for American use.

Only half the women in the U. S. think they understand how point rationing works. But they're overwhelmingly in favor of a comprehensive food rationing program and have little fear of dangerous food shortages. Sugar and coffee restrictions have not pinched very hard. Poor and uneducated people show the most anxiety about the food future and are in special need of information about it.

DEVELOPING SITUATIONS

INFLATION

Page 13

Optimism about the war and a lowered sense of urgency have given impetus to economic forces working toward inflation. Government and popular resistance to pressure groups has weakened. Labor and farm demands, if unchecked, will produce an inflationary spiral. Labor, in particular, because of increasing discontent among the rank and file, needs information about the dangers of inflation and the imperative need for accepting, temporarily, a lowered standard of living.

NEGROES

Page 17

Cancellation of the railroad discrimination hearings scheduled by the FEPC, resignation of committee members and of Judge Hastie from the War Department have inflamed Negro resentment.

A summary of investigation and analysis conducted for certain OWI officials, issued for OWI and the interest of other members of the Government.

The period covered by this report is the week of January 28 through February 3, except where otherwise specifically stated.

PRESS AND RADIO COMMENT

CASABLANCA AFTERNATH

Enthusiastic approval of the Casablanca conference continued to fill editorial pages and radio broadcasts throughout the week. There was general agreement that the meeting gave dramatic assurance of Anglo-American unity and laid the groundwork for decisive military action on the fighting fronts. The "unconditional surrender" agreement was applauded as serving notice, both to the Axis and to our Russian and Chinese allies, that negotiated peace proposals would be given no ear in London or Washington.

With the first excitement past, however, commentators began to voice dissatisfaction with one or more of the subsidiary aspects of the conference. Most of them were at pains to explain the absence of the Russian and Chinese leaders on the ground that their countries are not engaged in war against the Axis as a whole. But it was plain that they would have preferred a full United Nations council. There was a good deal of agreement with the comment in the Boise Statesman: "We'd reel a lot better in regard to that African rendezvous if Stalin and the Cissimo had been there. If the presence of two leaders can do much to lacerate Hitler's nerves and hearten the waiting peoples of Europe, the presence of the four would have been even more potent." Allied to this sentiment was a smaller volume of regret that a unified supreme war council had not materialized from the meeting.

Unraveling of the French political tangle was emphasized as second in importance only to military matters. A majority of commentators felt that substantial progress had been achieved in this connection. But a considerable

minority expressed deep disappointment that no more definite solution had been reached. The Cleveland Plain Dealer remarked, for example: "We do not like the conclusions. They forecast a continuation of trouble in that area and a further diminution of allied prestige among the struggling populations of occupied Europe."

The prevailing tendency was to hope that the rapprochement between Generals Giraud and De Gaulle would prove genuine and provide a basis for effective collaboration. And a number of newspapers deplored criticism of North African political arrangements in general. Typical of this point of view was an editorial in the Kansas City Star: "The difficulties confronting the American and British Governments are not eased by the intervention of various groups in the United States and England who are trying to exercise long distance control of the situation without regard to the views of the responsible officials on the ground."

The criticism continued, nevertheless, in considerable volume — centering, in large part, around the appointment of Marcel Peyrouton as Governor General of Algeria. Secretary Hull's upbraiding of his critics merely made them more vehement. Few newspapers sympathized with the Secretary's impatience. The Lynchburg News remarked, for example, that "When... Secretary Hull insists that critics should hold their tongues until they know all the facts, he invites the retort that the Government should make known the facts." A small number of editorials called for a reconstitution of the State Department.

Despite Mr. Hull's admonition, much of the newspaper discussion and most of the radio comment about North Africa and the Casablanca conference were

concerned with political problems.

PRIORITIES

Rubber Administrator Jeffers' blast at "Army and Navy loafers" occasioned a fresh flood of comment about the synthetic rubber program and the priority problems which it entails. The bulk of the comment, both in newspapers and on the air, was more concerned with the personalities involved and the reported conflicts between them than with actual production problems.

Most of the newspaper discussion appeared in conservative and anti-Administration papers in the South and Midwest. These sources tended to see the issue as a matter of the public's right to information, viewing Elmer Davis' rebuke to Mr. Jeffers in an unfavorable light. The Butte Standard expressed a common feeling: "Although Jeffers' speech was not according to rule, it is likely to have a very wholesome effect and it will be pretty generally applauded by the American people who are beginning to suspect that the experts, the bureaucrats, the amateur expeditors, are gumming up the works on the production lines... The controversy has been dragged out of the closet... It can't be hush-hushed."

Some commentators expressed sympathy for OWI and criticized the Rubber Chief's attitude. Mark Sullivan accused him of having raised a tempest in a teapot. H. V. Kaltenborn called the conflict an "honest difference of opinion," but declared that Mr. Jeffers had been "indiscreet." Some commentators hinted that Mr. Jeffers might have political ambitions.

The dominant feeling as to the merits of the issue was that military and

naval needs must take precedence over civilian desires for synthetic rubber.

NAZI ANNIVERSARY

The gloom which emanated from Berlin during the week aroused some suspicion among American analysts — particularly among radio commentators. William Shirer and Samuel H. Hays, for example, suggested the possibility that the Germans were magnifying Russian strength in an effort to persuade us to relax our Lend-Lease aid to Russia.

Raymond Gram Swing advanced the thesis that German pessimism might be a deliberate preparation for the launching of a peace offensive. He said: "... the Nazis can take only two lines as the war progresses; they either can hope for a compromise peace, or they will throw themselves into destruction with a frenzy surpassing anything they have shown, even using gas and bacteria, to bring down European civilization in a crash around them since they are doomed."

Despite such cautions, however, most editorial comment about Germany continued to be staunchly optimistic in tone. The tenth anniversary of Nazism occasioned sardonic observations that the Nazi sun is setting in the East. The St. Louis Post-Dispatch, for example, noted that, "In past years, this anniversary has been a day for uninhibited boasting and confident promises... There was none of this cocksureness in the ceremonies yesterday. The emphasis was all on grim warnings that loss of the war would mean the destruction of Germany, and on savage threats against slackers and saboteurs."

The RAF raids on the Berlin anniversary celebrants caused great rejoicing.

And the Red Army's final deliverance of Stalingrad was hailed as a crushing blow to Hitler's prestige. In a great many comments, the Nazis were represented as desperate, with the U-boat campaign remaining as the last trump in their hand.

POPULAR REACTIONS

CASABLANCA CONFERENCE

The advance announcement that great news was to be expected on Tuesday evening, January 26, aroused rather extravagant expectations. The Bureau's field representatives in almost all parts of the country report that people experienced some sense of disappointment in their reaction to the actual news of the Roosevelt - Churchill meeting.

There is no suggestion in the field reports that the public generally failed to applaud the President's trip or to recognize that it achieved significant results. A good many people, however, gauged the accomplishments in relation to their own unfounded hopes. Some disappointment was expressed, for example, over the Anglo-American nature of the meeting; hope had developed that a supreme United Nations war council would be created. According to the field reporters, regret was widespread over the absence of Premier Stalin and Generalissimo Chiang Kai-Shek.

A few wishful thinkers in the country had gone so far as to suppose that the big news to be announced that Tuesday evening would be nothing less than the end of the war — an Axis capitulation. Others anticipated the announcement of an important military victory. To such people, the facts inevitably

constituted something of a "let down."

The news of the rapprochement between Generals Giraud and De Gaulle also occasioned some expressions of disappointment. People said they had hoped for a more far-reaching and sensational solution of French political difficulties.

How extensive this sense of "let down" was cannot be measured from the reports of the field men. It seems significant, nevertheless, that among representatives reporting from 11 areas, all but one took note of a gap between popular anticipation and reality. The consensus of opinion among them was that the build-up for the news had been somewhat excessive and had detracted from, rather than added to, public appreciation of the Casablanca meeting.

BEVERIDGE REPORT

Knowledge of Britain's Beveridge report does not appear to be very widespread in the United States. Social workers and labor editors report, however, that there is a high measure of enthusiasm for the purposes of this social security program, wherever it is known among their contacts.

These correspondents were asked recently by the Bureau of Intelligence to comment on reactions of people in their communities to the Beveridge plan. Among members of both panels, there was agreement also that, wherever the plan is known, there is a pronounced feeling that something of the sort should be adopted in this country.

The correspondents indicate that, most of all, people in their communities want jobs after the war. Next to assurance of employment, they desire protection through periods of idleness or illness "from cradle to grave."

The plan appears to crystallize, in many respects, one of the dominant aspirations which great numbers of people hope that the war will realize.

It is generally recognized that the British plan would not in all respects fit the needs of this country — its stipulated allowances, for example, are too low. But, according to the correspondents, it invites review of our own social security program, which they say should provide a better retirement system for teachers, broader coverage for unemployment, illness and accidents, larger grants to dependent children, better guardianship regulations. And they are convinced that it should be extended to include farmers, domestic employees, professional workers, small businessmen and other white collar groups. The difficulties of financing and administering such an extended social security plan are mentioned by the correspondents, but are not considered insurmountable.

The most common argument advanced against such a plan in the correspondents' reports is that "livings must be earned by sweat, and lots of folks won't sweat unless they have to." But the consensus of opinion among those writing to the Bureau on this subject was that social workers, teachers, nurses, liberals and labor are, on the whole, enthusiastic for a program of this sort. "Organized workers," said one correspondent, "are as nearly unanimous for the program as they are on any question."

Opposition is expected from those hostile to any extension of Government controls and from those members of the medical and dental professions who abhor the idea of socialized medicine. Indeed, surprise was expressed that so far private insurance companies had not been more vocal in their protest.

According to the correspondents, a good many people of conservative background, who might be expected to oppose such a plan, tended to regard it as a wise concession to avert a more serious disruption of our economic system.

These correspondents were, of course, disposed to be sympathetic to the Reveridge plan. Business magazines examined by the Bureau were prone to stress the difficulties and complexities of adapting it to the United States. They were uniform in forecasting insurance company opposition.

FOOD RATIONING

Interviewing conducted with a small national sample of women in January indicates that about half of them do not now understand how the new food rationing system will operate:

DO YOU FEEL THAT YOU UNDERSTAND PRETTY WELL HOW THIS NEW FOOD RATIONING PROGRAM IS GOING TO WORK?

| | |
|-----|-----|
| Yes | 52% |
| No | 48 |

As might be expected, the point system was the phase of the new program which was least understood.

The women displayed little anxiety about comprehensive food rationing. Eight in ten were confident Americans would still get enough to eat:

WHEN MEAT AND CANNED FOODS ARE RATIONED, DO YOU THINK YOU AND YOUR FAMILY WILL STILL BE ABLE TO GET ALL YOU NEED TO STAY HEALTHY?

| | |
|------------|-----|
| Yes | 81% |
| No | 7 |
| Don't know | 12 |

Other attitudes do much to explain this confidence. As reported in Intelligence Report #58, the American people overwhelmingly accept the need for comprehensive food rationing. They regard it as a means of assuring equitable distribution of scarce goods. Both that survey and the present one showed, furthermore, that an overwhelming majority approve of shipping food to our allies, even if it means further restrictions here.

The current survey revealed that food rationing has not yet entailed much hardship for most people. Only 39 per cent said that they get less coffee than they need, and only 25 per cent said that they get too little sugar:

DO YOUR RATION BOOKS ALLOW YOU MORE SUGAR (COFFEE) THAN YOU NEED FOR YOUR FAMILY, OR ABOUT THE RIGHT AMOUNT, OR LESS THAN YOU NEED?

| | <u>Sugar</u> | <u>Coffee</u> |
|------------------------|--------------|---------------|
| More | 16% | 13% |
| About the right amount | 58 | 47 |
| Less | 25 | 39 |
| Don't know | 1 | 1 |

More than a third of the women interviewed said that they were buying as much coffee and sugar as they did before rationing, a few said they were buying even more. Fourteen per cent were not buying all the coffee and sugar their ration books entitled them to.

There was a widespread feeling that the country could still tighten up a good bit on its utilization of food — that much food is still being wasted;

DO YOU FEEL THAT VERY MUCH FOOD IS BEING WASTED IN THIS COUNTRY?

| | |
|------------|-----|
| Yes | 44% |
| No | 38 |
| Don't know | 18 |

Interestingly, however, despite the numerous rumors about wastage of food at army camps, only seven per cent felt that that was where most of the waste is occurring. And when the remaining women were asked specifically, "Do you feel that food is being wasted unnecessarily in Army camps?", only 12 per cent said "Yes."

The feeling that America's food position is relatively comfortable may also contribute to the good spirit with which food rationing is accepted. Forty-three per cent of the women acknowledged that they did not know what effect food rationing in England had had on the health of the people. But an overwhelming majority of those with an opinion about the matter felt certain that our diet is healthier than the English diet, and would continue to be so even after the new rationing program goes into effect.

The most serious long-term threat to the success of food rationing appears to be the fear that ultimately there won't be enough food to go around. Newspaper concern over the farm labor shortage and food production problems has been acute and may have stimulated popular anxiety about the adequacy of food supplies. About a fourth of the people in this and the preceding sample believed that the food situation would ultimately become so serious

that some people wouldn't have enough to eat.

This anxiety definitely colors people's attitudes toward food rationing. Unlike the recognition that food supplies are scarce, which inclines people to accept rationing as a means of distributing available supplies equitably, the panicky fear that there won't be enough food to go around may lead people to hoard and to oppose rationing.

Approval of food rationing is now high among the entire population. But only eight in ten of those who were anxious approved of present rationing plans, as compared with nine in ten of those who were not. Similarly, those who were anxious were somewhat less inclined to favor sending food to our allies and to North Africa than was the rest of the population.

If resistance to food rationing develops, it will probably come largely from those who display greatest anxiety. Those who fall in this category, in the earlier sample, were therefore carefully analyzed. It was found that the apprehensive group is disproportionately composed of the economically insecure. Anxiety was also closely related to low identification with the war effort. Those highly identified with the national cause may be at once more willing to endure necessary sacrifices than are the apathetic, and more confident that the Government will be successful in preventing extreme shortages.

The association between anxiety and lack of schooling was particularly marked. Anxiety increased progressively as one went down the educational scale. Only 16 per cent of the college graduates in the sample, but 42 per cent of those who had not completed grammar school, revealed anxiety about

the future food supply. The more education people had, the more prone they were to appreciate the efficacy of such a mechanism as rationing.

On each educational level Negroes displayed more anxiety than whites, and a large majority of the uneducated Negroes in the sample fall in the anxiety group. Having experienced discrimination, many Negroes may fear that they are certain to be on the short end of things if the food situation becomes more acute.

Despite the equalitarian aspects of rationing, more anxiety was displayed by economically insecure people with little education than by better-to-do people of comparable educational status. In part, this may be explained by the fact that anxiety was associated with the belief that dealers will play favorites. The poor, like Negroes, may fear that this partiality will operate to their disadvantage. People with few dollars in their jeans may also fear that they will be in a poor bargaining position for obtaining those foods not yet being rationed.

The problems of reaching the poor, the uneducated and Negroes — the very groups who most need reassurance about the food situation — will not be an easy one. Questioning reveals, for example, that they listened to the Wickard and Davis radio speeches outlining the new food program in significantly smaller numbers than did more favorably situated groups. Other types of informational approaches will have to be employed in reaching and influencing them.

DEVELOPING SITUATIONS

INFLATION

Signs are multiplying that the anti-inflation program faces its most severe test since its inception. Farm organizations are renewing their pressure for an upward revision of the farm price structure. Organized labor is displaying impatience with the Little Steel formula. It has now been attacked, not only by John L. Lewis, but also by more temperate labor leaders such as Philip Murray and R. J. Thomas. The United Mine Workers and the Railway brotherhoods have demanded that the formula be revised. The CIO is expected to come out for revision in the very near future.

The AFL has issued a lukewarm defense of the formula, but some AFL officials are declared to have opposed it privately. And one of the AFL's major affiliates, the International Ladies' Garment Workers Union, engaged in a two-day strike last week during which it announced its intention to smash the 15 per cent limitation on wage increases.

These demands have arisen at a time when the Government itself has appeared to be wavering in its determination to enforce its anti-inflation program. The interpretation put on Prentiss Brown's statement about the inevitability of a six per cent annual price rise confirmed the fears of many that his appointment meant some relaxation in the Government's efforts to control prices. The Department of Agriculture has introduced price incentives to spur production of a number of important crops. In spite of the 15 per cent formula, a WLB panel has recommended a further wage increase for 150,000 meat packing workers, whose wages advanced from 17 to 18 per cent between January 1, 1941 and May, 1942.

The present assault upon the price control program is unquestionably attributable, at least in part, to the wave of optimism which swept over the country following the American landings in North Africa. Bureau surveys show that between summer and late November the number of people who felt the United States was certain to win a complete victory increased from 58 per cent to 73 per cent. In the same period, the belief that the war would be over in two years or less gained ground even more rapidly. Because of sweeping Russian successes and the retreat of Rommel into Tunisia, it may be surmised that optimism has grown still further since November.

A decreased sense of urgency about the war has been one of the fruits of the feeling that we are sure to win it anyway. Many people have lost some of the December 7 feeling that the war is a life-and-death affair, demanding an all-out effort on the part of everyone. At least unconsciously, some people have begun to ask why sacrifices are necessary.

It is to be emphasized that this feeling has not been confined to any one or two groups. Many other pleas for special treatment have been voiced besides those detailed here, and each group has been emboldened by a belief that the general public would not strenuously oppose its demands. Overconfidence may have weakened the will of the American people to resist the demands of special groups at the very time those demands are being advanced with increasing pressure.

Many of the explosive economic forces working toward inflation have been gathering strength for months. The recent wave of optimism has simply given them a better opportunity of asserting themselves. Large commercial farmers

went a revision of the price structure basically because the greatest bottleneck they face in increasing production is a shortage of cheap labor. Higher prices for farm products will allow them to compete with industry for labor without curtailment of present profits.

Workers demand more money primarily because the rise in the cost of living has already outstripped the 15 per cent wage increase the Little Steel formula permits them. Government and National Industrial Conference Board figures indicate that prices have risen about 20 per cent, and H. J. Thomas, among others, argues that these figures are unrealistic because they do not take into account "black markets," precipitate price increases in war centers and the "hidden inflation" of inferior goods.

For many reasons, workers are impatient with the argument that further wage increases will only raise prices higher still, until the country is in the vortex of a disastrous inflationary spiral. For one thing, like most of their fellow Americans, they are unaware of the interrelationship of the various parts of the anti-inflation program. They simply don't recognize the danger of their present demands.

Previous Bureau of Intelligence studies have shown, too, that workers attach undue importance to production. The sharp rise in output in recent months may have reenforced the effect of military successes.

Whether or not these explanations are adequate, most observers are agreed that dissatisfaction, apathy and cynicism are on the increase among workers. Many Labor papers have harped on the continued retreat of the New Deal, the "abandonment," even the "betrayal," of workers by the Administration.

There is a growing belief that more sacrifices have been asked of labor than of any other group. Wage demands are clearly a part of the whole problem of labor morale. They are closely related to absenteeism, wildcat strikes, the tendency to chafe about the concessions labor has already made. Informational measures directed to workers may have reduced, but have clearly not eliminated, unwholesome attitudes.

An intensified informational campaign, employing some new approaches, seems imperative if the present pressure of workers for higher wages is to be reduced. Workers have to be shown in ABC terms that inflation is not an abstract concept, but a real and imminent peril to them and to the nation at large. They have to be shown how their demands inevitably lead toward inflation, and how inflation threatens both the war effort and a stable economy in the post-war years. Most important of all, they have to be convinced that the war can't be won on a basis of living-as-usual, that they, and everyone else, have to reconcile themselves to sacrifices and a lower standard of living for the duration.

Such a campaign will be ineffectual, however, if it gives workers the impression that they have been singled out for special attention or if the fundamental conditions responsible for their dissatisfaction are neglected. In individual plants and in the nation at large, steps must be taken and an informational approach adopted which will strengthen workers' identification with the national cause. And these efforts must be part of a still broader program to give the nation as a whole a renewed sense of urgency about the war, and to foster the realization that it can still be lost by a let-down or a resurgence of selfishness.

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NEGROES

Comments by Negro spokesmen and newspapers characterize the indefinite postponement of the railroad discrimination hearings as the greatest shock to Negro morale of any event in recent months. President Roosevelt's request that Mr. McNutt set up more effective machinery for protecting the rights of Negroes, with its implied promise that the railroad case will be heard once this is done, may undo the damage.

Nearly every national Negro organization and numerous local groups protested the deferment of the railroad hearings. They were joined by associations concerned with improving racial relations and by numerous labor, liberal and church organizations. Two delegations composed of representatives of these organizations came to Washington to register their protests. The decision was widely interpreted among Negroes as an indication that the administration had abandoned its fight to win equality of opportunity for them in war employment. Press comment reflected a deep sense of outrage. The bitter statements of prominent Negroes were copiously quoted.

The resignation of William H. Hastie, Civilian Aide to the Secretary of War, augmented the damage caused by the deferment. His charges about the adamant refusal of the Army to integrate Negroes in the Air Forces was given widespread attention in the Negro press. Field men of the Bureau of Intelligence report rising tension and rancor among the Negro rank and file.

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- - - * * * - - -

February 9, 1943
10:23 a.m.

HMJr: Hello.

Capitol
Operator: Secretary Morgenthau? Just a minute, please,
sir.

HMJr: Hello.

Vice President
Wallace: Well, welcome home, Henry.

HMJr: Thank you. I'm glad to be home. I thought
that if you were free for lunch Wednesday or
Thursday I'd like to get together with you.

W: Well, that would be swell.

HMJr: Uh....

W: Well, let's see - how would - how would tomorrow
be?

HMJr: Tomorrow would be fine. Would you be my guest?

W: Uh....

HMJr: I mean, be very frank.

W: I tell you, would you like - there's - and
there's this friend that I wanted you to meet....

HMJr: Yes.

W: Suppose you come up here, and I'll have him
here.

HMJr: Right.

W: He has some ideas about - is your phone free
from listeners at the moment?

HMJr: Yes.

W: I'll make sure that mine is. He has some ideas
about - about raising money for the party that
might - that might remove us from, shall we
say, the necessity of relying too much on our
friend, Jesse.

- 2 -

HMJr: Be wonderful, be wonderful. Well, I - I....

W: I don't know whether his ideas are feasible or not, but I....

HMJr: Well, I'd like to listen.

W: I thought it might be worthwhile listening to them.

HMJr: Now I'd like to talk to you a little bit about North Africa. Could I talk about it afterwards or....

W: Or suppose we do it ahead.

HMJr: Ahead?

W: Yeah, if that fits in with your time schedule, then....

HMJr: Well....

W:could you - could we get together at twelve-thirty, say?

HMJr: I'll be there at twelve-thirty.

W: And then I'll arrange the lunch for one?

HMJr: All right. Now where would you like me?

W: Well, if you just - I think the quietest place where we're most free from any observation is in my office in the Capitol.

HMJr: At the Capitol.

W: The food is terrible, but anyhow it's quiet.

HMJr: Well, I'll - I'll look forward to being there at twelve-thirty.

W: Good, Henry.

HMJr: Thank you.

February 9, 1943
10:40 a.m.

Operator: Go ahead.

HMJr: Hello.

Marvin H.
McIntyre: Hello.

HMJr: Marvin?

M: How are you, Henry?

HMJr: I'm - I'm fine.

M: Where are you? At home or in the office?

HMJr: I'm right at the office.

M: Well, I hate - I hate to bother you when you're just right back in good - fresh and rested.

HMJr: Well, what do you want, that collector over in Baltimore?

M: No, the hell with politics at present.

HMJr: Oh.

M: Old Bob Doughton called up the President this morning, and, of course, we couldn't get him.

HMJr: Yeah.

M: So they asked if he'd talk to me, and he did and he unbosomed on me.

HMJr: Yeah.

M: He's sore as hell at (laughs) Harold Smith.

HMJr: Yeah.

M: Did you see that story yesterday?

HMJr: Yeah, I think it was an outrage.

M: Well, of course, I kind of soft-pedaled it as much as I could and put the buck largely on the reporter, see?

- 2 -

HMJr: Yeah.

M: The direct quotes weren't so bad.

HMJr: Yes.

M: So I called Bob back and called him out of Committee meeting and told him I hadn't been able to reach the President. I haven't tried, between you and me. There's nothing he can do, you know, and - I mean, immediately.

HMJr: Well, Harold Smith is his hired man.

M: Yeah, and I told - and I got Bob on the phone and then I got Harold on, and we had a three-way conversation....

HMJr: Yeah.

M:and I let Bob get it all out of his system.

HMJr: Yeah.

M: And then he suggested that "Do you want to come up here?" And Harold says, "I'll come up if the Committee wants me to come up, but I don't think it's a good idea." I says, "Well, Bob, I think that would be terribly foolish unless the Committee orders him up...."

HMJr: Yeah.

M: "...because those people on your Committee are looking for trouble, and now it would not only open that up but a lot of other things, and it would be just ten times as embarrassing."

HMJr: Yes.

M: I said, "Why don't you just let Harold send you a memorandum, Bob, pointing out that there's no - no intention here of - of...." - well, the thing that made it so bad was the interpretation the reporter put on it in writing the story. He said, "Contrary to Treasury testimony, etc." - things like that....

- 3 -

HMJr: Harold Smith has no business doing that. Now we've gotten Doughton in swell shape. We've got him so he's all for the President, see....

M: Yeah.

HMJr:and everything's been going along lovely, and then Harold Smith has got to go out and say that the Congress and the Treasury should get together and do something.

M: That's right.

HMJr: It's none of his damn business.

M: I know that just as well as you do, and I've been telling the Boss for nine months, ever since Wayne Coy and they've been over there....

HMJr: Yes, and....

M:that he's doing - that they - he's trying to make them a policy-making group and they're not.

HMJr: Well....

M: I think the Boss is going to sit on him about it. What I was trying to do with it all was just tide it over today, see?

HMJr: Well, Doughton called us up yesterday. He really was mad.

M: Oh, he was mad this morning.

HMJr: Yeah.

M: And I think that - well, I just wanted you to know what had happened. I called up Paul just now and told him too.

HMJr: Well, I'm awfully glad you let me know.

M: All righty.

HMJr: And....

M: And I'll take it up with the Boss the first thing in the morning. He'll probably talk to you about it.

- 4 -

HMJr: Is he going to be back tomorrow?

M: I think so. Wait just a minute. (Talks aside: Isn't it your understanding, Rudolph, he'll be back tomorrow?) Yeah, we're pretty definite about that, Henry, in the morning.

HMJr: Well, keep me posted.

M: Okay.

HMJr: Because I really - you know, I flew all the way down there to Winston-Salem and gave them a great banquet, you know, Bob Doughton, and coming back he said, "Now...."

M: Oh, yes, he's all sold on Paul too.

HMJr: Yeah, and he's all - he's all back of the thing and he kept talking about "We in the Administration can't let the Republicans shove us around" and he's in wonderful shape.

M: And he's the most cantankerous old bastard in the world if he does get it in for you.

HMJr: That's right.

M: And he said he just wanted me to - to tell the President, and he wanted - wanted to know whether we were going to have more than one person speaking for the Administration, and if so, he didn't want anybody....

HMJr: Yeah.

M:that Paul had done a grand job and the Treasury was working with him, and I said, "That's okay. I'll have it all straightened out."

HMJr: Well, I - I hope you give it to the President. Don't you think that Smith extends himself too far?

M: I certainly do.

HMJr: Yeah, and you know they - they always think when he talks it's the President.

- 5 -

M: Well, the - the whole - well, I've argued with the Boss about it a....

HMJr: Well, it's - we've got enough enemies with Germany and Japan without having any crossing up of wires at home.

M: That's right.

HMJr: Yeah.

M: And I think the Boss will get it all straightened out, but I didn't see much use in bothering him up there today.

HMJr: No, I think you're right.

M: There's nothing he can do long distance, you know.

HMJr: No. Okie-doke.

M: All right, Henry.

HMJr: Thank you.

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

146

DATE

TO Secretary Morgenthau
FROM Randolph Paul

February 9, 1948

I thought you would be interested to see the attached copy of Harold Smith's letter to Chairman Doughton, together with a copy of Smith's statement on pay-as-you-go. Harold Smith sent me a copy for my information.

RSP

Attachments

EXECUTIVE OFFICE OF THE PRESIDENT
 BUREAU OF THE BUDGET
 Washington, D. C.

February 9, 1948

My dear Mr. Doughton:

I am enclosing the statement which I made covering pay-as-you-go and the importance of filing March 15 returns. This I assumed would help to reinforce what your Committee and the Treasury have said concerning the importance of filing such returns, inasmuch as it is acknowledged that the situation is somewhat confused as a result of the discussion of pay-as-you-go. Since I am aware of Administration policy, I am quite sure that there is no conflict here in any way with the Treasury, and I regret very much any attempt to so interpret the statement.

While I have said it would be desirable if collection at the source could start on April 1, if this statement were to be interpreted by you or your Committee as an invasion of your province, I would gladly retract it, since I consider it purely incidental to the point I was making.

The statement I am enclosing is exactly what I said and no more. I specifically issued a caution about any expansion or elaboration of it. I regret very much any distortions that have been attached to my statement. For these I am not responsible in any way, and I have accordingly protested them.

Sincerely yours,

(Signed) HAROLD D. SMITH

Director

Honorable Robert L. Doughton
 Chairman, Committee on Ways and Means
 House of Representatives
 Washington, D. C.

Pay-as-you-go makes possible collection of the income tax at the source and also clears the way for further tax measures or compulsory saving if they become needed. This method will facilitate tax collection and also make the tax payment more convenient for many millions of taxpayers. The importance of this is indicated by the fact that under present tax laws 50 million individuals are subject to the income or Victory tax, compared to the six million who filed returns in 1939. It will also keep taxpayers on a current basis, and that is what most taxpayers desire.

The added burden which is placed on employers by collection at the source will become progressively lighter as experience with the administration of withholding taxes is gained. The present Victory tax, in any case, requires the development of such a collection system.

As an aid to the stabilization program, collection at the source has distinct advantages. People will adjust their spending to their available income more surely if the tax is paid out as they receive their incomes.

The shift to source collection, for most taxpayers, without collecting two years' taxes in one year will require an adjustment of their present 1942 tax liability. It would be desirable if such a shift could be enacted so that

collection at the source can start on April, 1943. No contemplated plan, however, would excuse the necessity of filing the usual tax returns on March 15 and of paying at least the first installment on the taxpayer's declaration. Those taxpayers who will file their returns earlier than March 15 and who will pay more than the legally required installment will not be disadvantaged no matter what plan is finally adopted, and at the same time, they will be helping their government.

Prompt adoption of a pay-as-you-go plan, therefore, will work out to the best interest of the taxpayer and the financial position of the Government, as well as aiding the stabilization program.

OFFICE OF WAR INFORMATION
WASHINGTON

OFFICE OF THE DIRECTOR

February 9, 1943

The Honorable
The Secretary of the Treasury

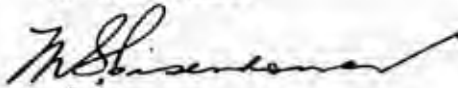
Dear Mr. Secretary:

In the absence of Mr. Davis, I wish to bring to your personal attention the enclosed statement by the Director of the Budget.

This statement, given directly to a correspondent of the Associated Press yesterday afternoon, was not cleared in advance with the Office of War Information. I have talked to Mr. Smith about this aspect of the problem and he has expressed to me his regrets for not having followed the normal procedure. In view of the importance of the Director's statement, it obviously will continue to receive attention in the press and I should therefore deeply appreciate your reviewing it and letting me know whether it is in accord with administration policy.

I wish to say that your Department has been helpful to the Office of War Information in clearing all of your war releases and naturally we are anxious that releases of other agencies which in any way bear upon your official responsibilities be cleared with us so that we may check them with you. With kind personal regards, I am

Sincerely yours,



M. S. Eisenhower
Associate Director



FEB 8 1943

Bureau of the Budget

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February 9, 1943 .
10:47 a.m.

HMJr: Hello.

Randolph
Paul: Hello. This is Randolph.

HMJr: How are you feeling?

P: Oh, I'm feeling ~~much~~ better.

HMJr: I hope you don't mind my calling your son,
because I thought you had spoken to him.

P: Well, I didn't have a chance. He didn't come
in last night until late.

HMJr: I see.

P: He went out early, but - but I talked to him
after this morning.

HMJr: Because I was upset, and I - and I gathered it
must have been some meeting because you
couldn't remember what he said.

P: Well, I - it was - we quarreled so much, and I
could remember more or less, but I - I thought
I - as long as it was what it was, I wanted to
get it perfectly accurate.

HMJr: Was this at your house?

P: Yeah.

HMJr: What's on your mind?

P: Well, I just wanted to report to you that McIntyre
just called me....

HMJr: Yeah.

P:and he's going to call you, he said.

HMJr: He did. He just did.

- 2 -

P: Oh, well, that....

HMJr: And he told me about Doughton and....

P: All right. Well, I - I want you to know that Doughton apparently is - is crashing through to that extent....

HMJr: Well....

P:and I think - I think the situation may be this that - that while we can stall this Smith thing off this time, I think this might furnish a pretty good opportunity to get a statement as to who has the damn tax bill because it's going to happen again....

HMJr: Yeah.

P:very soon. That's what I told McIntyre, and I tried to make McIntyre think he ought to take it up with the President when he gets - gets back in the morning.

HMJr: I tell you what you do, put some of your boys to drafting a letter for the President to sign to Doughton that I can have in the morning.

P: Oh, sure, that's a good idea.

HMJr: For the President to write to Doughton saying who does represent him, and then....

P: Well, I don't want to miss this opportunity, you see?

HMJr: Well, have some - send for - talk to somebody and have....

P: I will. That's a good idea.

HMJr: Do you like that?

P: Yeah.

HMJr: And then when the President says, "Well, Henry, what do you want me to do?" I'll say, "Well, I want you to send this letter to Doughton."

- 3 -

P: Yeah. Okay.

HMJr: That'll take care of it.

P: I may come down this afternoon....

HMJr: Well, if you're - if you're not feeling well,
I wouldn't. It's cold out.

P: Well, I'm getting awfully bored up here, although
I have plenty of telephone conversations.

HMJr: (Laughs) All right. Okay.

P: Right.

Mr. Paul took the attachments to this memo to the Secretary; and at Secretary's request carried them over to Mr. McIntyre at the White House.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Randolph Paul

February 9, 1943

I attach hereto a draft letter from the President to Chairman Doughton in accordance with your suggestion over the telephone this morning, and a memorandum from Mr. Blough summarizing some discussion on the record in the Committee hearings this morning.



Attachment

Second Draft

February 9, 1943

Dear Mr. Chairman:

I have been informed that there was some discussion in the Ways and Means Committee Hearings yesterday, in which it appeared that some members of the Committee were uncertain as to whether the Treasury Department, in presenting tax views to the Ways and Means Committee, was speaking for the Administration.

To eliminate any confusion which may be in the minds of members of the Committee, or of the public generally, on this point, I would like to make it clear that the Secretary of the Treasury, as the chief fiscal officer of the Government, has the responsibility of presenting the views of the Administration on the subject of taxation. You may have full confidence that in working with your Committee on tax matters the Secretary of the Treasury continues, as he has in the past, to speak for the Administration.

I would like to take this opportunity to commend the Committee on the vigor and expedition with which it has approached the problem of placing the individual income tax on a pay-as-you-go basis, as recommended in my Budget Message of January 6. I am sure that your Committee, as the result of its deliberations on this question, will make a contribution that will be of real assistance to the taxpayers of the country and to the fiscal system of the Government.

February 9, 1943

MEMORANDUM TO THE SECRETARY

From: Mr. Blough

Subject: Ways and Means Committee discussion of
Harold Smith press interview, February 9, 1943.

Prior to the opening of the session of the Ways and Means Committee, Chairman Doughton told me that he had tried to reach the President by telephone and that Mr. McIntyre was going to call him back.

At the beginning of the Committee session, Congressman Knutson said that the Committee had listened to Mr. Paul last week and thought it was getting the Administration view on pay-as-you-go. He said apparently this was incorrect and thereupon read part of the story which appeared in last Evening's Star, purporting to be an interview which Mr. Harold Smith, Director of the Budget, accorded an Associated Press reporter. Mr. Knutson said the Committee was entitled to know what the Administration views were. He accordingly made a motion that the Committee ask Secretary Morgenthau, Mr. Byrnes, Mr. Smith, Mr. Bell, Mr. Sullivan, and Mr. Paul to be called together before the Committee to see "where we are at." At this point Chairman Doughton was called to the phone and the meeting was suspended for perhaps fifteen minutes. When he returned, Mr. Disney moved that the Committee have Mr. Smith appear since the press statement had been given out by Mr. Smith and since it was desirable to discourage people in different governmental departments from confusing the issue by giving out tax interviews.

Chairman Doughton asked to have the motions withheld while he made a statement. He said he had talked with Mr. Smith and had suggested that he appear before the Committee. Mr. Smith was reluctant to do this but was sending up a statement indicating what he had said to the reporter. At this point Mr. Knutson withdrew his motion in favor of Mr. Disney. Mr. Robertson said he did not see anything wrong with Mr. Smith's statement.

- 2 -

As a matter of fact he said he had called Mr. Smith to congratulate him on recommending what he assumed was his 19 percent forgiveness plan. He said Mr. Smith had told him that there was some misunderstanding, that he had not recommended the plan. Mr. Robertson said he was opposed to the Resolution to have him come up but hoped that he would see fit to come up when he could speak not only for himself but for the President. Chairman Doughton then cited the Times-Herald story of this morning, to the effect that Mr. Smith said he was not speaking for the President. Mr. Robertson said that in such case he should have kept still.

Mr. Disney then presented his motion, saying that other Departments may mess into the tax problem and that such statements from them were out of order. He said that such a statement issued by the Secretary of the Treasury would not have been out of order.

Mr. Cooper agreed that the incident was unfortunate but said that newspapers sometimes make mistakes and apparently that had occurred in this case. He said the Committee was justified in assuming that Mr. Paul represented the Treasury and that it was to be observed that Mr. Smith had not submitted any statement to the Committee.

At this point the Chairman suggested that Mr. Disney's motion be left pending until Mr. Smith's statement arrived. Thereupon Mr. Disney said it would have a good public effect to let Mr. Smith worry for a while. Congressman Gearhart complained about delay and said "The Bureaucrat is too humble to reach up and give this Committee a poke in the nose" and that the Committee's reaction was just to put it off. Mr. Dingell said he was against all meddling statements but thought that Mr. Smith had been grossly misquoted. Mr. Knutson said that newspapers are right in interviews 99.99 percent of the time.

Congressman Reed said he did not like this lack of team work between the Treasury and the Committee. Mr. Disney replied that this was not the Treasury but the Budget Bureau and that there had been excellent team work between the Treasury and the Committee. Mr. Reed then said that in any event it should be made clear to the Treasury that it should not keep changing

- 3 -

its story. He complained that last year the Treasury had recommended maintaining the personal exemptions in its statements to the House Ways and Means Committee, while it had recommended lowering them in its statement to the Senate Finance Committee. He said this made it very difficult for the Ways and Means Committee.

It was decided at this point to proceed with testimony and hold Mr. Disney's motion in abeyance until Mr. Smith's statement had been received. The statement arrived just at the end of the session but in the absence of many of the members it was not read. The Committee adjourned until tomorrow morning.

RB:dnd
2/9/43

February 9, 1943
4:45 p.m.

MEETING WITH MR. PAUL AND MR. GASTON

Present: Mr. Paul
Mr. Gaston
Mrs. Klotz

H.M.JR: Things are sort of popping. I mean, I kept my philosophy for two days.

MR. PAUL: Your philosophy?

H.M.JR: Not getting excited unduly. Gaston tells me that Walter Winchell was stopped.

MR. PAUL: I assume he was stopped, because I know what he was going to say and he didn't say it. The story is told here. (Referring to article in "PM" dated February 9, 1943, entitled "Winchell, Pearson Censored by Blue Network; Can't Slam Wheeler and Nye.")

Drew Pearson - I knew what he was going to say. They tried to stop Drew, and he put up a fight.

H.M.JR: I thought Walter Winchell was in South America.

MR. PAUL: No, he is on the air now. I think he is in Miami. He broadcasts from there.

H.M.JR: It says, "Can't Slam Wheeler and Nye."

MR. PAUL: That is a headline, but if you read down below - you see, the new rules they put through make it impossible to say anything. That story coincides exactly with what Drew told me Sunday night.

H.M.JR: What?

- 2 -

MR. PAUL: He had to argue it out to be able to say anything. They wanted to stop him.

H.M.JR: What would be seditious about talking about the Ruml Plan?

MR. GASTON: Insulting to Ruml.

MR. PAUL: You can see how they drew the rules there.

H.M.JR: I read your son's memo. I didn't get from that that what's-his-name was too personal about me.

MR. PAUL: He was pretty personal. I don't know exactly what he said. He read me the first draft, and then I suggested a couple of additions to it.

H.M.JR: I had the best night's sleep in a month, so it didn't upset me.

MR. PAUL: I don't see why it should upset you.

H.M.JR: When they say a man is up against you?

I have nothing particular. I was going to do this; I thought I would tell you. I am thinking of putting Procurement under John Sullivan.

MR. PAUL: That is funny. I just got a man for you. I just talked to Bill Douglas.

H.M.JR: I haven't done anything yet.

MR. PAUL: I have had several interviews.

H.M.JR: I was getting desperate.

- 3 -

MR. PAUL: There is a man who used to be in the SEC named Joe Panuch, and I just talked to Bill Douglas. He has been over in BEW for about a year, and he is pretty experienced at that sort of thing. I just wanted to clear with Douglas. He is sort of a protege of Douglas, and I wanted to clear whether there was any reason why he left there. I just got a very strong backing or strong recommendation for him.

H.M.JR: What is he doing now?

MR. PAUL: He is doing nothing now. He has left there.

H.M.JR: Why?

MR. PAUL: Because he had sort of a fight with one of the people over there who he says wasn't any good, a fight about which he told the story to Bill Douglas right along. Bill agrees that it was not his fault.

H.M.JR: Is he a fairly powerful person?

MR. PAUL: He is an aggressive, strong person, yes, but he is tactful. Bill told me this afternoon about how he put him on the job of getting on the right side of Judge Cox up in New York, and Cox wouldn't even come to a dinner at the first at which Douglas was speaking. I saw Panuch in conference with Cox, and Cox was eating out of his hand, so he must be a pretty good fellow.

H.M.JR: Just since Bill is on the Supreme Court?

MR. PAUL: No, this goes back to the days when he was head of the SEC.

H.M.JR: I can wait another day or two.

- 4 -

MR. PAUL: He is in town. Why don't you just meet him and decide for yourself? He wants - I told him a little about it when he came in yesterday. I saw him Sunday, and he came in yesterday and saw Joe. He is very much interested in it, and Joe was rather impressed with his qualifications. He raised the question about what happened at BEW, and so I called Bill about that just this afternoon. I am not trying to take this away from John Sullivan.

H.M.JR: What I am doing is tightening up things so that less things come to me and I can see less people during the day - that is my whole object.

MR. PAUL: I have been working on it. In fact, I have another date with another man.

H.M.JR: His name is--

MR. PAUL: P-a-n-u-c-h.

H.M.JR: You bring him in, will you?

MR. PAUL: All right. What time?

H.M.JR: Three-thirty. Will you be here?

MR. PAUL: Yes, I will be here.

H.M.JR: I can wait; I have waited this long.

What else is there?

MR. PAUL: I did a letter as per your suggestion, and I have a report here of what happened up on the Hill this morning. I think when you read that report - Blough wrote it, he was up there - you will agree that something has to be done. (Memorandum dated February 9, 1943, handed to the Secretary by Mr. Paul; copy attached.) Did you read it, Herb?

MR. GASTON: I read it.

- 5 -

H.M.JR: It says, "...such a statement issued by the Secretary of the Treasury would not have been out of order."

MR. PAUL: Disney goes behind us a hundred percent. He means that the Secretary ought to be the one to speak. He is all on your side. That is all on the record.

H.M.JR: Is it? That is nice. Have you seen this, Herbert?

MR. GASTON: Yes.

MR. PAUL: I just can't operate up there if they are going to question my authority to speak all the time.

H.M.JR: It is a good letter.

MR. PAUL: It is simple. The only part of it that I am fearful about is this whole Byrnes situation.

H.M.JR: Are you up to going over and seeing Marvin McIntyre if he is there?

MR. PAUL: Sure.

H.M.JR: And leaving this letter as a suggestion?

MR. PAUL: Certainly. I am up to anything on that front.

H.M.JR: You see, when he sees the President tomorrow, which he will, he could then say, "This is what happened up here, and this is what the Treasury would like to have." That is a good letter.

(Mrs. Klotz entered the conference.)

(The Secretary held a telephone conversation with Marvin McIntyre, as follows:)

February 9, 1943
4:57 p.m.

HMJr: Hello.

Operator: McIntyre.

HMJr: Marvin?

Marvin H.
McIntyre: Yeah, Henry.

HMJr: How are you-all?

M: All right, sir.

HMJr: Have you got time to see Randolph Paul now?

M: Yeah, sure, I have.

HMJr: He's got a report of what took place up there
this morning before Ways and Means.

M: All right. Do you mind if I sell him an idea
while he's over here?

HMJr: I'd be disappointed if you didn't.

M: (Laughs) Okay, Henry.

HMJr: And, also, he's got a suggestion of a letter
that the President might write to Doughton
which I think would be pleasing to Doughton
and would clear up the whole matter.

M: All right, fine. I'll be glad to see him.

HMJr: He'll come right over.

M: Shall I have to leave any word at the gate for
him?

HMJr: I'll have him come in through the Left Wing.

M: Okay.

HMJr: See?

M: Right.

- 2 -

HMJr: We can get him over there.

M: Right.

- 6 -

H.M.JR: I don't see anything better. When he goes in he will say, "Look at the mess that happened." The President will say, "What shall I do?" He will say, "Here is a letter I would like you to write."

I think that is the best thing. I think that would be swell because then the President - he walks in tomorrow and the President hears about this disgusting performance on the Hill, and here is a suggestion to do something.

MR. PAUL: It is particularly embarrassing to me because the next time I go up there they will say, "For whom are you speaking?"

H.M.JR: It puts you and me in an impossible position - me first. This way you go up and say you are talking for me, and I am talking for the President.

- 6 -

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RB:dsd
2/9/43

Second Draft
February 9, 1943

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I would like to take this opportunity to commend the Committee on the vigor and expedition with which it has approached the problem of placing the individual income tax on a pay-as-you-go basis, as recommended in my Budget Message of January 6. I am sure that your Committee, as the result of its deliberations on this question, will make a contribution that will be of real assistance to the taxpayers of the country and to the fiscal system of the Government.

February 9, 1943
5:04 p.m.

HMJr: Hello.

Operator: Secretary Wickard.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello, Claude?

Claude
Wickard: Yes.

HMJr: Henry talking.

W: Well, how are you?

HMJr: I'm all right. How are you-all?

W: Well, I'm still - still here.

HMJr: Good. Claude, Mr. Hemingway, the president of
the A.B.A. was in - the American Bankers....

W: Oh, yes.

HMJr:he was in to see me about this proposal of
yours to loan through the R.A.C.C.

W: Yeah.

HMJr: Now our interest is this, there're six or seven
thousand banks in the middle west that are quite
upset about this, that we've got to rely on to
help us with our twelve billion dollar financing
in April - hello? Hello?

W: Yes.

HMJr: Now do you suppose you could see them Saturday?

W: Saturday - I think so. Wait a minute, I'll have
to take a look.

HMJr: Want to set a time?

W: Yes, we'll say ten o'clock Saturday?

HMJr: Ten o'clock. Now the point that they want is this - hello?

W: Yes.

HMJr: That if the banks can make a loan, they'd like to be able to ~~go~~ ahead and do it.

W: Yes.

HMJr: Hello?

W: Yes.

HMJr: If they can't make it, okay, let the Government make it.

W: I've already put out instructions to satisfy them and leave in all that, but I - maybe they don't believe me.

HMJr: You don't believe who?

W: I said maybe they don't believe me. I said we have said that these R.A.C.C. loans are not to compete with other loans that are available.

HMJr: Well, the answer is you're right, they don't believe you.

W: Well, I don't know whether they do or not. Maybe they don't understand our instructions.

HMJr: Well, I mean....

W:on Saturday.

HMJr: If you would, because, as I say, we've got to work with them on these - and my own feeling and Bell's is that what they're asking is reasonable.

W: Well, I suspect that what - what they're asking is what they already have, but I'm not sure. But we'll see.

HMJr: Well, I'd appreciate it, and you - you get my interest.

- 3 -

W: Oh, yes, I do.

HMJr: And I'll have them there at ten o'clock.

W: Okay.

HMJr: I thank you.

W: All right, then.

MEMORANDUM

February 9, 1943.

TO: THE SECRETARY

FROM: Mr. Sullivan

VLS

This morning when you called me to your office, Congressman Baldwin of New York advised us that he was Executive Vice President of the Nitroloy Corporation from which, for the past three years, he had drawn a salary of \$15,000 per year and a bonus of \$15,000 per year. He stated that last year the directors of the corporation had decided to vote him an additional bonus of \$10,000 but that he had persuaded them not to do it at that time but to do it early in 1943. He asked you if you thought it would be objectionable for this \$10,000 to be paid to his own Public Relations Counsel firm of Baldwin, Munson and Mann, which would then pay it to him in salary. You advised him that you were not familiar with the regulations pertaining to increases in salary and bonus, but that if such a bonus could properly be paid, you thought it should be paid directly to Mr. Baldwin rather than to his firm and then to him. Mr. Baldwin agreed that the suggestion he had made smacked of chicanery. It was then agreed that he and I were to discuss the question as to whether or not such a bonus was proper.

When we reached my room and began to go into the transaction, Mr. Baldwin referred to the possibility that Congress might repeal the Salary Stabilization provisions. He further stated that the \$15,000 bonus which he could get now would be adequate for his present needs, and he concluded that we should postpone any consideration of his application for approval of the additional \$10,000 bonus until later in the year when he needed it and when the Congress had had an opportunity to express its views on Salary Stabilization.

MEMORANDUM

February 9, 1943.

TO: The Secretary
FROM: Mr. Sullivan

JLS

This morning after Congressman Baldwin left I told you that Mr. Paul, Mr. Blough, Mr. Surrey, Mr. Cann and I all agreed that corporations should be granted extensions in filing their income tax returns and that this could be done under an arrangement we had made with the Controllers Institute of America and the American Institute of Accountants so that we would get all of the information we needed for purposes of revenue estimates. You stated that if we all were in accord on this matter you were agreeable to our adopting this policy.

I am attaching hereto a memorandum from Acting Commissioner Cann which outlines the course we will follow.

TREASURY DEPARTMENT
WASHINGTONOFFICE OF
COMMISSIONER OF INTERNAL REVENUEADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

FEB 8 1943

Memorandum for the Secretary:

There are attached copies of letters to be released, subject to your approval, to Mr. F. G. Hamrick, Chairman, Committee on Cooperation with the Treasury Department of The Controllers Institute of America, and to Mr. J. A. Phillips, Chairman, Committee on Federal Taxation, American Institute of Accountants, upon the subject of the policy to be followed in granting extensions of time to file 1942 returns.

It seems clear that because of the difficulty in obtaining or retaining efficient personnel, by reason of the demands of the war for their use in more essential undertakings, the accountants and controllers will find it impossible in many instances to prepare and file the returns of some of the larger business groups on time.

The letters proposed to be released will relieve somewhat the positive rules of last year and place with the Collectors of Internal Revenue the discretion to grant extensions of not more than sixty days if there are filed with the tentative returns to be required certain data considered essential to the preparation of estimates important to our studies of the revenue results to be anticipated in consequence of the 1942 Act, as well as for other purposes. The data to be required have been outlined by the Division of Tax Research.

Representatives of the accountants have indicated that they will be able to provide the information and the representative of the Controllers Institute reports after a canvass of the membership that a substantial percentage will supply the needed data.



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We should recognize the very real difficulties to be encountered under the present circumstances by the men whose duty it is to prepare returns for the larger taxpayers. By the same token, it is not unreasonable to require unusual efforts on the part of these men to meet so far as possible the filing requirements of the Bureau. There is, too, the possibility that unless our policy is modified the matter may become the subject of Congressional consideration.

The Bureau proposes to continue its strict rule of last year with respect to extensions in excess of sixty days. The plan as proposed will not affect the timely collection of the revenue.

Norman R. Cannon
Acting Commissioner

FEB 10 1943

Mr. F. G. Hamrick,
Chairman, Committee on Cooperation with the Treasury Department,
Controllers Institute of America,
One East Forty-second Street,
New York, New York.

Dear Mr. Hamrick:

Reference is made to your communication of January 28, 1943, and to a conference between representatives of several accountancy groups and the Controllers Institute of America, with officers of the Treasury Department, upon the subject of the policy to be followed in the matter of granting to corporation taxpayers extensions of time to file 1942 returns.

The Treasury Department and the Bureau of Internal Revenue have full appreciation of the difficulties confronting accountants and taxpayers by reason of the war conditions and the consequent severe losses of personnel trained in the preparation of income tax returns. However, it must be presumed that it is equally clear to the accountants and others concerned that in these times unusual efforts and real sacrifices must be expected of all persons.

It is proposed to issue instructions to the collectors of internal revenue authorizing the granting of extensions for a period of not more than sixty days upon an agreement on the part of the representatives of the taxpayers to supply certain data, as outlined below in connection with tentative returns:

1. Form 1121 return

- (a) The method of computing the excess profits credit.
- (b) Whether or not the taxpayer is filing a consolidated return. (This will not be considered an election).
- (c) Normal tax net income.
- (d) Excess profits net income.
- (e) Adjusted excess profits net income.
- (f) Excess profits tax (before foreign tax credit).
- (g) Credit for debt retirement.

- 2 -

Mr. F. G. Hamrick.

2. Form 1180 return

- (a) Whether or not the taxpayer is filing a consolidated return. (This will not be considered an election).
- (b) Net income for declared value excess profits tax computation.
- (c) Declared value excess profits tax.
- (d) Income subject to excess profits tax.
- (e) Normal tax net income.
- (f) Normal tax (before foreign tax credit).
- (g) Surtax.
- (h) Total assets.

The above statements required to be filed with the tentative return should not be considered as a return for any purpose, especially not one which would start the running of the statute of limitations.

There should be every effort made by all who seek extensions to estimate as accurately as possible the amount of tax to be paid with the tentative return. It will be appreciated that the Department and Bureau viewpoints in respect of their opportunity to cooperate in this manner in future years must be influenced to some extent by the results of the arrangements it proposes here to make for this year.

We deeply appreciate the degree of cooperation obtained from the membership of the accounting and controllers' groups in the past and believe that there are opportunities for future mutual benefits through establishing rules of value to our interests.

Sincerely yours,

(Signed) Norman D. Gambl
Acting Commissioner.

mm

FEB 10 1943

Mr. J. A. Phillips,
Chairman, Committee on Federal Taxation,
American Institute of Accountants,
13 East 41st Street,
New York, New York.

Dear Mr. Phillips:

Reference is made to your communication of January 11, 1943, and to a conference between representatives of several accountancy groups and the Controllars Institute of America, with officers of the Treasury Department, upon the subject of the policy to be followed in the matter of granting to corporation taxpayers extensions of time to file 1942 returns.

The Treasury Department and the Bureau of Internal Revenue have full appreciation of the difficulties confronting accountants and taxpayers by reason of the war conditions and the consequent severe losses of personnel trained in the preparation of income tax returns. However, it must be presumed that it is equally clear to the accountants and others concerned that in these times unusual efforts and real sacrifices must be expected of all persons.

It is proposed to issue instructions to the collectors of internal revenue authorizing the granting of extensions for a period of not more than sixty days upon an agreement on the part of the representatives of the taxpayers to supply certain data, as outlined below in connection with tentative returns:

1. Form 1121 return

- (a) The method of computing the excess profits credit.
- (b) Whether or not the taxpayer is filing a consolidated return. (This will not be considered an election.)
- (c) Normal tax net income.
- (d) Excess profits net income.
- (e) Adjusted excess profits net income.
- (f) Excess profits tax (before foreign tax credit).
- (g) Credit for debt retirement.

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Mr. J. A. Phillips.

2. Form 1120 return

- (a) Whether or not the taxpayer is filing a consolidated return. (This will not be considered an election).
- (b) Net income for declared value excess profits tax computation.
- (c) Declared value excess profits tax.
- (d) Income subject to excess profits tax.
- (e) Normal tax net income.
- (f) Normal tax (before foreign tax credit).
- (g) Surtax.
- (h) Total assets.

The above statements required to be filed with the tentative return should not be considered as a return for any purpose, especially not one which would start the running of the statute of limitations.

There should be every effort made by all who seek extensions to estimate as accurately as possible the amount of tax to be paid with the tentative return. It will be appreciated that the Department and Bureau viewpoints in respect of their opportunity to cooperate in this manner in future years must be influenced to some extent by the results of the arrangements it proposes here to make for this year.

We deeply appreciate the degree of cooperation obtained from the membership of the accounting and controllers' groups in the past and believe that there are opportunities for future mutual benefits through establishing rules of value to our interests.

Sincerely yours,

(Signed) Norman D. Gamm
Acting Commissioner.

Copy furnished Mr. Carey.

FEB 11 1943

H:FS
LEBPersonal

Hon. Henry J. Willingham,
Collector of Internal Revenue,
Birmingham, Alabama.

In re: Applications for extension of
time for filing returns.

My dear Collector:

As the statutory time for the filing of calendar year 1942 income tax returns approaches, requests for extensions of time for the filing of such returns by individuals, corporations, partnerships and fiduciaries will be received in your office and it is deemed to be appropriate at this time to announce the policy to be followed with respect to the consideration of such applications.

You are hereby authorized to consider and act upon applications for extension of time for filing all types of income tax returns. While it is the policy to hold such extensions of time to the minimum, it is recognized that war conditions have reduced the trained personnel in the offices of accountants and the tax staffs of most industrial and banking organizations and their places have been filled by those lacking the training and tax background of their predecessors. These factors together with those ordinarily recognized as sufficient reason for granting extensions of time should be given full and careful consideration in acting upon such applications.

It is believed to be advisable to limit extensions of time on the first applications to a period not exceeding sixty days from the statutory date for filing the return and the requirement of last year that the application be submitted in affidavit form will be waived. In any case where this extension is not sufficient, applications may be made for such further extension beyond the sixty-day period as is necessary in particular cases. Applications for additional extensions, applicable only to corporation returns, which you consider meritorious and would recommend a further extension of time should be forwarded to Washington with your recommendation for approval.

Where you grant requests in the first instance for extensions not in excess of sixty days applicable to corporation returns you should require that there be filed with the tentative return Forms 1120 and 1121 closely estimated statements containing information as indicated below:

- 2 -

Hon. Henry J. Willingham,
Collector of Internal Revenue,
Birmingham, Alabama.

1. Form 1121 return

- (a) The method of computing the excess profits credit.
- (b) Whether or not the taxpayer is filing a consolidated return. (This will not be considered an election.)
- (c) Normal tax net income.
- (d) Excess profits net income.
- (e) Adjusted excess profits net income.
- (f) Excess profits tax (before foreign tax credit).
- (g) Credit for debt retirement.

2. Form 1120 return

- (a) Whether or not the taxpayer is filing a consolidated return. (This will not be considered an election.)
- (b) Net income for declared value excess profits tax computation.
- (c) Declared value excess profits tax.
- (d) Income subject to excess profits tax.
- (e) Normal tax net income.
- (f) Normal tax.
- (g) Surtax.
- (h) Total assets.

Should any taxpayer or taxpayer's representative requesting an extension indicate that the data requested cannot be supplied it will be your responsibility to consider carefully the merits of their representations and to act in accordance with your conclusions.

The statement required to be filed with the tentative return shall not be considered as a return for any purpose, especially not one which would start the running of the statute of limitations.

Applications for extension of time for filing fiscal year income tax returns will be considered and acted upon by you in the same manner as are calendar year returns above mentioned.

There is attached copy of a communication addressed to Mr. J. A. Phillips, Chairman, Committee on Federal Taxation, American Institute of Accountants, which is self-explanatory.

Very truly yours,

(Signed) Norman D. Gamm
Acting Commissioner.

Enclosure.

MEMORANDUM

February 9, 1943.

TO: THE SECRETARY

MS

FROM: Mr. Sullivan

In accordance with your instructions at the 10:15 meeting on February 8th, I talked with Congressman Sabath about lining up his Illinois delegation in defense of Mr. Pickens. He was entirely sympathetic to our position in this matter and he went immediately to the Floor where I saw him do what appeared to be an effective job of buttonholing members of the Congress.

This morning I saw Congressman Gavagan of New York whom John McCormack had recommended as the man to see in the absence of Tom Cullen, the leader of the New York delegation. Mr. Gavagan also was completely sympathetic to Mr. Pickens and assured me that his delegation would favor the appointment of a subcommittee of the House Appropriations Committee to hold meetings on charges against Government employees. The resolution appointing such a subcommittee was adopted early this afternoon.

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P. 45/106.



FOREIGN OFFICE, S.W.1.

9th February, 1945.

Sent out by post. Recd S. [Signature]

Dear Chancery,

We should be grateful if you would have the enclosed letter from the Prime Minister delivered to Mr. Morgenthau.

Yours ever,

St. Hillard

The Chancery,
British Embassy,
Washington.



10, Downing Street,
-Whitehall.

January 24, 1943.

My dear Mr. Morgenthau,

Thank you so much for your letter of December 2, which has reached me in Africa where I have been in conference with your President.

It was kind of you to think of sending me the record, and I shall look forward to hearing it on my return.

Yours sincerely,

Winston Churchill

H. Morgenthau, Jr.,
The Secretary of the Treasury,
Washington, D.C.,
U. S. A.

UNITED STATES SAVINGS BONDS - SERIES B

Comparison of February sales to date with sales during the same number of business days in January 1943 and December 1942

(At issue price in thousands of dollars)

| Date | February daily sales | Cumulative sales by business days | | | |
|---------------|----------------------------|-----------------------------------|-----------|----------|-----------------------------------|
| | | February | January | December | February as percent of January |
| February 1943 | | | | | |
| 1 | \$ 6,746 | \$ 6,746 | \$ 12,810 | \$ 4,116 | 52.7% |
| 2 | 15,068 | 21,814 | 15,621 | 8,605 | 139.6 |
| 3 | 5,470 | 27,284 | 31,021 | 18,647 | 88.0 |
| 4 | 25,646 | 52,930 | 47,128 | 58,337 | 112.3 |
| 5 | 31,917 | 84,847 | 69,173 | 74,984 | 122.7 |
| 6 | 31,665 | 116,513 | 101,696 | 121,408 | 114.6 |
| 8 | 34,296 | 150,809 | 137,214 | 133,295 | 109.9 |

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

February 9, 1943

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 February sales to date with sales during the same number of business days in January 1943 and December 1942

(At issue price in thousands of dollars)

| Date | February daily sales | Cumulative sales by business days | | | | February as percent of January |
|---------------|----------------------------|-----------------------------------|----------|----------|-----------------------------------|-----------------------------------|
| | | February | January | December | February as percent of January | |
| February 1943 | | | | | | |
| 1 | \$ 806 | \$ 806 | \$ 2,716 | \$ 197 | | 29.7% |
| 2 | 8,915 | 9,720 | 3,036 | 527 | | 320.2 |
| 3 | 1,570 | 11,290 | 6,137 | 3,214 | | 184.0 |
| 4 | 16,907 | 28,198 | 14,820 | 17,161 | | 190.3 |
| 5 | 20,067 | 48,264 | 18,428 | 29,464 | | 261.9 |
| 6 | 16,842 | 65,106 | 29,726 | 46,986 | | 219.0 |
| 8 | 10,420 | 75,526 | 47,612 | 49,858 | | 158.6 |

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

February 9, 1943.

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

February 9, 1943.

TO Secretary Morgenthau

FROM Mr. Thompson

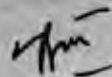
Pursuant to your instructions of December 22nd, a survey has been made of the personnel requirements of the Customs Service in relation to the present work-load of that Service.

In the course of this survey it developed that the Customs Service, in view of the sharp decline in the regular Customs business, had recognized the changed situation and had already been making adjustments for some months. These adjustments had the net effect of reducing personnel assigned to the regular work, and of making personnel available for the increasing war activities of the Customs Service.

The committee appointed by me to survey this situation actually visited 12 different Customs ports throughout the country, and also inspected a unit of the Southwest Border Patrol. The survey embraced considerably more than 50 per cent of the Customs Service from the standpoint of total personnel, and was applicable to 5,016 authorized positions. Of these authorized positions there were found to be 4,462 employees actually on duty in the 12 ports visited, and 554 vacancies. It was learned that of this number of vacancies 137 would have to be filled, leaving 417 vacancies which would not be filled. In the survey it developed that there were surplus employees in the ports visited to the extent of 238, and it was agreed by the Customs officials at these ports that these surplus employees would be made available promptly for transfer to essential positions, preferably in connection with the war effort, either in the Treasury Department or elsewhere in the Federal service, or in private war industries. The surplus employees and the vacancies not to be filled represent 655 authorized positions in the 12 ports surveyed.

The Bureau of Customs estimated that 242 additional authorized positions, representing both vacancies and surplus jobs, could be picked up in other Customs ports not visited by the committee. This would yield a total of 897 positions not to be filled by the Customs Service which, when computed at an average annual salary of \$2,000, would represent an apparent saving of approximately \$1,794,000 on an annual basis. This, however, is not an actual saving in the sense that the funds can be returned as unexpended, for at the present time the Customs Service is confronted with increases in its personnel costs, not appropriated for, which will aggregate approximately \$2,615,000 for the current fiscal year. These increases arise out of the passage of the over-time pay bill, the Mead-Ramspeck automatic salary increase bill and recent legislation increasing salaries in the custodial grades. These combined increased costs will more than offset any savings arising out of the vacancies or discontinued positions, and, in fact, it seems certain, notwithstanding this saving, that the Bureau of Customs will have to request deficiency appropriations for the remainder of the current fiscal year as well as for the fiscal year 1944.

(Noted by the Secretary 2-17-43)



January 20, 1943

Memorandum for MR. W. H. THOMPSON,
Administrative Assistant to the Secretary.

Subject: Manpower Survey of the Customs Service.

In accordance with your instructions of December 22, 1942, your Committee has made a brief survey of the current personnel situation in the Customs Service.

Although the situation is described in some detail later in this memorandum, it may be stated at the outset that from the observations of this Committee, based upon visits to twelve Customs Ports, it appears that with respect to some districts, at least, the Service at present is somewhat overmanned although not to any serious degree.

Your Committee's basic approach to a determination of the existence of an over or under-manned condition in the Customs Service was to compare the 1938 work load and personnel with the current work load and personnel, giving full consideration to the Service's war and other new activities. The year 1938 was chosen, among other reasons, because a majority of the Customs officials who were interviewed agreed that the year 1938 was as nearly a "normal" year from Customs standpoint as any in the last decade.

In considering the current manpower requirements as related to the extent to which Customs business has increased or decreased since 1938, your Committee conducted an exhaustive investigation and analysis as time would allow. Our determinations with respect to the existence of surplus personnel were pointed out to the local Customs officials at the ports visited. In most instances, these officials expressed themselves as being in substantial agreement with our findings.

In order to make the survey as intensive as possible, it was deemed advisable for the full Committee to analyze the manpower situation at the port of New York. Upon the conclusion of the New York survey, the Committee was divided into groups of two in order that as many ports as possible could be covered. Two ports, namely, Portland, Oregon, and Seattle, Washington, were visited by only one member of the Committee.

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It should be mentioned that although a definite correlation was found to exist between decrease in work load and surplus personnel, in no instance did your Committee recommend a reduction in personnel commensurate with the overall reduction in the work load. Our conservatism in this respect was occasioned by several factors. First, it was desired to recommend no reduction of personnel which might conceivably have the effect of lowering the standards of the Customs Service or of jeopardizing the Customs revenue in any way. Second, the lack of statistical data or other easily assimilated records of the Service's war activities rendered it impossible to determine the exact extent of the manpower needed for these activities.

It should be stressed that in almost every instance where a surplus of manpower was observed, the surplus was due to a reduction of Customs work by reason of the war emergency and not to the newly established 48-hour week. It can be stated generally that the Service can anticipate little or no increase in per-employee production by reason of the 48-hour week. This is due to a number of factors, most important of which is that much of the Service's work is related directly to the business hours of commercial enterprises which conduct no business on Saturday afternoons.

The Customs Service was aware of the sharp decline in regular customs business due to the war and recognized that an unknown number of positions would thereby become surplus to the Service's manpower requirements. This situation has been met in large measure by the adoption of two courses of action. The first and more effective method has been to permit vacant positions to remain unfilled. This policy has been applied to all but inspector, guard, and certain key positions, and has resulted in an increase in the number of vacant positions from a peace-time average of about 200 to 525 as of December 31, 1942. The second method has been the assignment of employees to positions other than those for which they were appointed. These assignments have been made by direction of the Commissioner of Customs for the purpose of utilizing in the war activities of the Customs Service employees whose services have become available because of the loss of regular business.

If the Customs officials had failed to take these measures, there might exist today a serious surplus of manpower. Instead, the surplus of manpower throughout the Service is relatively mild and is gradually righting itself to the extent that at an early date, Customs' business and personnel will be brought into proper balance.

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From a budgetary standpoint, it would appear that no serious complications will arise by reason of the greatly increased number of vacant positions. The money made available by the creation of these vacancies will help to meet the increased salary costs which will accrue during the current fiscal year because of the overtime law, custodial salary increases, and the Hand-Sumpeck promotion law.

It is impossible to evolve any formula for determining the extent to which Customs' personnel may be reduced. Each port has felt in a differing degree the impact of Customs' war activities. However, the extent of this impact cannot be measured and set off against the loss of normal Customs' business since the varied and constantly changing nature of the war work has made it difficult to develop statistical records and production reports for the measurement of the volume and nature of these activities. Your Committee observed Customs war work in most of the ports visited, but the lack of statistical data precluded a detailed analysis of the manpower required to carry out this work.

There follows a summary tabulation showing, by ports visited, the number of employees deemed surplus by your Committee, together with related personnel statistics.

| Port | Authorized Positions (a) | Employees (on Duty) (b) | Vacancies (c) | Vacancies to be filled (d) | Vacancies not to be filled (e) | Surplus Employees (f) | Total Vacancies not to be filled & Surplus Employees (Total of e and f) |
|---------------------|-----------------------------|----------------------------|------------------|-------------------------------|-----------------------------------|--------------------------|--|
| New York..... | 5,588 | 5,188 | 588 | 108 | 284 | 188 | 448 |
| New Orleans.. | 322 | 307 | 25 | 8 | 18 | 8 | 25 |
| Los Angeles.. | 374 | 337 | 47 | 15 | 34 | 18 | 52 |
| Chicago | 180 | 148 | 27 | -- | 27 | 28 | 56 |
| Seattle..... | 172 | 150 | 22 | -- | 22 | 2 | 24 |
| San Francisco | 88 | 86 | 2 | 2 | -- | -- | -- |
| San Pedro | 87 | 81 | 6 | 6 | -- | -- | -- |
| Southwest Border | | | | | | | |
| Patrol | 163 | 151 | 12 | 1 | 11 | 8 | 14 |
| Portland..... | 66 | 58 | 7 | 2 | 5 | 1 | 6 |
| Boston | 58 | 53 | 5 | -- | 5 | 10 | 15 |
| Alveston ... | 48 | 40 | 8 | -- | 8 | 1 | 9 |
| St. Paul | 38 | 34 | 4 | 1 | -- | -- | -- |
| St. Louis ... | 27 | 24 | 3 | 1 | 2 | 3 | 5 |
| Totals | 5,016 | 4,462 | 554 | 137 | 417 | 238 | 655 |

* Excluding 7 detailed from Tampa.

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You may be interested in reading the following condensed observations concerning each port visited by your Committee.

New York - The six Committee members spent six days in New York interviewing Customs' officials and observing some of the port's activities. It was found that the loss of normal Customs' business in the Collector's Office, except in certain of the office's activities, has been more than compensated for by the assumption of war and related new activities. While 91 employees available for transfer were found in the Collector's and Surveyor's offices, it should be pointed out that from an over-all standpoint, these combined offices are undermanned. This is due almost entirely to the existence of approximately 100 guard and inspector vacancies which the Collector has found difficult to fill because of the lack of qualified candidates.

The Appraiser's Office has suffered a severe loss of business as a result of a decline in imports. The adjustment of personnel to meet the loss of business has been made by the detail of four employees to war agencies and 150 to other customs' activities, by permitting 127 vacant positions to remain unfilled and by making 54 employees available for transfer.

The Comptroller's Office has experienced a fairly sharp decline in workload, but has adjusted its personnel program by detailing 17 employees to the Collector's Office, by permitting an accrual of 18 vacancies, and by making ten surplus employees available for transfer.

The Customs' Agency Service in New York has been undermanned and only recently was permitted to increase its staff by several employees.

The Customs' Information Exchange is closely related in its activities to that of the Appraisers of Merchandise, and has suffered a loss in work volume. For this reason, it was agreed that four employees of the present staff of 23 can be made available for transfer to other agencies.

The normal work load of the Customs Laboratory in New York has decreased along with the volume of imports into the Port of New York. This decrease has been partially compensated for by additional analytical and investigative work being conducted for approximately eight war agencies. These special projects, together with routine work of the Laboratory, have served to engage fully the 25 employees of this organization.

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New Orleans - Two members of the Committee, McDonald and Rogers, spent two days in New Orleans, and discussed Customs activities with the Collector, the Appraiser, the Comptroller, the Supervising Customs Agent, and the Head of the Customs Laboratory. A relatively small number of surplus employees was found in this port. We learned that New Orleans, somewhat like New York, has been quite close to the war effort and has been keen in its endeavor to participate in the guaranty of the port's security and to handle expeditiously the great increase in export declarations.

Los Angeles - Two members of the Committee, Jones and Gunther, made a three-day survey of the manpower situation at Los Angeles. The overall requirements of the Collector's Office were found to be reasonably comparable to those of normal years.

Increased foreign exports, involving the additional complexities of war-time controls, have in part offset the decrease in normal customs business. However, it was agreed that five surplus employees could be made available for transfer.

The Office of the Appraiser of Merchandise has been seriously affected by the reduction of customs business. At present, there are 33 employees on the payroll of this office, of which two are on detail to other Customs activities and five to the War Savings Staff. In addition to the seven on detail, the Appraiser has indicated that he can release seven employees for transfer.

The Office of the Supervising Customs Agent at Los Angeles has made one stenographer available for transfer.

Chicago - Two members of the Committee, McDonald and Rogers, spent less than one full day in the Chicago Office. The Collector, Appraiser, Comptroller and Supervising Customs Agent and some of their employees were interviewed. Except for the Customs Agency Service, the Chicago Offices have experienced a considerable decline in Customs activity which has not been offset by war activities. Consequently, the Chicago Customs officials voluntarily agreed that 29 employees are surplus and are available for transfer.

Seattle, Washington - One member of the Committee, James E. Shick, visited this port. It appears there has been a substantial decline in customs business in Seattle. At present, 15 unfilled vacancies exist in the Collector's Office. The Collector agreed that two employees in his office were surplus to current requirements and indicated that, within the next three months, nine additional vacancies which will occur will not be filled. Five unfilled vacancies now exist in the Appraiser's Office. In all, the working force of this office has been reduced 48% from authorized strength.

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Miami - Two members of the Committee, McDonald and Rogers, spent one day in the Port of Miami. This is a busy port. The air traffic has increased tremendously since Pearl Harbor and the upward trend will probably continue for some time. The inspectional and consular functions are most important. On the basis of our brief observations of Miami's heavy war and related work, we believe this port could effectively use additional personnel.

El Paso - Two members of this Committee, Jones and Gauthier, devoted less than a day to a survey of the manpower requirements of the Port of El Paso. The regular authorized force for this port has absorbed certain additional activities required in connection with the war effort and it is believed that its entire complement is necessary to carry on the functions of this port.

Southwest Border Patrol - Two members of the Committee, Jones and Gauthier, spent less than a day on the manpower study in connection with the Southwest Border Patrol, which is responsible for the coverage of some 2,000 miles of the Mexican Border area. It has an authorized force of 168 persons. At present, 151 employees are engaged in this work. The District Superintendent indicated that one employee is assigned to the War Having Staff and that two additional employees are available for transfer.

Portland, Oregon - One member of the Committee, James R. Shick, visited this port. A heavy increase in Russian lend-lease shipments, the ship-building program, and a large volume of wool imports, have contributed to offset the loss of normal customs business caused by the war. The only surplus of personnel found at this port was in the Office of the Appraiser of Merchandise where it was agreed a laborer could be released to war work.

Houston, Texas - Two members of the Committee, Shick and Offutt, spent less than a day at this port with the Deputy Collector who agreed that because of a decline in normal Customs activities, 4 employees and 2 "war emergency" guards are surplus and available for transfer. The Appraiser of Merchandise at Galveston agreed that three employees associated with the Port of Houston could be considered surplus. The Customs Agency Service will transfer one stenographer to New Orleans.

Galveston - Two members of the Committee, Shick and Offutt, spent less than a day at this port. It appeared to the Committee members that the volume of war activities has not completely offset the decline of normal customs activities. The Assistant Collector did not share in this opinion. However, he has recommended the abolition of 6 existing vacancies in Galveston and 6 in Houston. The Appraiser of Merchandise can make available an additional employee at this port.

- 7 -

Mobile, Alabama - Two members of the Committee, Shick and Offutt, spent less than a day at this port and found that Customs activities had not declined. This was due to a large increase in war work which has been assumed by this port. The personnel today, totaling 54, is comparable with that on the roll five years ago. It has been the policy at this port to fill all vacancies as they occur. It is the opinion of the Committee that this port is not overstaffed at the present time.

St. Louis, Missouri - Two members of the Committee, Shick and Offutt, spent less than a day at this port. After appraisal of individual positions, the Acting Collector agreed that two positions could be considered surplus due to a decrease in Customs activities and the increased number of hours in the work week. The Appraiser of Merchandise at this port agreed that one employee in his office is surplus and available for transfer.

- * -

Your Committee desires to make the following comments:

1. The employees who are found to be surplus in the Customs Service should be placed elsewhere in the Federal Service, or in related war industries. We do not recommend that they be immediately terminated. If certain difficult placement cases should arise, we recommend the retention of such employees for a reasonable period of time in order to permit the accrual of normal vacancies to absorb the ultimate net surplus personnel. Further, the surplus employees in the Customs Service should be given preferential treatment by the rest of the Treasury Department prior to the recruitment of additional new employees.
2. The policy of assigning employees to positions other than those for which they were originally appointed should be examined with the view to developing suitable controls which will prevent this practice from getting out of hand to the possible future detriment of the morale and efficiency of the Customs Service.
3. The Customs Service should make an effort to formulate suitable statistical records and production reports of its war work in order that, for budgetary and other purposes, there may be some measurement of the volume, nature, and manpower requirements of its war activities.

- 8 -

4. A careful study should be made of the 64 versus the 48-hour work week in its application to the Customs Service.
5. The Bureau of Customs should carry forward on its own behalf and to a more intensive degree, on a port-by-port basis, the manpower study made by your Committee during the brief period it was given to ascertain the facts upon which this report is based.

In conclusion, it should be pointed out that the Bureau of Customs commenced a program of retrenchment before Pearl Harbor in the regular work of the Bureau. Conversions were made of employees performing regular work to essential war work. This program became more active after Pearl Harbor, and as of December 31, 1948, a considerable saving was being realized through 585 unfilled vacancies. Of this number, however, the Bureau desires to fill 304, resulting in 281 vacancies not to be filled. In addition, it is found that there are 288 surplus employees available for transfer. This figure represents 288 surplus employees located by your Committee in 18 ports, and 100 declared surplus by the Bureau in the remainder of the ports. This would yield a combined reduction of 667 employees, or a saving of approximately \$1,794,000 on an annual basis. This, however, is not a saving in that the funds can be returned as unexpended, for at the present time, the Bureau of Customs is confronted with several increases in personnel costs, aggregating, for the remainder of the current fiscal year, approximately \$1,615,000 necessitated by the passage of the overtime pay bill, Head-Smashpeck automatic salary increase bill, and the recent salary increases in the custodial grades. These costs more than offset savings arising out of vacancies or discontinued positions, and, in fact, for the remainder of the current fiscal year, it is understood that the Bureau of Customs will submit estimates for a deficiency appropriation approximating \$1,000,000, and a deficiency of proportionately greater size for the fiscal year 1949.

The four men whom you appointed to assist us in this manpower survey, Mr. George H. Jones and Mr. William F. Offutt of the Bureau of Accounts, Mr. James R. Chick, Office of the Administrative Assistant, and Mr. Clarence S. Guther, Division of Monetary Research, deserve special credit for the very valuable contribution of their energy and assistance in this intensive work. These men, who, in fact, became members of a committee of six, should be highly commended for their objective and yet sympathetic approach to this survey.

- 9 -

Without the untiring efforts of these men, it would have been impossible to cover as many ports or to elicit all of the facts which have become the basis of this report.

Finally, appreciation is due to the Departmental and Field Officials of the Customs Service who were wholeheartedly cooperative and who gave over a generous portion of their time in an endeavor to assist your Committee in every way possible.

(signed) Paul McDonald

Paul McDonald, Chief, Recruitment and Placement.

(signed) G. Norman Rogers

G. Norman Rogers, Head, Procedure and Planning Staff.

Approved:

(signed) W. N. Thompson

Administrative Assistant
to the Secretary.

February 17, 1942.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

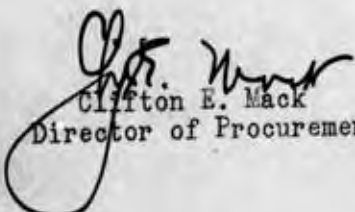
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February 9, 1943

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended February 6, 1943.

Consideration of a policy with regard to drawbacks is now being discussed with the Office of Lend Lease Administration. The issue, in substance, is whether prices should include or exclude duty. There is some question as to whether the Office of Price Administration price limitations were established upon the basis of the inclusion or exclusion of duty.


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 FEBRUARY 6, 1943
 (In Millions of Dollars)

| | <u>Total</u> | <u>U. K.</u> | <u>Russia</u> | <u>China</u> | <u>Administrative Expenses</u> | <u>Miscellaneous & Undistributed</u> |
|---|----------------------|----------------------|--------------------|------------------|------------------------------------|--|
| Allocations | \$2694.6 (2693.3) | \$1394.7 (1377.6) | \$909.3 (900.1) | \$58.4 (58.4) | \$4.6 (4.6) | \$327.6 (352.6) |
| Purchase Authoriza- tions (Requisitions) | \$2268.1 (2235.9) | \$1301.1 (1273.1) | \$890.3 (887.8) | \$41.9 (41.5) | - - | \$ 34.8 (33.5) |
| Requisitions Cleared for Purchase | \$2135.4 (2114.7) | \$1254.6 (1237.9) | \$805.2 (802.6) | \$41.7 (41.3) | - - | \$ 33.9 (32.9) |
| Obligations (Purchases) | \$2025.9 (2002.8) | \$1181.8 (1171.8) | \$768.9 (756.9) | \$41.6 (41.2) | \$3.8 (3.7) | \$ 29.8 (29.2) |
| Deliveries to Foreign Governments at U. S. Ports* | \$ 874.2 (855.5) | \$ 676.1 (666.4) | \$168.5 (160.7) | \$20.9 (20.3) | - - | \$ 8.7 (8.1) |

*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 January 30, 1943.

FEB 9 - 1943

My dear Mr. President:

There is attached a report of Lend-Lease purchases made by the Treasury Procurement Division for the Soviet Government indicating the availability of cargo for February.

There is no substantial change in the overall picture this month since tonnage at the end of February will be 599,342 as contrasted with 611,635 in January. Of this inventory it is understood that the War Production Board is making available for domestic use 75,000 tons of steel pipe and tubing.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President

The White House

copy
H
M
ass

TREASURY DEPARTMENT - U. S. S. R.

MATERIALS AVAILABLE FROM STORAGE AND PRODUCTION DURING FEBRUARY 1948

| COMMODITY | PRIORITY CARGONS SPECIFIED FOR FEBRUARY 1948 | AVAILABLE | | BALANCE |
|--|--|----------------|----------------|----------------|
| | | STORAGE | PRODUCTION | |
| STEEL BARS, SHEETS, STRIP, PLATES, SHAPES, ETC. | 6,400 | 164,786 | 22,004 | 170,300 |
| FOOT AND DIN STEEL | 1,000 | 2,304 | 7,021 | 6,300 |
| RAILROAD RAILS, WHEEL SETS AND ACCESSORIES | 1,000 | 25,000 | 207 | 21,207 |
| CABLE (OTHER THAN COPPER) | | | 7,071 | 2,071 |
| WIRE PRODUCTS | 2,000 | 61,300 | 10,742 | 70,674 |
| PIPE AND TUBING | 2,110 | 114,300* | 2,379 | 117,434 |
| IRON PLATE | | 17,300 | | 17,300 |
| COPPER AND ITS PRODUCTS | 7,000 | 20,300 | 12,300 | 21,000 |
| ZINC | 2,000 | | 2,000 | 1,000 |
| ALUMINUM AND ITS PRODUCTS | 2,000 | 100 | 2,000 | 100 |
| NICKEL AND ITS PRODUCTS | | 50 | 500 | 25.0 |
| TIEN METALS | 300 | 2,300 | 1,100 | 2,304 |
| CHEMICALS | 1,000 | 2,300 | 1,300 | 2,300 |
| MERCURY | | 400 | 4 | 604 |
| INDUSTRIAL AND CONSTRUCTION EQUIPMENT, MATERIAL, ACCESSORIES AND PARTS | 2,000 | 22,300 | 14,507 | 27,315 |
| AUTOMOTIVE EQUIPMENT AND PARTS | | 207 | 217 | 1,204 |
| TIRES AND TUBES | 2,000 | 5,000 | 2,000 | 11,200 |
| GRAPHITE - BURAL ELECTRODES | | 1,000 | 300 | 2,100 |
| RUBBER PRODUCTS | | 200 | 204 | 1,100 |
| HAND AND MACHINE TOOLS | 200 | | 207 | 207 |
| BALL AND ROLLER BEARINGS | | 44 | 421 | 445 |
| PAPER AND PAPER PRODUCTS | | 1,000 | 700 | 2,375 |
| HARDWARE | | 200 | 200 | 757 |
| MISCELLANEOUS SUPPLIES AND EQUIPMENT | | 1,075 | 1,077 | 2,210 |
| | <u>22,000</u> | <u>229,004</u> | <u>104,422</u> | <u>229,542</u> |

*75,000 tons are being made available for domestic use by War Production Board.

FEB 9 - 1943

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There is no substantial change in the overall picture this month since tonnage at the end of February will be 599,342 as contrasted with 611,686 in January. Of this inventory it is understood that the War Production Board is making available for domestic use 75,000 tons of steel pipe and tubing.

Yours sincerely,

The President

The White House

(Signed) H. Morgenthau, Jr.

TREASURY DEPARTMENT - U. S. S. R.

MATERIALS AVAILABLE FROM STORAGE AND PRODUCTION DURING FEBRUARY 1948

| COMMODITY | PRIORITY CARGONS SPECIFIED FOR FEBRUARY 1948 | AVAILABLE | | BALANCE |
|--|--|---------------|----------------|----------------|
| | | STORAGE | PRODUCTION | |
| STEEL WARE, SHEETS, STRIP, PLATES, SHAPES, ETC. | 6,000 | 154,700 | 22,004 | 176,704 |
| TOOL AND DIE STEEL | 1,000 | 2,004 | 7,001 | 9,005 |
| RAILROAD RAILS, WHEEL SETS AND ACCESSORIES | 1,000 | 92,000 | 207 | 92,207 |
| CABLES (OTHER THAN COPPER) | | | 2,071 | 2,071 |
| WIRE PRODUCTS | 2,000 | 61,000 | 10,742 | 71,742 |
| PIPE AND TUBING | 2,110 | 114,000* | 2,070 | 116,070 |
| TIN PLATE | | 17,000 | | 17,000 |
| COPPER AND ITS PRODUCTS | 7,000 | 20,000 | 10,000 | 30,000 |
| ZINC | 2,000 | | 2,000 | 2,000 |
| ALUMINUM AND ITS PRODUCTS | 2,000 | 100 | 2,000 | 2,100 |
| NICKEL AND ITS PRODUCTS | | 0 | 0 | 0 |
| FERRO ALLOYS | 0 | 2,000 | 1,000 | 3,000 |
| CHEMICALS | 1,000 | 2,000 | 1,000 | 3,000 |
| MERCURY | | 0 | 0 | 0 |
| INDUSTRIAL AND CONSTRUCTION MACHINERY, MATERIAL, ACCESSORIES AND PARTS | 2,000 | 22,000 | 10,000 | 32,000 |
| AUTOMOTIVE EQUIPMENT AND PARTS | | 0 | 0 | 0 |
| TIRES AND TUBES | 3,000 | 2,000 | 2,000 | 4,000 |
| GRAPHITE - METAL ELECTRODES | | 1,000 | 0 | 1,000 |
| RUBBER PRODUCTS | | 0 | 0 | 0 |
| HAND AND MACHINE TOOLS | 0 | 0 | 0 | 0 |
| BALL AND ROLLER BEARINGS | | 0 | 0 | 0 |
| PAPER AND PAPER PRODUCTS | | 1,000 | 700 | 1,700 |
| HARDWARE | | 0 | 0 | 0 |
| MISCELLANEOUS SUPPLIES AND EQUIPMENT | | 1,000 | 1,000 | 2,000 |
| | | <u>22,000</u> | <u>104,000</u> | <u>126,000</u> |

*75,000 tons are being made available for domestic use by War Production Board.

*NOTE: "In Transit to Storage" data has been omitted since this amount is fully offset by data shipped.

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

ONE REPUBLIC 7860



Box 680
 BENJAMIN FRANKLIN STATION
 WASHINGTON, D. C.
 February 9, 1943

SECRET

Dear Mr. White,

The gold and dollar figures for January, 1943, are as follows:

| | <u>Jan. 8</u> | <u>Jan. 15</u> | <u>Jan. 22</u> | <u>Jan. 30</u> |
|---|---------------|----------------|----------------|----------------|
| Total Gold (incl. Belgian) | 843 | 850 | 891 | 969 |
| Official Dollar Balance | <u>205</u> | <u>166</u> | <u>170</u> | <u>128</u> |
| Total Gold and Dollars | 1048 | 1016 | 1061 | 1097 |
| Less: Belgian Gold | 105 | 105 | 105 | 105 |
| Scattered Gold | 73 | 73 | 73 | 74 |
| Gold Reserve against immediate liabilities | <u>10</u> | <u>10</u> | <u>10</u> | <u>10</u> |
| AVAILABLE GOLD AND DOLLARS | <u>360</u> | <u>828</u> | <u>873</u> | <u>908</u> |

Yours sincerely,

E. W. Playfair.

Dr. H.D. White
 Director of Monetary Research
 United States Treasury
 Washington, D. C.

EWPjh

FEB 9 - 1943

My dear Mr. Secretary:

I refer to my letter of January 14, 1943, dealing with the request of the Spanish Government that it be permitted to ship certain United States currency to this country. I am in receipt of a memorandum from the President to which is attached your memorandum recommending that the request of the Spanish Government be granted without requiring a prior agreement by the Spanish Government to furnish a quid pro quo.

In view of the concurrence of the President in the position outlined in your memorandum, the Treasury Department is prepared to release the currency in question for deposit in the blocked account of the Instituto Espanol Moneda Extranjera in the manner outlined in my letter of January 14, without making release of the currency conditional upon any prior agreement of the Spanish Government.

Very truly yours,

(Signed) H. Morgenthau, Jr

Secretary of the Treasury

The Honorable

The Secretary of State

IM:cr-2-4-43

FL

copy
File in Diary

Sent by Simmons 5:35 2/9/4

BRITISH MOST SECRET
U.S. SECRET

OPCL No. 45

Information received up to 7 A.M., 9th February, 1943.

1. NAVAL

8th. One of H.M. Trawlers sunk by U-boat north of CANARIES.

Enemy attack on shipping. Now learnt that 3 further ships in home-bound convoy were attacked on 7th. Total casualties now 9 ships torpedoed of which 6 have sunk. No further attacks reported subsequent to night 7th/8th.

2. MILITARY

RUSSIA. Russians have captured KURSK on VORONEZH Front and in North CAUCASUS have reached a number of places on the coast north of YESK Estuary and on YESK Peninsula itself.

3. AIR OPERATIONS

WESTERN FRONT. 8th. Six enemy aircraft of which two were damaged operated over South coast. Casualties slight. 8th/9th. 6 aircraft laid mines in enemy waters. Five enemy aircraft flew over DOVER area, one being destroyed by A.A. fire.

ITALY. 7th. 46 tons of H.E. dropped by 20 Liberators (B. 24) on shipping at NAPLES. Three ships hit and fires started on Moles. Casualties - enemy 2, 1, nil. Allied 1, nil, nil.

SARDINIA. 7th. 51 escorted U.S. bombers dropped over 80 tons of bombs on ELMAS airfield and CAGLIARI seaplane base.

MEDITERRANEAN. 7th.8th. A 6,000 ton ship set on fire off Cape SAN VITO, SICILY, by Malta-based Wellingtons.

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U.S. SECRET

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

February 9, 1943

FROM Frances McCathran

HIGH-LIGHTS OF THE WAR NEWS

Russia

1. Soviet armies yesterday captured Kursk, 125 miles north of Kharkov, the industrial capital of the Ukraine. Kursk is one of the 4 great pegs in the German Orel-Kursk-Belgorod-Kharkov defense line. Russians also pushed toward Belgorod on this line with the capture of Korocha, and even farther south reported gains in the Kramatorsk sector of the Donets basin front (103 mi. southeast of Kharkov).
2. Rostov Area - Reports from Ankara of fighting in the streets of the city are unconfirmed by the Russians, although fighting in the suburbs has been reported. Red armies have cleaned out the Yeisk peninsula to the southwest of Rostov and have made gains to the east of the city. Nothing has been heard in 2 weeks from the Soviet army which captured Kamensk (90 mi. north of Rostov) and another which crossed the Donets about 75 miles east of Rostov.
3. Farther south the Russians captured a string of important villages on the Krasnodar-Tikhoretsk railroad.
4. Axis sources claim that the Russians have landed forces south of Novorossiisk.

The Pacific Area

1. Guadalcanal - Secretary Knox said that "all resistance on Guadalcanal apparently has ceased" except for a few small isolated groups of surrounded Japs. Tokoyo radio announced that certain units of the Jap army and navy have been transferred from Guadalcanal and New Guinea to "new theaters".
2. Dutch and Australian airmen virtually wiped out Dobo, Jap-held port on tiny Wamar Island in the Aroe Islands between Dutch New Guinea and Australia early Monday.

3. New Guinea - Allied planes attacked Mubo village, about 12 miles southeast of Salamaua yesterday, while ground patrols wiped out a Jap pocket near Wandumi, 6 miles east of Wau airfield.

North Africa

1. Although only light land engagements are reported in Tunisia, neutral dispatches claim "hectic preparations" for a big Allied offensive are being made. Montgomery's army is poised along the Tripolitanian-Tunisian frontier with forward elements probing enemy positions 8 miles from the Mareth line inside Tunisia.
2. American planes struck at Rommel's supply and communications lines yesterday, blasting the airdrome at Gabes and areas north and east of that port.

Europe

1. The R.A.F. struck the heaviest blow yet on the Nazi sub base of Lorient, France, pounded Germany's Ruhr valley, and made sweeping attacks on Naples, Sicily, and Sardinia.
2. For the first time this year British and German guns shelled each other across the channel. The fact that the British opened fire first indicates that a German convoy was sighted.

- 2 -

HMJr: Well, has Sam Clark seen it too?

S: Oh, yes, indeed. I just got it back from him.

HMJr: Oh. Because to me Clark's letter is - I just can't understand it, after reading this, you see? Now what I'd like you to do for me is prepare a little memo. After all this man got twelve-five - he kept twelve-five - hello?

S: Yes.

HMJr: Now I'd like just on one page, what did he do with the twelve-five?

S: Yes, I can do that for you.

HMJr: You see?

S: Yes, sir.

HMJr: Because I mean what happened to the twelve-five - because it looks to me as though he used that for himself - hello?

S: Yes.

HMJr: I mean I'd like to know on one page what disposition did he make of the twelve-five.

S: Yes, sir, I can do that for you.

HMJr: Now one other thing - and then it - am I correct that prior to our asking they had sent up a memorandum to the State Department on this thing?

S: I don't recall that they had, sir.

HMJr: Well, let me send this back to you....

S: Yes, sir.

HMJr:and you read it over again, and on reading -- I only read it once -- but it looks to me as though there's been a prior memorandum and if there is I'd like to get a copy of it.

S: Yes, sir.

- 3 -

HMJr: Because the things that this man says, Warren, about some of the other people in the State Department are the damndest things I ever saw.

S: That's quite correct.

HMJr: What?

S: That's quite correct.

HMJr: It's an amazing letter - Warren's letter.

S: You - you mean the remark about Sumner?

HMJr: Yeah.

S: Sure.

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

S: You can - you can see why I've been very careful that only Wenchel and Clark have seen it.

HMJr: Well, I - I'll - I'll send it back to you, and then I'd like to discuss it with you sometime today because I just don't see where - where Clark gets off.

S: All right, sir.

HMJr: Thank you.

S: All right.

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Miss Conway

Mr. Paul carries the
original in to the
Secretary at 9:30

From: MR. PAUL

Secretary Morgenthau

February 10, 1943

Randolph Paul

Last Sunday I had a conference with Chairman Doughton at his office, lasting about an hour. I had come there pursuant to a telephone conversation of Saturday afternoon, to discuss the propaganda angle of the Rural plan. The Chairman is concerned on the point because he thought if too much momentum were gathered by the Rural plan, his Committee might be upset on the floor of the House, and also something might happen in the Senate.

I suggested to the Chairman that he go on the radio, but he did not seem to want to do so at this time. He authorized me to speak to Cooper and Disney, making this suggestion. This I asked Surrey to do. Cooper seemed unwilling, and so far I have received no report on Disney.

In this conference, the Chairman showed me some of his mail, particularly that which opposed the Rural plan. He then called Mr. Stam in the conference, and we discussed some technical features of pay-as-you-go for a while. He then told Stam that he expected him to take the stand Friday. This made Stam very nervous, and he asked for a postponement until Monday, which the Chairman granted. Obviously, Mr. Stam hates to take any public position that might become unpopular, but apparently he will have to do so.

The Chairman also told me that if I wanted to make any rebuttal I could have any time I wanted before the Committee.

(Initialed) E.B.P.

REP:mv

Secretary Morgenthau

February 10, 1943

Randolph Paul

As you know, Mr. McIntyre called me at home yesterday morning very much concerned with Chairman Doughton's attempt to reach the President in connection with the Smith interview to the Associated Press. He wanted to explain why he had tried to postpone the matter since the President was in Hyde Park. He told how he had put Smith and the Chairman on the phone, with him listening. The Chairman talked pretty hard to Smith, and Smith promised to send a letter to the Committee. In the course of his conversation with McIntyre, the Chairman referred in a very friendly way to me personally, and to the cooperation given the Committee by the Treasury.

Yesterday evening, under arrangement made by you over the telephone, I went to the White House and presented to Mr. McIntyre Mr. Blough's memorandum on the morning session of the Ways and Means Committee, together with a proposed letter to the Chairman. Mr. McIntyre said he would explain the situation to the President this morning, but pretty strongly indicated that he would not recommend the writing of any letter. He suggested the technique of having the President authorize a statement by Doughton to be made by his Committee members to the public.

McIntyre asked for an explanation of the objections to the Rual plan, which I gave him very briefly. I don't know whether or not he understood it.

The rest of the discussion of this interview was in regard to the sales tax, which McIntyre entirely favors. He said, however, he had not been able to persuade the President to accept the idea.

This noon, as per your suggestion, I told the Chairman that you had suggested the situation would not be cleared unless he pressed the matter at the White House. He did not seem inclined to press any further, thinking he had done all

- 2 -

he could. However, he was pretty much on the fence, and I told him that you might telephone him about it. Later in the afternoon I saw Disney, who is strong for pressing the matter, and I suggested to him that he work on the Chairman, which he said he would do.

(Initialed) R.E.S.

REP:mv

February 10, 1943
10:37 a.m.

HMJr: Hello.

Operator: McIntyre.

HMJr: Right.

Marvin H.
McIntyre: Hello.

HMJr: Hello.

M: Henry?

HMJr: Talking.

M: I talked with the Boss this morning and showed him this whole business.

HMJr: Yes.

M: You saw the Budget Director's explanatory, apologetic letter, did you?

HMJr: No, I haven't seen it.

M: Well, it wasn't a bad letter.

HMJr: What?

M: It wasn't a bad letter. He ate a good deal of crow in it.

HMJr: Yes.

M: And I'm inclined to think and the Boss seems to think that probably the matter will just drop.

HMJr: Well, I don't think it will.

M: Well, of course, if he doesn't then we'll have to go after him again.

HMJr: Yeah. Well, I - I think the Boss has got to do something. This thing - it keeps coming up enough all the time, and I....

M: Yeah.

- 2 -

HMJr:I'm getting damn sick and tired of it.

M: Well, I agree with you on that, Henry, as I told you yesterday and told Mr. Paul. I also told the Budget that, but I've told the Budget that before.

HMJr: Yeah.

M: They're spreading all over the god damn government.

HMJr: And the....

M: But....

HMJr: The President just has to do something. It can't keep up. I - Paul and I haven't got energy enough to go up on the Hill and at the same time have people stabbing us in the back.

M: Yeah, and I quite agree with you. I think this was....

HMJr: Yes.

M:utterly inexcusable and I so told Harold. But I....

HMJr: Yes, but I think - I think - well....

M: I think you'd better just let it ride for the moment, Henry, and we'll talk it over with the Boss the first time we get a chance.

HMJr: Yeah. Well, I - I....

M: I - I don't think the - I don't think the action -- frankly, I want to be honest....

HMJr: Yes.

M:I don't think the action suggested -- I talked to Paul yesterday, this letter -- I don't think that's the best way to handle it.

HMJr: Yeah.

- 3 -

M: Unless the - Doughton himself gets irritated again about it, then we'll have to do something.

HMJr: Yeah.

M: But what I think the Boss ought to do is send some kind of memorandum like this over to Mr. Harold Smith. However, that's something we can work out with the Boss later.

HMJr: Well, we'll see how - how they act but....

M: That's what I thought we better do, Henry, and if you - anything - you hear anything - I'll let you know if I do, and you let me know if you do, will you?

HMJr: Okay.

M: Fine.

February 10, 1943
10:40 a.m.

TAXES

Present: Mr. Bell
Mr. Gaston
Mrs. Klotz

H.M.JR: I just spoke - it is too bad Paul isn't here - but Marvin McIntyre - are you (Bell) familiar with what I have been doing? That is the trouble. He is always on the Hill. I never can get my hands on him.

MR. GASTON: Is he on the Hill this morning?

H.M.JR: Yes. Now, McIntyre called me up. You see, we sent over a letter which we wanted the President to send up to Doughton, and you see, Paul doesn't take care - anyway, it's terrible. There is a proposed letter and I showed it to the President. He doesn't want to do anything about it, you see.

MR. BELL: What is this on?

H.M.JR: Are you familiar with it, Herbert?

MR. GASTON: Yes. It is a letter to Doughton stating that the Secretary of the Treasury is his representative on tax matters before the Ways and Means Committee, and not the Director of the Budget or anybody else.

H.M.JR: The President doesn't want to do anything about the letter. McIntyre said, "We will just let the thing slide unless he hears something from the Hill." Last night Paul asked if he should tell Doughton that we were trying to get the President to write a letter or to do something about it. I said that we couldn't do that.

But what I was going to tell Paul, if you people agree with me, is to tell Doughton that unless he again calls the White House, nothing will happen.

- 2 -

MR. GASTON: Yes. I would ask Doughton, if I were Paul, whether he got any direct word from the White House - that is a thing that he can only straighten out by direct contact with the White House - and suggest that he call them again.

MR. BELL: This was a proposed letter from the President to Doughton on this subject?

H.M.JR: Yes.

MR. GASTON: Did you see the way the Post handled Smith's crawl this morning?

H.M.JR: No, I didn't. How did they handle it?

MR. GASTON: They say that Smith took it back.

H.M.JR: Incidentally, the thing that you told me about in Byrnes' speech on taxes, wasn't in the speech.

MR. GASTON: It was not?

H.M.JR: No. Check it.

(The Secretary held a telephone conversation with Mr. Paul, as follows:)

February 10, 1943
10:47 a.m.

HMJr: Hello.

Operator: Mr. Paul.

HMJr: Randolph?

Randolph Paul: Yeah.

HMJr: Are you in a booth?

P: Yeah.

HMJr: Well, McIntyre called me, and I was handicapped because you didn't give me a copy of the stuff that you took over there with you.

P: Well, that was - I'm sorry but that....

HMJr: Well, you should have done it the first thing this morning. I've asked Miss Shelly for it now, and she's doing it - because I - we're here - you're up at one end; I'm here; and I've got the White House on my hands now and I haven't got the stuff to work with, and - now the President doesn't want to do this - hello?

P: Yeah.

HMJr: And unless there's a little stimulation from the other end, nothing's going to happen.

P: Yeah, I thought that would be. I couldn't talk very well to you last night, because Disney was sitting in a nearby room there, and I didn't want to....

HMJr: What's going on up there this morning?

P: Oh, it's very dull, but I have to go over in a little while and see Senator George about - about our appropriation.

HMJr: Yes. Well, let me ask you....

P: Pardon?

- 2 -

HMJr: When - when will you be able to have a talk with Doughton?

P: Well, I can't do it until the close of the session which may be twelve or twelve-thirty or - probably be about twelve-thirty.

HMJr: Well, I think that you could say this, that unless he insists on something - hello?

P: Yeah.

HMJr:this mess will continue.

P: Yeah.

HMJr: And this will be the best opportunity we have to straighten it out.

P: Yeah, I think I agree with you completely.

HMJr: And that after all it was - it's his committee and if he insists, I'm sure something will happen.

P: Yeah, I think you're right.

HMJr: See?

P: Yeah.

HMJr: And that you and I feel just as badly about it as he does.

P: Yeah. I'll have a talk with him.

HMJr: I used very strong language with McIntyre.

P: Pardon me?

HMJr: I used strong language with McIntyre....

P: Yeah.

HMJr:and he said, "Oh, let's see now what - if we hear anything more from the Hill."

P: Yeah.

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HMJr: Well, if they hear something from the Hill, something will happen.

P: Okay.

HMJr: What?

P: Okay, I - I'll put it up to Doughton.

HMJr: You don't have to say anything about that letter, you see?

P: Oh, no.

HMJr: But you can say that - well, I tell you how I feel. I - I want this thing out.

P: Well, I don't blame you.

HMJr: And you certainly do.

P: Well, I - yeah, I certainly do, and this is no better - there's no time when we'll be more in agreement with the Committee, and....

HMJr: And....

P:we may as well....

HMJr: And I think I - if you're going over to see George, I'd ask his advice.

P: I will.

HMJr: You see? I'd tell him - I'd ask his advice.

P: All right.

HMJr: Okay.

P: Yes, sir. I'll - I'll let you know a little later.

HMJr: They just sent me in that stuff.

P: I beg pardon?

HMJr: They've just sent me in - Miss Shelly just sent me the thing in.

P: Yeah, I'm sorry - I was think...

HMJr: Well, I....

P:I was thinking about something else. I - I sent you in this morning a - a copy of a - a transcript of a telephone conversation I had with Douglas. I wanted to have you get it before three - three-thirty.

HMJr: All right.

P: Okay.

HMJr: Thank you.

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H.M.JR: I don't think we will do anything else. I am going to keep at this thing.

MR. BELL: Smith will probably be called before noon. I understand that was Disney's proposal.

H.M.JR: Well, if I call Doughton out - I think it is better to leave it this way, don't you think so?

MR. GASTON: I think so.

H.M.JR: Rather than my calling Doughton.

February 10, 1943
10:50 a.m.

TAXES

Present: Mr. Gaston
Mr. Sullivan
Mr. Mager
Mr. Crampton

(Drafts of speeches handed to the Secretary by Mr. Mager.)

H.M.JR: (Reading) "I welcome this opportunity to speak to so many of my fellow Americans in all parts of the United States on a subject so vitally important as tax collections. I welcome too the opportunity of sharing this program with Representative Doughton, the distinguished Chairman of the House Ways and Means Committee, and Senator George, the equally distinguished Chairman of the Senate Finance Committee, who will address you on different aspects of the problem of tax collections."

Doesn't the Senator come before the Representative?

MR. GASTON: We thought in view of the order in which the tax bills are handled that it probably would be better to put Doughton first.

H.M.JR: I don't think so. I think I would put the Senator first.

"As Chairmen of the Congressional Committees delegated with the task of drawing up revenue measures, these gentlemen have given without stint of their time and their thought and their knowledge to give to the country the kind of tax program which will best fit a great nation's wartime needs.

"Some confusion and misunderstanding have unfortunately developed in regard to tax payments on March 15th." Can't

- 2 -

you be a little bit sarcastic through some - I don't want to use the word "meddler," but some little slurring remark on Mr. Ruml.

MR. SULLIVAN: You must remember, Mr. Secretary, that throughout this talk both these gentlemen have to be protected with their own Committees, that they are not in any way prejudiced to any plan that has come before them or may come before them.

H.M.JR: I had a wonderful phrase; I thought we would take Ruml out of Macy's bargain basement and bring him up where the sun could shine on him - let's have a look at him. (Laughter)

MR. SULLIVAN: I am afraid this isn't the place to use it. (Laughter)

H.M.JR: Don't you like it?

MR. SULLIVAN: I like it, but I don't think this is the place to use it.

H.M.JR: That the Ruml Plan "ain't" no bargain to the Treasury. Let's get him out of the bargain basement and have a look at him. (Laughter)

MR. MAGER: That becomes apparent from the content, I think, of Senator George's speech, anyway.

H.M.JR: "With so much talk in the last few weeks about pay-as-you-go plans, this was perhaps inevitable. I am confident, however, that at the close of our remarks there will be no grounds for further confusion and misunderstanding.

"And now I take great pleasure in introducing to you Representative Robert L. Doughton, Chairman of the Ways and Means Committee of the house of Representatives. REPRESENTATIVE DOUGHTON:"

You put Doughton first because you have first the one and the other - what do you think, Herbert?

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MR. GASTON: I thought so, because of the subject we are discussing. Doughton is working on that subject now.

H.M.JR: All right, so far so good.

"Draft of Representative Doughton's Speech. A nation cannot discharge its proper functions when a large number of its people labor under confusion and misunderstanding about vital issues. In peacetime such confusion and misunderstanding play unwittingly into the hands of the enemy. Doubt and uncertainty in our ranks are just what the enemy feeds on.

"There has been misunderstanding on the part of large numbers of Americans in regard to income tax payments due on March 15th. Many people have gotten the idea that they will not have to make their first quarterly instalment payment on or before that date. This confusion is exceedingly embarrassing to the Government. Taxes are the lifeblood which feeds the heart of a nation at war. The failure to pay taxes when due would interfere seriously with the effective prosecution of the war. And no American would do that!

"Let there be no misunderstanding. There has been no cancellation of taxes on 1942 income. There has been no postponement of taxes on 1942 income. There has been no change in the time or place of payment. The first quarterly instalment of the income tax is due on or before March 15th. Americans will pay in the usual manner.

"We all know what has given rise to the confusion and misunderstanding. There has been great interest in the country in making the income tax reflect more accurately the needs of the time. The income tax is no longer a tax on the few; it is a tax on the many. In the last year of world peace, 1939, there were under 4 million taxable returns; in 1943, the number has grown to an estimated 40 million taxable returns--an increase of 1,000 percent. Now that the income tax is really a people's tax, there is need to adopt some form of pay-as-you-earn; there is need to pay taxes on current earnings, not past earnings."

"Pay-as-you-earn" - isn't that a new phrase?

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MR. MAGER: That is the one we used.

MR. CRAMPTON: We used that on the series A tax notes folder.

H.M.JR: "The Ways and Means Committee of the House of Representatives is giving the most serious attention at the present time to various proposals for making taxpayers current. It is getting the advice and counsel of the Treasury. It is gathering testimony from witnesses. It is conducting its own independent investigations. As Chairman of the Ways and Means Committee, I can assure you the best plan for making the bulk of taxpayers current will be introduced at the earliest possible time.

"Taxpayers--and today that means practically all Americans--will realize that the change-over from the present system of collections to pay-as-you-earn is no simple task. It represents a basic change in our machinery of collection. We must secure the best system for year-in-year-out use. For when pay-as-you-earn is once introduced it will be the pattern of collections for many years to come, if not for all time. We are not dealing with an immediate problem alone. We are dealing with a system of collections for permanent use."

"Permanent use" - what does that mean?

MR. MAGER: That means that the "pay-as-you-earn" will not be simply a wartime expediency, but "pay-as-you-earn" is here to stay, and, therefore, we must keep in mind the basic pattern.

MR. SULLIVAN: I think that is a good thought, Mr. Secretary.

H.M.JR: "Every group in our national community presents different problems, and must therefore receive different treatment if justice is to be done. First, there is the problem of devising the best pay-as-you-earn plan for 30 million taxpayers who derive the bulk of their income from

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wages and salaries. They represent nearly 70 percent of all income taxpayers in 1943. In dealing with the salary and wage earner we must see to it that current collections approximate as closely as possible the employee's liability for the year. We must see too that the employee is not burdened with the task of making unnecessary returns. Finally, the machinery of collection must be made as adaptable as possible to the accounting and business methods of the employer.

"Second, there is the problem of devising the best system of current collections for 10 million small taxpayers whose incomes consist of business profits, professional fees, rents, and farm receipts. Their problem is different from that of wage and salary earners, and the system of current collection which is set up for them must differ accordingly. These taxpayers are also in need of a pay-as-you-go system of collections.

"Third, there is the problem of dealing with taxpayers with higher incomes. To provide complete current collection for this group in the higher income brackets may be impossible. Yet we still have the problem of making them current with respect to a large part of their liabilities.

"These are but a few of the problems with which the Ways and Means Committee is now dealing in an effort to devise the best plan for making the bulk of taxpayers current. Its recommendations, you may be sure, will be introduced at the earliest possible time.

"Meanwhile, let there be no misunderstanding or confusion. The first quarterly income tax payment on 1942 income is due on or before March 15th. Tax returns must be filed on or before that date."

That is all right.

Going back to page two, I would say, "I now take pleasure in introducing to you my old friend" at the bottom of the page.

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MR. GASTON: "The distinguished Chairman of the Ways and Means Committee"?

H.M.JR: "My old friend, Representative Robert M. Doughton."

MR. SULLIVAN: I think "Congressman" is better.

H.M.JR: That is right. When we come to George, I will say, "I now have the honor to present my good friend, Walter F. George." Make it a little personal - warm it up a little bit.

MR. SULLIVAN: Yes, I think so, too.

MR. GASTON: "My good friend, Walter F. George, Chairman of the Finance Committee of the Senate."

H.M.JR: "And now I have the honor to present Senator Walter F. George, Chairman of the Finance Committee of the Senate."

Is that all you are going to say about him?

MR. MAGER: That is all you can say when you are given a time limit.

MR. GASTON: I think that is enough.

H.M.JR: We have to say a little bit more.

MR. MAGER: I have said something in the introduction.

H.M.JR: A few more bouquets - they love it.

MR. MAGER: For both?

H.M.JR: No, for George. This is so abrupt, you see, between the two. I want to say a little bit more - ten or fifteen words - something about George, former Chairman of the Committee on Foreign Affairs - something - just a little bouquet so that it isn't so abrupt from one to the other.

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(Reading) "Draft of Sen. George's Speech. I want to endorse completely the remarks that have just been made by Representative Doughton and Secretary Morgenthau. Tax returns must be filed on or before March 15th. The Senate Finance Committee, of which I am privileged to be Chairman, recently adopted a resolution precisely to that effect. There should be no further grounds for confusion and misunderstanding.

"The Congress is at the present time giving the most serious and thoughtful consideration to the problem of making the majority of income taxpayers current in their obligations to the Government. The problem is by no means an easy one. Many issues are involved. Needless to say, these issues involve the welfare and well-being of all citizens. We must make haste slowly. Ill-considered legislation might be worse than none.

"Representative Doughton has already touched on one of the problems involved in making the bulk of taxpayers current. There is another issue, however, on which I would like to say a word, since it has given rise to some misunderstanding and confusion. That is the issue of cancelling -- or forgiving -- 1942 taxes.

"I do not pretend to know what Congress will do about all -- and I emphasize the word all -- of 1942 tax liabilities. I do know this, however. Congress has not cancelled, and will not cancel, the first instalment on those liabilities due March 15th. They must be paid on or before that date. The House Ways and Means Committee and the Senate Finance Committee have already gone on record to that effect.

"It may be that Congress later on may cancel all or part of 1942 tax liabilities. If you have paid your taxes on March 15th you have nothing to fear.

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Your payment will be credited to your account, reducing by so much the taxes you will later have to pay. This is an important consideration to keep in mind. The more you pay up now, the less you will have to pay in the future. You have everything to gain by paying; and you have everything to lose by not paying.

"Unfortunately, there are some people who do not realize this. They have gotten the false and erroneous idea that pay-as-you-go will reduce -- some way, somehow -- the amount of taxes they have to pay. Nothing could be farther from the truth. Pay-as-you-go will make the payment of taxes more convenient, to be sure. But it is precisely because taxes are high and, what is more, going higher, that the need for a more convenient method of payment is today so great. It is Utopian to believe that a change-over in our method of tax collections means less taxes. The change-over will undoubtedly be followed by still higher taxes. It is of the utmost importance, therefore, that you make as large a payment as you possibly can on 1942 liabilities. Every dollar credited to your account on March 15th means so much less to pay later on when the burden will undoubtedly be greater.

"This is certainly no time for illusions -- especially for illusions on the subject of taxes. With war expenditures increasing from day to day, the Government needs more, not less, revenues. Even cancellation in whole or in part of 1942 liabilities will only make it so much more necessary to increase taxes on 1943 incomes.

"Our country today is fighting for its life. Our fellow citizens in the Armed Services are giving all they have to make this a better world for you and me. To Americans in coming weeks the payment of taxes will not be a burden or a responsibility. It will be, as the President has so well said, a privilege."

That is good.

MR. SULLIVAN: Yes.

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H.M.JR: Put in somewhere that I feel the Treasury is indeed fortunate in having two such able men at the head of these important committees.

MR. SULLIVAN: I think that would go better in the first part.

H.M.JR: And that it has been a privilege to work for them.

MR. SULLIVAN: Not only the Treasury, but the country is fortunate.

H.M.JR: Yes, "...the country is fortunate."

MR. MAGER: I think it goes at the conclusion - after their remarks.

H.M.JR: Some place. Say, "I am sure the audience will agree with me that the country and the Treasury is indeed fortunate in having two such able men" - if you can get in - "...given so unstintingly of their time and energy."

MR. MAGER: I have those very words, as a matter of fact, some place.

H.M.JR: (Reading) "Draft of Secretary Morgenthau's Conclusion. I want to express my appreciation to Representative Doughton and to Senator George for their remarks this evening. All will agree, I am sure, that there should be no further uncertainty or misunderstanding about the need to pay income taxes on or before March 15th.

"The Treasury was one of the earliest advocates of pay-as-you-go. For the past eighteen months we have favored such a plan, and we are sincerely hopeful that a pay-as-you-go tax plan will be worked out and put in effect in the very near future.

"But may I remind you again: No plan which is adopted will make any change in the obligation of any person to

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file a report on his 1942 income before March 15th and to pay at least one-quarter of his tax at or before that time.

"May I urge you also not to delay filing a return? Delay can gain you nothing; but it can cause you, and your Government, a tremendous amount of trouble."

That isn't a threat?

MR. SULLIVAN: Say "inconvenience."

H.M.JR: I don't like the word "trouble."

MR. SULLIVAN: "Trouble to the country and inconvenience to the tax payer."

H.M.JR: It sounds a little bit like a threat; like "look out boys, you will be in trouble."

MR. MAGER: "Your Government" - that saves it. That takes away the aspect of fear.

H.M.JR: They could perfectly well, in writing it up, just leave out "your Government" - put a dash and say that Morgenthau said it can cause you a tremendous amount of trouble - in writing it up in the newspapers. They will just leave it out and say, "He goes on the radio and threatens the taxpayers."

MR. SULLIVAN: Say "a great deal of inconvenience."

H.M.JR: Yes. (Continuing) "The longer you wait before you file, the longer you will have to wait in line at the Collector's office if you have any questions to ask. And the longer you wait in line, the longer the man behind you will have to wait. He may very well be a war worker who is losing valuable time from his assembly line because you delayed so long. In individual cases this may not seem very serious, but in the aggregate -- multiplied by many millions -- it can add up to literally millions of man-hours of working time lost, working time

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thrown away. This is an extravagance we can ill afford in these days of total war.

"Finally, the prompt filing of a return -- tomorrow, if possible -- will be an immeasurable help to the staffs in the Collectors' Offices throughout the country. The period just before March 15th is a time of tremendous strain for them. From now until March 15th, it is nothing unusual for them to work 12 or 14 or even 16 hours a day; and from now until March 15th, the load they will carry becomes heavier and heavier.

"File your return, therefore, as soon as you can. It will be a service both to yourself and to your country."

I think it is very good.

MR. MAGER: Now, the real problem is to cut it; it is too big.

H.M.JR: I am not going to worry about that.

MR. SULLIVAN: With your permission, Mr. Secretary, before we bother you again, after we have cut this, I would like to take the two copies, one to Doughton and one to George.

H.M.JR: You take the words out of my mouth.

MR. SULLIVAN: I explained to them that it had to be viewed as one piece.

H.M.JR: I think you ought to try to see them tonight.

MR. SULLIVAN: Whenever they finish.

H.M.JR: Try to see them tonight because they are busy and they may fool around with it, but this is the easiest one I have ever had.

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MR. SULLIVAN: This is to be in your office Monday night at six-fifteen, and I think that perhaps it would be better if the announcer said that part that we want to get over - the fact that the chairmen of the two committees are there in your office making that broadcast.

H.M.JR: They will do that.

Who is handling the thing so that it goes out - so that it gets into the newspapers?

MR. GASTON: Chick will handle that. He spoke to me about one proposition - the newsreels would like to handle something on it, but on account of their release dates, they would like to do it in advance of your delivery and hold it in cold storage for delivery.

H.M.JR: Fine - if the Senators are willing.

MR. GASTON: I think we should insist - they talked about using some stuff they had already made up on the Representative, but I think we should insist that they do some of this actual quote in this release.

H.M.JR: They could do it here Saturday morning, maybe.

MR. SULLIVAN: Doughton's committee is meeting at ten o'clock on Saturday morning.

H.M.JR: He could be down here at nine o'clock.

MR. SULLIVAN: Do you want to ask them both?

H.M.JR: Check it.

MR. GASTON: We will check it with Chick as to time.

H.M.JR: You do this all through Schwarz - you don't bother Callahan? This is straight Treasury business.

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MR. GASTON: Yes, they asked Chick, direct, for it.

H.M.JR: While I have you all here - did you get my memorandum on how pleased I was with the publicity?

MR. SULLIVAN: Yes, sir.

H.M.JR: I thought it would be a good thing to send to the members.

MR. GASTON: Yes.

H.M.JR: I thought - to let them know what we are doing. I was simply amazed. Who does all of that?

MR. SULLIVAN: Mr. Secretary, for three years we have been trying to get you to see what we have been doing. You remember every year you get excited that we are not doing enough. The last time Commissioner Helvering was here we came in the room and he says, "I am not going to leave the room until he reads this memo." Three times he put that memo across the desk and you handed it back to him. There have been some things added in the last three years; in fact, every one of those three years.

MR. GASTON: John has held several meetings which we have been in and talked over the whole situation.

MR. SULLIVAN: The great bulk of the work the Bureau has been doing for several years.

H.M.JR: It is wonderful.

MR. GASTON: We have added some new things this year.

MR. SULLIVAN: Every year, for the last three years, we have added some new ones.

H.M.JR: Does Schwarz have anything to do with that?

MR. SULLIVAN: Chick has been very helpful in a lot of it.

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H.M.JR: Do you have publicity men in Internal Revenue?

MR. SULLIVAN: No, the Public Relations over there has been pretty quiet.

MR. GASTON: They need a good man over there. Too much of this stuff has to be done by Helvering, himself, Norman Cann, and Tim Mooney. Most of the planning has to be done by them.

H.M.JR: This is very easy, and if timed so that the newsreel can be done the first thing Saturday morning - I think it is fine. And you will see these fellows?

MR. SULLIVAN: Yes, sir, I will. And we will get that time for the newsreels before I go to see them this afternoon.

Draft of Secretary Morgenthau's Introduction

I welcome this opportunity to speak to so many of my fellow Americans in all parts of the United States on a subject so vitally important as tax collections. I welcome too the opportunity of sharing this program with Representative Doughton, the distinguished Chairman of the House Ways and Means Committee, and Senator George, the equally distinguished Chairman of the Senate Finance Committee, who will address you on different aspects of the problem of tax collections. As Chairmen of the Congressional Committees delegated with the task of drawing up revenue measures, these gentlemen have given without stint of their time and their thought and their knowledge to give to the country the kind of tax program which will best fit a great nation's wartime needs.

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Some confusion and misunderstanding have unfortunately developed in regard to tax payments on March 15th. With so much talk in the last few weeks about pay-as-you-go plans, this was perhaps inevitable. I am confident, however, that at the close of our remarks there will be no grounds for further confusion and misunderstanding.

And now I take great pleasure in introducing to you Representative Robert L. Doughton, Chairman of the Ways and Means Committee of the House of Representatives.

REPRESENTATIVE DOUGHTON:

Draft of Rep. Doughton's Speech

A nation cannot discharge its proper functions when a large number of its people labor under confusion and misunderstanding about vital issues. In peacetime such confusion and misunderstanding are bad enough. In wartime confusion and misunderstanding play unwittingly into the hands of the enemy. Doubt and uncertainty in our ranks are just what the enemy feeds on.

There has been misunderstanding on the part of large numbers of Americans in regard to income tax payments due on March 15th. Many people have gotten the idea that they will not have to make their first quarterly instalment payment on or before that date. This confusion is exceedingly embarrassing to the Government. Taxes are the lifeblood which feeds the heart of a nation at war. The failure to pay taxes when due would interfere seriously with the

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effective prosecution of the war. And no American would do that!

Let there be no misunderstanding. There has been no cancellation of taxes on 1942 income. There has been no postponement of taxes on 1942 income. There has been no change in the time or place of payment. The first quarterly instalment of the income tax is due on or before March 15th. Americans will pay in the usual manner.

We all know what has given rise to the confusion and misunderstanding. There has been great interest in the country in making the income tax reflect more accurately the needs of the time. The income tax is no longer a tax on the few; it is a tax on the many. In the last year of world peace, 1939, there were under 4 million taxable returns;

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in 1943, the number has grown to an estimated 40 million taxable returns--an increase of 1,000 percent. Now that the income tax is really a people's tax, there is need to adopt some form of pay-as-you-earn; there is need to pay taxes on current earnings, not past earnings.

The Ways and Means Committee of the House of Representatives is giving the most serious attention at the present time to various proposals for making taxpayers current. It is getting the advice and counsel of the Treasury. It is gathering testimony from witnesses. It is conducting its own independent investigations. As Chairman of the Ways and Means Committee, I can assure you the best plan for making the bulk of taxpayers current will be introduced at the earliest possible time.

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Taxpayers--and today that means practically all Americans--will realize that the change-over from the present system of collections to pay-as-you-earn is no simple task. It represents a basic change in our machinery of collection. We must secure the best system for year-in year-out use. For when pay-as-you-earn is once introduced it will be the pattern of collections for many years to come, if not for all time. We are not dealing with an immediate problem alone. We are dealing with a system of collections for permanent use.

Every group in our national community presents different problems, and must therefore receive different treatment if justice is to be done. First, there is the problem of devising the best pay-as-you-earn plan for

- 5 -

30 million taxpayers who derive the bulk of their income from wages and salaries. They represent nearly 70 percent of all income taxpayers in 1943. In dealing with the salary and wage earner we must see to it that current collections approximate as closely as possible the employee's liability for the year. We must see too that the employee is not burdened with the task of making unnecessary returns. Finally, the machinery of collection must be made as adaptable as possible to the accounting and business methods of the employer.

Second, there is the problem of devising the best system of current collections for 10 million small taxpayers whose incomes consist of business profits, professional fees, rents, and farm receipts. Their problem is different from that of wage and salary earners, and the system of

- 6 -

current collection which is set up for them must differ accordingly. These taxpayers are also in need of a pay-as-you-go system of collections.

Third, there is the problem of dealing with taxpayers with higher incomes. To provide complete current collection for this group in the higher income brackets may be impossible. Yet we still have the problem of making them current with respect to a large part of their liabilities.

These are but a few of the problems with which the Ways and Means Committee is now dealing in an effort to devise the best plan for making the bulk of taxpayers current. Its recommendations, you may be sure, will be introduced at the earliest possible time.

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Meanwhile, let there be no misunderstanding or confusion. The first quarterly income tax payment on 1942 income is due on or before March 15th. Tax returns must be filed on or before that date.

-oOo-

Draft of Sen. George's Speech

I want to endorse completely the remarks that have just been made by Representative Doughton and Secretary Morgenthau. Tax returns must be filed on or before March 15th. The Senate Finance Committee, of which I am privileged to be Chairman, recently adopted a resolution precisely to that effect. There should be no further grounds for confusion and misunderstanding.

The Congress is at the present time giving the most serious and thoughtful consideration to the problem of making the majority of income taxpayers current in their obligations to the Government. The problem is by no means an easy one. Many issues are involved. Needless to say, these issues involve the welfare and well-being of all citizens. We must make haste slowly. Ill-considered legislation might be worse than none.

- 2 -

Representative Doughton has already touched on one of the problems involved in making the bulk of taxpayers current. There is another issue, however, on which I would like to say a word, since it has given rise to some misunderstanding and confusion. That is the issue of cancelling -- or forgiving -- 1942 taxes.

I do not pretend to know what Congress will do about all -- and I emphasize the word all -- of 1942 tax liabilities. I do know this, however. Congress has not cancelled, and will not cancel, the first instalment on those liabilities due March 15th. They must be paid on or before that date. The House Ways and Means Committee and the Senate Finance Committee have already gone on record to that effect.

- 3 -

It may be that Congress later on may cancel all or part of 1942 tax liabilities. If you have paid your taxes on March 15th you have nothing to fear. Your payment will be credited to your account, reducing by so much the taxes you will later have to pay. This is an important consideration to keep in mind. The more you pay up now, the less you will have to pay in the future. You have everything to gain by paying; and you have everything to lose by not paying.

Unfortunately, there are some people who do not realize this. They have gotten the false and erroneous idea that pay-as-you-go will reduce -- some way, somehow -- the amount of taxes they have to pay. Nothing could be farther from the truth. Pay-as-you-go will make the payment of taxes more convenient, to be sure. But it is

- 4 -

precisely because taxes are high and, what is more, going higher, that the need for a more convenient method of payment is today so great. It is Utopian to believe that a change-over in our method of tax collections means less taxes. The change-over will undoubtedly be followed by still higher taxes. It is of the utmost importance, therefore, that you make as large a payment as you possibly can on 1942 liabilities. Every dollar credited to your account on March 15th means so much less to pay later on when the burden will undoubtedly be greater.

This is certainly no time for illusions -- especially for illusions on the subject of taxes. With war expenditures increasing from day to day, the Government needs more, not less, revenues. Even cancellation in whole or in part of

- 5 -

1942 liabilities will only make it so much more necessary to increase taxes on 1943 incomes.

Our country today is fighting for its life. Our fellow citizens in the Armed Services are giving all they have to make this a better world for you and me. To Americans in coming weeks the payment of taxes will not be a burden or a responsibility. It will be, as the President has so well said, a privilege.

-oOo-

That is good

Draft of Secretary Morgenthau's Conclusion

I want to express my appreciation to Representative Doughton and to Senator George for their remarks this evening. All will agree, I am sure, that there should be no further uncertainty or misunderstanding about the need to pay income taxes on or before March 15th.

The Treasury was one of the earliest advocates of pay-as-you-go. For the past eighteen months we have favored such a plan, and we are sincerely hopeful that a pay-as-you-go tax plan will be worked out and put in effect in the very near future.

But may I remind you again: No plan which is adopted will make any change in the obligation of any person to file a report on his 1942 income before March 15th and to pay at least one-quarter of his tax at or before that time.

- 2 -

May I urge you also not to delay filing a return?

Delay can gain you nothing; but it can cause you, and your Government, a tremendous amount of trouble. The longer you wait before you file, the longer you will have to wait in line at the Collector's Office if you have any questions to ask. And the longer you wait in line, the longer the man behind you will have to wait. He may very well be a war worker who is losing valuable time from his assembly line because you delayed so long. In individual cases this may not seem very serious, but in the aggregate -- multiplied by many millions -- it can add up to literally millions of man-hours of working time lost, working time thrown away. This is an extravagance we can ill afford in these days of total war.

- 3 -

Finally, the prompt filing of a return -- tomorrow, if possible -- will be an immeasurable help to the staffs in the Collectors' Offices throughout the country. The period just before March 15th is a time of tremendous strain for them. From now until March 15th, it is nothing unusual for them to work 12 or 14 or even 16 hours a day; and from now until March 15th, the load they will carry becomes heavier and heavier.

File your return, therefore, as soon as you can. It will be a service both to yourself and to your country.

-oOo-

I welcome this opportunity to speak to so many of my fellow Americans on the vital problem of income tax collections in wartime. I welcome too the opportunity of sharing this program with my good friends, Walter F. George, the distinguished Chairman of the Senate Finance Committee, and Robert L. Doughton, the distinguished Chairman of the House Ways and Means Committee. As Chairmen of the Congressional Committees delegated with the task of drawing up revenue measures, these gentlemen have worked without stinting their time or their thought or their knowledge to give to the country the kind of tax program which will best fit a great nation's wartime needs.

Our income tax today is no longer a tax on the few; it is a tax on the many. In 1940 there were less than

- 2 -

8 million income tax returns; this year there will be an estimated 35 million returns. This gives us some idea of the magnitude of the problem on which we are working.

Now that the income tax is really a people's tax, there is obvious need to re-examine it. Especially, there is need to make the tax payable on current earnings, not past earnings. The Treasury was one of the earliest advocates of pay-as-you-earn. For the past eighteen months the Treasury has advocated putting the income tax on a pay-as-you-earn basis. But in the discussion of how to put taxpayers on a current basis, a misunderstanding has arisen over the question of the tax payment due on March 15th.

To help clear this up, I have asked Congressman Doughton and Senator George to join me in talking to you this evening.

And now I take great pleasure in introducing to you my old friend, Congressman Robert L. Doughton, Chairman of the Ways and Means Committee of the House of Representatives, the Committee in which all tax legislation originates.

CONGRESSMAN DOUGHTON:

SECRETARY MORGENTHAU:

After a distinguished career as a judge in his native State, Senator George for years has been giving unstintingly of his great talents and abilities to the nation as a whole. I have the honor to present my good friend, Senator Walter F. George, Chairman of the Finance Committee of the Senate.

SENATOR GEORGE:

Draft of Secretary Morgenthau's Conclusion

I want to express my thanks to Senator George and to Congressman Doughton for their remarks this evening. The country is indeed fortunate to have at this time two so able and distinguished public servants. All will agree, I am sure, that there should be no further doubt or hesitation about the obligation of every American to file a report on his 1942 income before March 15th and to pay at least one-quarter of his tax at or before that time.

May I urge you also not to delay filing a return? Delay can gain you nothing; but it can cause you inconvenience, and your Government, a lot of unnecessary trouble. The longer you wait before you file, the longer you will have to wait in line at the Collector's Office if you have any questions to ask. And the longer you

- 2 -

wait in line, the longer the man behind you will have to wait. He may very well be a war worker who is losing valuable time from his assembly line because you delayed so long. In individual cases this may not seem serious, but in the aggregate -- multiplied by many millions -- it can add up to literally millions of man-hours of working time lost, working time thrown away. This is an extravagance we can ill afford in these days of total war.

Finally, the prompt filing of a return -- tomorrow, if possible -- will be an immeasurable help to the staffs in the Collectors' Offices throughout the country. The period just before March 15th is a time of tremendous strain for them. From now until March 15th, it is nothing unusual for them to work 12 or 14 or even 16 hours

- 3 -

a day; and from now until March 15th, the load they will carry becomes heavier and heavier.

File your return, therefore, as soon as you can.

It will be a service both to yourself and to your country.

-oOo-

TREASURY DEPARTMENT

267

INTER OFFICE COMMUNICATION

DATE February 10, 1943.

TO Secretary Morgenthau
FROM Harold Mager *hm*

Excuse the copy--it's the best we have, however.
The two originals were sent along to Senator George
and Congressman Doughton.

Draft of Secretary Morgenthau's Introduction

I welcome this opportunity to speak to so many of my fellow Americans on the vital problem of income tax collections in wartime. I welcome too the opportunity of sharing this program with my good friends, Walter F. George, the distinguished Chairman of the Senate Finance Committee, and Robert L. Doughton, the distinguished Chairman of the House Ways and Means Committee. As Chairmen of the Congressional Committees delegated with the task of drawing up revenue measures, these gentlemen have worked without stinting their time or their thought or their knowledge to give to the country the kind of tax program which will best fit a great nation's wartime needs.

Our income tax today is no longer a tax on the few; it is a tax on the many. In 1940 there were less than

- 2 -

8 million income tax returns; this year there will be an estimated 35 million returns. This gives us some idea of the magnitude of the problem on which we are working.

Now that the income tax is really a people's tax, there is obvious need to re-examine it. Especially, there is need to make the tax payable on current earnings, not past earnings. The Treasury was one of the earliest advocates of pay-as-you-earn. For the past eighteen months the Treasury has advocated putting the income tax on a pay-as-you-earn basis. But in the discussion of how to put taxpayers on a current basis, a misunderstanding has arisen over the question of the tax payment due on March 15.

To help clear this up, I have asked Congressman Doughton and Senator George to join me in talking to you this evening.

And now I take great pleasure in introducing to you my old friend, Congressman Robert L. Doughton, Chairman of the Ways and Means Committee of the House of Representatives.

CONGRESSMAN DOUGHTON:

Draft of Rep. Doughton's Speech

A nation at war cannot discharge its proper functions when a large number of its people labor under confusion and misunderstanding about vital issues. Such misunderstandings play unwittingly into the hands of the enemy. Doubt and uncertainty in our ranks are just what the enemy is hoping for.

There has been misunderstanding on the part of large numbers of Americans in regard to income tax payments due on March 15th. Many people have gotten the idea that they will not have to make their first quarterly instalment payment on or before that date. This confusion is very embarrassing to the Government. Taxes are the lifeblood of a nation at war. The failure to pay taxes when due would interfere seriously with the

effective prosecution of the war. And no American wants to let that happen!

Let me make this fact clear. There has been no cancellation of taxes on 1942 income. There has been no postponement of taxes on 1942 income. There has been no change in the time or place of payment. The first quarterly instalment of the income tax is due on or before March 15th.

We all know what has given rise to the confusion and misunderstanding. There has been great interest in the country in making the income tax reflect more accurately the needs of the time.

The Ways and Means Committee of the House of Representatives is giving the most serious attention at the present time to various proposals for putting

- 3 -

taxpayers on a pay-as-you-earn basis. It is getting the advice and counsel of the Treasury. It is gathering testimony from witnesses. It is conducting its own independent investigations. As Chairman of the Ways and Means Committee, I can assure you the best plan for making the bulk of taxpayers current will be introduced at the earliest possible time.

Taxpayers -- and today that means practically all Americans -- will realize that the change-over from the present system of collections to pay-as-you-earn is no simple task. It represents a basic change in our machinery of collection. We must secure the best system for year-in year-out use. For when pay-as-you-earn is once introduced it will be the pattern of collections for many years to come, if not for all time. We are

not dealing with an immediate problem alone. We are dealing with a system of collections for permanent use.

Meanwhile, let there be no misunderstanding or confusion. The first quarterly income tax payment on 1942 income is due on or before March 15th. Tax returns must be filed on or before that date.

-oOo-

SECRETARY MORGENTHAU:

After a distinguished career as a judge in his native State, Senator George for years has been giving unstintingly of his great talents and abilities to the nation as a whole. I have the honor to present my good friend, Senator Walter F. George, Chairman of the Finance Committee of the Senate.

SENATOR GEORGE:

I want to endorse completely the remarks that have just been made by Congressman Doughton and Secretary Morgenthau. The Senate Finance Committee and the House Ways and Means Committee recently adopted unanimously identical resolutions informing the American people that no pending tax-plan will relieve them of the necessity of filing an income tax return and paying their first quarterly instalment on March 15th. There should be no further grounds for doubt or hesitation.

I do not pretend to know what Congress will do about all -- and I emphasize the word all -- of our 1942 tax liabilities. I do know this, however. Congress has not cancelled, and will not cancel, the first instalment on these liabilities due March 15th. They must be paid on or before that date. The House Ways and Means Committee

and the Senate Finance Committee have already gone on record to that effect.

It may be that Congress later on may cancel all or part of 1942 tax liabilities. But by paying your taxes on or before March 15th you have nothing to fear. Your payment will be credited to your account, reducing by so much the taxes you will later have to pay. This is an important consideration to keep in mind. The more you pay up now, the less you will have to pay in the future. You have everything to gain by paying; and you have everything to lose by not paying.

Unfortunately, there are some people who do not realize this. They have gotten the false and erroneous idea that pay-as-you-earn will reduce -- some way, somehow -- the amount of taxes they have to pay. Nothing could be

- 3 -

farther from the truth. Pay-as-you-earn will make the payment of taxes more convenient, to be sure. But it is precisely because taxes are high and, what is more, going higher, that the need for a more convenient method of payment is today so great. It is day-dreaming to believe that a change-over in our method of tax collections means paying less taxes. The change-over will undoubtedly be followed by still higher taxes. It is of the utmost importance, therefore, that you make as large a payment as you possibly can on 1942 liabilities. Every dollar credited to your account on March 15th means so much less to pay later on when the burden will undoubtedly be greater.

This is certainly no time for illusions -- especially for illusions on the subject of taxes. With war expenditures

increasing from day to day, the Government needs more, not less, revenues. Even cancellation in whole or in part of 1942 liabilities will only make it so much more necessary to increase taxes on 1943 incomes.

Our country today is fighting for its life. Our fellow citizens in the Armed Services are giving all they have to make this a better world for you and me. To Americans in coming weeks the payment of taxes will not be a burden or a responsibility. It will be, as the President has so well said, a privilege.

-oOo-

FROM: MR. PAUL'S OFFICE

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Mrs. Klotz

2-10-43

Attached is a transcript of my telephone conversation with Justice Douglas yesterday in regard to Joe Panuch.

Would you please show it to the Secretary so he can read it before the 3:30 meeting with Joe Panuch this afternoon.

R.E.P.

Also attached is a memorandum on Panuch which I would like him to have.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

February 10, 1943

FROM Randolph Paul

Joe Panuch, who used to be in charge of the New York office of the Reorganization Division of the Securities and Exchange Commission, and who, more recently, has been with the Board of Economic Warfare, is available and, I think, should be given serious consideration in connection with the job of "riding herd" for you on our Procurement activities.

I have known Panuch for several years and have a very high regard for his ability, integrity and energy. Bill Douglas also speaks very well of him. He is admittedly competent, knows his way around town pretty well and, during his work with BEW has had a great deal of liaison work with such agencies as WPB, Lend-Lease Administration, etc.

He is a lawyer and I would like nothing better than to offer him a job as Assistant General Counsel, but Lend-Lease Procurement appeals to him more as something in which he would be making a fairly direct contribution to the war effort (as distinguished from the rest of the work of my office!).

RSP

Mr. Paul's telephone conversation with Justice Douglas
3:42 p.m., February 9, 1948.

- P: I called you because I had lunch with Joe Panuch Sunday, and he evinced a good deal of interest in one of the jobs down here. It hasn't gone beyond the stages of my talking with Joe. One of the men here has been concerned whether Joe had a fight over at BEW and what he had been doing and he talked a little to me about it. I don't know whether there was any trouble, or whether it was Joe's fault or what.
- D: Joe got into an unhappy situation that Joe couldn't stomach.
- P: He told me about some fellow; I forget his name.
- D: I held Joe in hand as a friend at that time and was rather sympathetic with him.
- P: You think that it was not Joe's fault.
- D: Oh no. Joe's the most complacent guy I have known. I sent him into a pack of trouble against some tough guys in New York and he worked along with them fine.
- P: I have seen him in conference with Judge Cox and I know their relationship is good.
- D: - That was a very bad start because Cox wouldn't even come to lunch with me when I wanted to tell him what I was going to do.
This was kind of a small minded potato who cracked him over the head for 4 or 6 months and Joe couldn't take it.
- P: One of my men was a little concerned, but I wanted a reassuring word from you.
- D: I have 100 percent confidence that there is nothing to it. I think he would be a good guy for you. He is a good tail gunner. He would always be working for you, not for somebody else.

- 2 -

P: He doesn't like the jobs that have legal work - he wants to win the war on the front line.

D: He would be sure to be your half-back, not somebody else's.

P: Okay.

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

February 10, 1943

FROM Randolph Paul

For your information I am attaching a personal history sheet which Joe Panuch left with me this afternoon.

RP

Attachment

January 24, 1948

J. Anthony PanuchBorn: January 25, 1899, Austria Hungary. Emigrated to U.S. 1906Residence: New York City, N. Y. and Blowing Rock, N. C.

| | | | |
|--|-----------------------|-------------|------|
| <u>Education:</u> St. Joseph's Academy | Convent Station, N.J. | 1906 - 1913 | |
| Fordham Prep. | New York, N.Y. | 1916 | |
| Fordham College | New York, N.Y. | 1921 | A.B. |
| University of Vienna | Vienna, Austria | 1921 - 1922 | |
| Columbia Law School | New York, N.Y. | 1925 | LLS |

Professional Status:

Admitted to New York Bar 1926. Member of Bar of the Supreme Court of the United States, U.S. District Courts of New York, New Jersey, and Pennsylvania.

Experience:

1. Law: Corporate Finance and Guidance; Trial and Appellate Litigation in State and Federal Courts.

2. Governmental:

1935-1938 Reconstruction Finance Corporation. Special Admiralty Counsel to the RFC. Supervised approval and administration of all RFC liens involving maritime collateral under Ship Mortgage Act.

1938-1942 Securities Exchange Commission. Special counsel to the SEC in corporate reorganizations under the Federal Reorganization Act of 1938. Conducted reorganizations of McKesson & Robbins, Inc., Associated Gas & Electric Corporation, Philadelphia, Coal & Iron Company, Pittsburgh Railways Company, etc.

Board of Economic Warfare:

Jan. to April 1942 Vice Chairman of Policy Committee, BEW, and Chairman of BEW-OPA Export Price Ceiling Committee.

April 1942 to date Chief of Requirements Branch, Office of Exports; BEW member American Requirements Committee (WPB); Combined Export Markets Committee (CRMB); OLLA-BEW

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April 1942 to date Chief of Requirements Branch, Office of Exports; BEW member American Requirements Committee (WPB); Combined Export Markets Committee (CRMB); OLLA-BEW

- 2 -

Coordinating Committee; WPB Steel Requirements Committee;
Chairman Export Tonnage Requirements Committee (State-BEW)
Chief Program Supply Branch, BEW; BEW member Controlled
Materials Board, WPB; BEW Controlled Materials Officer;
Overall BEW Liaison Officer to WPB in charge of all
operations of BEW as Claimant Agency and under Controlled
Materials Plan.

February 10, 1943
4:53 p.m.

Operator: Operator.

HMJr: Mr. Bell.

Operator: Right. Mr. Bell.

HMJr: Hello.

Daniel Bell: Yes.

HMJr: Dan?

B: Yes, sir.

HMJr: I called Frank Knox and told him please to get in touch with Hull. Then I thought, well, I might just as well call up Grace Tully. They knew nothing about it.

B: Knew nothing about it.

HMJr: She said it would save time if we sent a fresh copy over right away to her.

B: Really?

HMJr: Hello?

B: All right.

HMJr: Do I - should I sign it?

B: Well, it really - it was Hull's business. He - he signed the other.

HMJr: No, but this was a memo to the President, wasn't it?

B: Yeah, well, Hull signed it. Now Hull signed the original.

HMJr: The original?

B: As I understand it, Hull signed it, yeah.

HMJr: Oh.

- 2 -

B: The one that you looked at this morn... - just now. It was Hull's memorandum to the President.

HMJr: Oh, I thought that was my memo.

B: No, no, I'm sorry.

HMJr: Oh, my God!

B: No, no, it was Hull's....

HMJr: Well, call up Feis, will you?

B: Yeah.

HMJr: And tell him that Miss Tully can't lay her hands on it, and would she - can he get Hull to sign one right away.

B: Yeah.

HMJr: And send it over specially to Miss Tully. She's waiting for it.

B: Yeah. I got another suggestion for a quick operation.

HMJr: Yeah.

B: Do you remember this military mission that was here, this General Bethouart?

HMJr: Yes.

B: They gave him \$200,000 for expenses....

HMJr: Yes.

B:and a fellow by the name of Picot who is, I think, Giraud's man....

HMJr: Yeah.

B:has authority to disburse that money, and we don't think they used very much of it before the mission went back, and it wouldn't take very much to pay these soldiers their first - these crews their first money....

- 3 -

HMJr: Yeah, well....

B:and let them go on leave. Now they could pay it out of that money.

HMJr: Well, we....

B: That will be a quick operation.

HMJr: We could do that in the morning. But, in the meantime, tell Feis can't they type up one quickly there.

B: All right. Do it right away.

HMJr: And - and rush it over to Miss Tully.

B: Fine.

HMJr: And tell him if there's any trouble about it to call you back.

B: All right. Fine.

February 10, 1943.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

I have read Beardsley Ruml's address delivered before the Institute of Public Affairs at the University of Virginia on June 27, 1941, under the title "National Fiscal Policy and the Two Super-Budgets."

Enmeshed in a lot of pseudo-economic double talk are these simple suggestions:

Both the receipt and expenditure of money by the Federal Government affect National income.

Different classes of receipts have differing effects and this is true also of expenditures.

By selecting the right kind of taxes or other withdrawal of funds and by selecting the right type of expenditures, it is possible to produce either inflation or deflation as desired.

This can be done within the limits of a budget balanced in dollars.

His conclusions present no striking contribution to theory on this subject so far as I can see and the major thesis is highly debatable.

msb

THE WHITE HOUSE
WASHINGTON

February 10, 1943

Dear Mr. Bartelt:

You are hereby designated Vice Chairman of the Interdepartmental Committee for the Voluntary Pay Roll Savings Plan for the Purchase of War Savings Bonds, created by Executive Order No. 9135, dated April 16, 1942.

In this capacity, you are authorized and directed to perform the duties of the Chairman of the Committee in his absence.

Sincerely,



Mr. E. F. Bartelt,
Commissioner of Accounts,
Treasury Department,
Washington, D. C.

H. M. Jr.

February 8, 1943

TO THE PRESIDENT:

Admiral Conard, whom you appointed Chairman of the Interdepartmental Committee for the Voluntary Payroll Savings Plan for the purchase of War Savings Bonds, is ill and unable to carry on these duties. It appears that he may be out for some time.

As the work is not now being pushed very enthusiastically I suggest that you sign the attached letter appointing Mr. E. F. Bartelt, Commissioner of Accounts in the Treasury Department, as Vice Chairman of this Committee in order that he can act as Chairman while Admiral Conard is absent.

(Signed) H. Morgenthau, Jr.

DNB:ULE

Sent by Harmon 5:10 2/8/43

Copy in Diary

awB

Dear Mr. Bartelt:

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Sincerely,

Mr. E. F. Bartelt,
Commissioner of Accounts,
Treasury Department,
Washington, D. C.

HNG/mff

(initialed HMJ)

[Handwritten signature]

TREASURY DEPARTMENT

294

INTER OFFICE COMMUNICATION

DATE

February 10, 1945.

TO Secretary Morgenthau

FROM George Buffington *GB*

Subject: Summary of comments about the December drive and suggestions about future drives received from Chairmen and Executive Managers of the Victory Fund organization.

Organization.

There is considerable sentiment for coordination of the activities of the War Savings Staff and the Victory Fund organization, with New York, Richmond, Chicago, Minneapolis, and Kansas City suggesting this be accomplished by appointment of a general sales director to head both organizations.

Further expansion of the Victory Fund organization is regarded as necessary, with suggestions that it should be built around commercial bankers and investment bankers where available. A few districts suggest broader use of insurance and other salesmen.

The majority favors three or four drives a year, each of three to four weeks' duration, with four to six weeks' advance notice of the objective and at least three weeks' advance notice of detailed terms of the securities to be offered.

There is some sentiment for confining drives to nonbank investors, with Chicago, St. Louis, Minneapolis, in favor, and San Francisco opposed.

Suggestions for types of securities to be offered.

Nearly all districts favor offering several maturities in each drive - a short-term security for banks and a long-term issue for all others. Boston alone suggests fewer issues.

Boston, Philadelphia, and Cleveland suggest commercial banks, particularly those with savings accounts, be permitted to subscribe to limited amounts of 2½'s. Chicago and San Francisco are opposed. Richmond suggests banks be permitted to buy limited amounts for resale to the public.

Cleveland and Chicago favor a "borrow and buy" plan, with San Francisco opposed. (No comments from others.) St. Louis suggests 2½'s be made redeemable at par to estates of deceased owners regardless of whether used for inheritance taxes.

Boston, New York, Cleveland, and Richmond favor \$100 denominations for 2½'s; San Francisco favors a \$500 limit; no comment from others.

- 2 -

Elimination of Series F and G savings bonds.

The majority favors elimination of Series F and G bonds, but suggests a substitute security, or modification of terms of S $\frac{1}{2}$'s to make them more desirable.

Quotas.

Eight of twelve districts favor quotas. The Regional Chairmen in New York and the Executive Manager in San Francisco are opposed.

Compensation.

New York opposes payment of commissions to salesmen. The Boston Executive Manager suggests adoption of the Canadian method of paying on an overhead basis. The Chicago Victory Fund District Committee states that many of the organizations which have contributed effectively during the past year will be financially unable to maintain their effort without being reimbursed for the cost of their activities, and suggests Federal Reserve Banks be authorized to retain them prior to and during the campaign, reimbursing them for the cost of such personnel and facilities as may be made available. The San Francisco Executive Manager opposes per diem compensation as such, but believes a compensation allotment to the individual firm should be given some consideration. No comment was received from other districts.

Publicity.

A majority favors a paid full-time publicity staff in district headquarters and temporarily employed publicity men in other cities. There is a strong sentiment for a broad, comprehensive, national publicity program, with coordination of publicity activities of the War Savings Staff and the Victory Fund Committee to avoid confusion and duplication.

Advertising.

The majority favors use of more advertising, with some districts suggesting it be paid for by the Treasury and that distribution be handled through Federal Reserve Districts. Continuance of sponsored advertising is favored, with suggestions that more mats be supplied and that they be made available well in advance of the drive.

General comment.

The majority favors lapel buttons or other distinctive insignia for Victory Fund Committee workers.

Several call attention to confusion and sales resistance created by statements of Government officials on taxes, pay-as-you-earn plans, compulsory savings and other controversial subjects during progress of the drive.

Several districts express concern over the Manpower problem.

FEB 10 1943

My dear Mr. Murray:

It gives me great pleasure to hand you herewith a citation recording the thanks and appreciation of the United States Treasury Department for the admirable service and cooperation of the Congress of Industrial Organizations in the War Savings Program. Neither the Treasury Department nor I personally have ever called upon your organization or yourself for help in the national war effort without being met with a most generous response. It has been one of the most encouraging features of our program to have had the wholehearted cooperation of the millions of officers and members of the great labor bodies which you represent. This citation is only a gesture of our recognition, but it is a sincere and wholehearted gesture.

Very cordially yours,

(Signed) H. Morgenthau, Jr.

Philip Murray, Esq.,
President,
Congress of Industrial Organizations,
715 Jackson Place, N. W.,
Washington, D. C.

JLM:G

Copy in Diary

Copy to Thompson

(Mailed out by
Odegard's office)

FEB 10 1943

My dear Mr. Cashen:

It gives me great pleasure to hand you herewith a citation recording the thanks and appreciation of the United States Treasury Department for the admirable service and cooperation of the Railway Labor Executives' Association in the War Savings Program. Neither the Treasury Department nor I personally have ever called upon your organization or yourself for help in the national war effort without being met with a most generous response. It has been one of the most encouraging features of our program to have had the wholehearted cooperation of the millions of officers and members of the great labor bodies which you represent. This citation is only a gesture of our recognition, but it is a sincere and wholehearted gesture.

Very cordially yours,

(Signed) H. Morgenthau, Jr.

T. C. Cashen, Esq.,
Chairman,
Railway Labor Executives' Association,
10 Independence Avenue, S. W.,
Washington, D. C.

Copy in Diary

Copy to Thompson

(Mailed out by
Odegard's office)

FEB 10 1943

My dear Mr. Green:

It gives me great pleasure to hand you herewith a citation recording the thanks and appreciation of the United States Treasury Department for the admirable service and cooperation of the American Federation of Labor in the War Savings Program. Neither the Treasury Department nor I personally have ever called upon your organization or yourself for help in the national war effort without being met with a most generous response. It has been one of the most encouraging features of our program to have had the wholehearted cooperation of the millions of officers and members of the great labor bodies which you represent. This citation is only a gesture of our recognition, but it is a sincere and wholehearted gesture.

Very cordially yours,

(Signed) H. Morgenthau, Jr.

William Green, Esq.,
President,
American Federation of Labor,
A. F. of L. Building,
Washington, D. C.

Copy in Diary

Copy to Thompson

(Mailed out by
Odegard's office)

JMS

JKO

2-10-43

299

TREASURY BILLS

| | <u>Feb. 10</u> | <u>Feb. 3</u> | <u>Jan. 27</u> | <u>Jan. 20</u> |
|---------------------------------|----------------|---------------|----------------|----------------|
| Amount offered | \$700 M | \$700 M | \$700 M | \$700 M |
| Bids tendered | 1,042 | 1,302 | 1,012 | 1,307 |
| Low rate | .237% | .297% | .237% | .237% |
| High rate | .376 | .372 | .376 | .372 |
| Average rate | .372 | .369 | .370 | .366 |
| Amount in New York | \$445 M | \$287 M | \$430 M | \$312 M |
| Amount in Chicago | 60 | 134 | 73 | 139 |
| Amount in San Francisco | 51 | 41 | 67 | 49 |
| Amount in balance of country .. | 244 | 238 | 130 | 201 |

300

1 call
4/24/43

February 10, 1943

TO: Mr. Sullivan
Mr. Paul

FROM: The Secretary

Before I was taken ill, I made the suggestion that all servicemen killed in action be forgiven their taxes. Now I see that Mr. Dingell has taken it up.

I personally think that the taxes of a man or woman killed in action should be forgiven and if we are going to do something about it, I would like to announce the Treasury's position personally or have Paul announce it before the Committee as my personal opinion.

Let me hear from you.

Taxes on Men in Service

301

REP. JOHN D. DINGELL, SEEKING TO "FORGIVE" INCOME TAX LIABILITY OF MEN KILLED IN ACTION, DENOUNCED FEDERAL REVENUE AGENTS WHO "DESCEND LIKE VULTURES" ON THE FAMILIES OF SLAIN SOLDIERS, SAILORS AND MARINES TO COLLECT THE GOVERNMENT'S DUE.

DINGELL WILL SEEK TO AMEND PROPOSED PAY-AS-YOU-GO LEGISLATION TO FORGIVE COMPLETELY ALL TAX DEBTS OF MEN KILLED IN ACTION.

"BEFORE THE SHOCK OF THE DEATH NOTIFICATION IS PASSED, FAMILIES OF SLAIN MEN HAVE RECEIVED A COLD-BLOODED NOTICE FROM A SUPPOSEDLY-GRATEFUL GOVERNMENT," DINGELL SAID. "THIS MAY BE IN ACCORD WITH CUSTOM AND LAW, BUT IT CERTAINLY IS NOT IN ACCORD WITH THE ATTITUDE THE NATION SHOULD HAVE TOWARD ITS WAR DEAD.

"THOSE WHO HAVE MADE THE SUPREME SACRIFICE COULD AT LEAST BE FORGIVEN THEIR SMALL DEBT TO THE GOVERNMENT. HERE IS ONE TAX WE COULD RIGHTLY 'FORGIVE'."

DINGELL'S PROPOSAL, WHICH WOULD ALSO COVER WAACS, WAVES AND SPARS, BUT NOT MEMBERS OF THE MERCHANT MARINE, HAS BEEN INTRODUCED IN THE FORM OF A BILL, BUT HE SAID HE WOULD SEEK TO HAVE IT APPENDED TO THE PAY-AS-YOU-GO BILL.

2/10--SB1111A

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301

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2/10--SB1111A

February 10, 1943.

Dear Mr. Stricker:

On my return from an absence from Washington, I received your letter of February 2, with which you sent me a copy of your good letter to the editor of Time Magazine.

I do not take the comments in Time Magazine as personal to me, but appraise them much as you did, and I am therefore all the more grateful for your writing to the editor.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Sidney G. Stricker,
Ridge Road, Amberley Village,
R.R. 6, Box 31-A,
Cincinnati, Ohio.

MS

February 4, 1943.

Mr. Sidney D. Stricker,
Ridge Road, Amberley Village,
R.R. 6, Box 31-A,
Cincinnati, Ohio.

Dear Mr. Stricker:

In the absence of Secretary Morgenthau from Washington I am writing to acknowledge receipt of your letter of February 2, with which you enclosed a copy of your letter of the same date to Mr. Henry K. Luce, Editor and Publisher of Time Magazine.

The Secretary will, I am sure, be much interested in your letter and the enclosure and will appreciate your having sent them to him.

Very truly yours,

Herbert E. Gaston
Assistant Secretary of the Treasury.

Mr. Foster 304

SIDNEY G. STRICKER
RIDGE ROAD, AMBERLEY VILLAGE
R. R. 6 BOX 31 A CINCINNATI, OHIO

February 2, 1943.

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

Dear Sir:

My indignation was aroused by the article appearing in last week's issue of Time Weekly Magazine, (January 25th) in which you are made the target for abuse, to say nothing of the picture on the front page.

The article, in my judgment, was such a flagrant abuse of Editorial privilege and a wilful and malicious attack on the Administration, I could not let it go unchallenged.

I accordingly wrote Henry K. Luce, Editor of Time, a letter as per copy enclosed. Ordinarily, articles of this kind do not merit the dignity of response, and should be ignored. But considering the wide circulation of Time and the influence it has upon its subscribers and readers, and that this is not the first offense of Time and Mr. Luce's other publications, I felt it was about time for someone to call a halt on the policy of Mr. Luce and his collaborators.

I never have had the pleasure to meet or speak to you. For purposes of identification, I am a retired lawyer, having practiced law in Cincinnati for almost fifty years, ran twice for Congress against the Honorable Nicholas Longworth, once in 1918, and again in 1922, was defeated both times, and am a brother-in-law of your cousin, Phil Trounstine, whose wife is a sister of my wife. I have not spoken to or consulted Phil about my letter to Luce, who probably would disapprove of my observations, in view of his close relationship with you, and his present duties as Chairman for Ohio in the sale of War Defense Bonds.

Sincerely yours,

Sidney G. Stricker

SIDNEY G. STRICKER
 RIDGE ROAD, AMBERLEY VILLAGE
 R. R. 6 BOX 31 A CINCINNATI, OHIO

February 2, 1945

Henry K. Ladd,
 Editor, Time Weekly Magazine,
 Time & Life Bldg.,
 Rockefeller Center,
 New York.

Dear Sir:

Altho I am not a "New Dealer" and differ in many respects with President Roosevelt's political and economic policies, I cannot read your personal attack upon Secretary Morgenthau, in your issue of Jan of January 25th, except as a thinly disguised effort to discredit President Roosevelt's administration. This, while we are at War, engaged in a struggle for our national existence against a ruthless enemy, to say nothing of our efforts to preserve civilization.

Whatever may be your political views about President Roosevelt's policies, he is Commander in Chief of our Armed Forces, and is doing a good job of it, I think.

It is too obvious for discussion, that you are playing "politics", and are more interested in discrediting President Roosevelt's administration and electing a Republican President in 1944, than winning the War.

It is Articles such as yours that give aid and comfort to the enemy and encourage the false belief that the American people are not united in our war policy. Hitler and Goebbels will find comfort in your attack on Secretary Morgenthau. Particularly, the picture on your front page and reference to his father, former Ambassador to Turkey, as being "a distinguished Jewish lawyer and philanthropist who made a fortune in Brazil coal deals". If this is not intended to arouse race hatred - what is it?

This is good propaganda for Hitler and Goebbels, and lends confirmation to their claim that the Jews are responsible for the War and that President Roosevelt is dominated by Jewish influences.

See page 2

page 2.
Ernest K. Lane.
2/2/45.

My views may mean nothing to you, but let me assure you, I am only one of many thousands who resent your utter lack of fairness and patriotism, who do not believe in your intent.

You are at liberty to publish this letter in your Time column of "Letters", with any comment you see fit to make.

I am sending a copy of this letter to Secretary Magenthien and Mr. Stephen Early, secretary to the President, with request that he bring the same to the attention of the President.

Yours very truly,

Sidney G. Stricker

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

February 10, 1948.


TO Secretary Morgenthau

FROM Mr. Paul

I attach a memorandum addressed to the question you asked Mr. Cairns whether the Celler amendment to our 1944 appropriation would prevent you from purchasing silver.

The memorandum concludes (1) that the amendment would not repeal the Silver Purchase Acts, and therefore would not terminate the legislative authority to purchase silver; but (2) that by precluding the use of the Treasury appropriation "directly or indirectly" for the purpose it would have the effect of preventing the purchase of silver under the existing procedure. While the existing purchase procedure might be modified in an effort to continue purchasing silver, there would remain almost insuperable difficulties in connection with the problem of paying the salaries of certain officers and employees who are involved in various ways in the making of such purchases and in connection with the appropriate method of allocating certain other items of cost.

Beginning on page 4 of the memorandum, there are listed certain problems in the administration of the Silver Purchase Acts, other than the purchase of silver, which would be raised by the adoption of the Celler amendment.



TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE FEB 10 1943

TO Secretary Morgenthau

FROM Mr. Paul

Yesterday the House adopted the following amendment, offered by Mr. Celler, to the pending Treasury and Post Office Departments Appropriation Act, 1944:

"No part of any money appropriated in this act shall be used directly or indirectly during the fiscal year 1944 for the purchase or procurement of silver under the provisions of the silver purchase acts, namely, the act of June 19, 1934, and the act of July 6, 1939, or for the carrying out of any of the provisions of such silver purchase acts."

The amendment would not have the effect of repealing either the Silver Purchase Act of 1934 or section 4 of the Act of July 6, 1939 (which provides for the deposit of newly-mined domestic silver at the mints).

However, the amendment would have the effect of prohibiting the use of the Treasury appropriation for the purchase or procurement of silver under either of the above Acts and of preventing the use of such funds "for the carrying out of any of the provisions" of those Acts. Moreover, the amendment is directed to the use of the appropriated funds "directly or indirectly". In the light of the discussion

- 2 -

on the floor of the House in connection with proposed substitutes for Mr. Celler's amendment and the language of the amendment as finally adopted, it is believed that the Treasury appropriation could not be used for any expenditures whatsoever, including salaries of officers and employees, involved in the purchase or procurement of silver or in carrying out any of the provisions of the Silver Purchase Acts.

Although the Treasury is not presently purchasing any silver under the Silver Purchase Act of 1934, the procedure which has been used in the past consists of purchases in the first instance by the Federal Reserve Bank of New York as fiscal agent of the United States. The funds used are those held by the Treasurer which are not otherwise appropriated. Thus, the initial step in the acquisition of silver under this Act does not require the use of funds appropriated in the annual Treasury appropriation. After the silver has been purchased and delivered, it is turned over to the mints and some of their activities in connection with this silver are paid out of funds appropriated in the annual Treasury appropriation. These costs are incurred principally in transporting, guarding, checking and storing the silver. Since Mr. Celler's

- 3 -

amendment, as originally offered, prohibited in specific terms the guarding, checking, storage and transportation of silver during the fiscal year 1944 but was subsequently amended to strike out the words "storage, guarding, checking and transportation", it would appear to be clear that Congress did not intend to prevent the use of these funds for such purposes. Consequently, the activities of the mints in connection with silver already acquired under the Silver Purchase Act of 1934 and the Act of July 6, 1939 can probably continue. It is extremely doubtful, however, whether such activities could take place with respect to silver acquired after June 30, 1943.

As provided by section 5 of the Silver Purchase Act of 1934, silver certificates are required to be issued in a face amount equal to the cost of silver acquired under that Act. The cost of printing and issuing these certificates is paid out of funds appropriated in the annual Treasury appropriation. Since the printing and issuance of these certificates constitutes the carrying out of one of the provisions of the Silver Purchase Act of 1934, it would appear that the 1944 appropriation cannot be used for that purpose. This will have the effect of indirectly preventing the purchase of silver under the Silver Purchase Act of 1934. When silver

- 4 -

is purchased under that Act certificates must be issued against a portion of it and as no certificates can be issued, it follows that the silver cannot be purchased.

With respect to the acquisition of newly-mined domestic silver pursuant to section 4 of the Act of July 6, 1939, the amendment operates more directly. All the administrative costs involved in carrying out the duties of the mints prescribed by that Act are paid out of the annual appropriation of the Treasury. These duties include the determination of whether silver deposited meets the requirements of the 1939 Act and the regulations issued thereunder. If no funds can be used for these purposes, the mints cannot carry out the duties imposed upon them by the Act providing for the acquisition of this silver. Since the administrative costs cannot be taken care of and the duties of the mints must be performed, it follows that this type of silver cannot be acquired.

In addition to the problem of whether silver may be purchased if this amendment should become law in its present form, the following problems would arise:

(a) Section 4 of the Silver Purchase Act of 1934 authorizes the Secretary, with the approval of the President, to sell silver acquired under that Act if the market price

- 5 -

of silver exceeds its monetary value or if the silver stocks exceed one quarter of the total monetary stocks of gold and silver. The sale of silver pursuant to that section will probably involve administrative costs and the absence of any fund from which such costs might be paid would effectively prevent such sales.

(b) Section 8 of the Silver Purchase Act of 1934 provides for a tax on profits derived from transfers of silver. This tax is administered by the Bureau of Internal Revenue and its expenses are paid out of the annual Treasury appropriation. If the amendment is enacted in its present form the Bureau may no longer be able to enforce the tax.

(c) There are presently in existence agreements with the Bank of Mexico and the Bank of Canada which provide for the purchase of silver by the Treasury from those banks. Enactment of this amendment might have the effect of abrogating those agreements.

(d) The Bureau of the Mint is obligated to accept newly-mined domestic silver, title to which has already been transferred to the United States. It may be unable to carry out this obligation.

(e) The Mint Bureau's procedure for checking on the eligibility of newly-mined domestic silver requires several

BRITISH MOST SECRET
U.S. SECRET

OPTeL No. 47

Information received up to 7 A.M., 10th February, 1943.

1. NAVAL

HOME WATERS. A convoy of ten ships from North RUSSIA arrived 9th:

MEDITERRANEAN. One of H.M. Submarines sank two schooners, one full of ammunition on 30th and two ships totalling 3,200 tons on 2nd February. One of H.M. trawlers blew up and sank off ALGERIA on 7th and a corvette was sunk, probably by U-boat off Libyan Coast on 9th.

2. MILITARY

Russians have captured BIELGOROD and extended front of their attacks north and south of KURSK.

3. AIR OPERATIONS

WESTERN FRONT. 9th. Fighters (3 missing) damaged three locomotives in North FRANCE. Beaufighters shot down three JU 88's in BAY OF BISCAY. 15 DO. 217's dropped bombs at scattered points in Southeast ENGLAND and SUFFOLK. Damage slight but 19 killed and 35 seriously wounded.

9th/10th. Aircraft despatched - sea-mining 21, RUHR 2.

TUNISIA. 8th. SOUSSE attacked by 42 escorted U.S. Fortresses (B. 17). At least two ships were hit. GABES airfield attacked by 33 U.S. Medium Bombers. Enemy casualties 18, 3, 5. U.S. casualties 5, nil, nil.

SICILY. 8th. Hits on or near terminus train ferry MESSINA by 15 U.S. Liberators (B. 24).

SARDINIA. 7th/8th. Three airfields bombed by 16 Wellingtons.

BURMA. 8th. Docks and railway yards at RANGOON attacked by U.S. Liberators (B. 24). PAUKTANGYI in AKYAB area bombed by Blenheims. Enemy aircraft attacked our forward troops.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

February 10, 1943

FROM Frances McCathran

HIGH-LIGHTS OF THE WAR NEWS

Russia

1. Kharkov Area - On the north the Russians were only 41 miles from Karkov after capturing the railway center of Belgorod and also Shebekino. On the east their radius swung to 50 miles, 46 on the southeast, and 55 miles on the south-southeast. Farther north, after taking Ponyri, they were within 47 miles of Orel, the northern anchor point of the 210-mile Kharkov-Orel Nazi defense line.
2. Rostov Area - Russian armies, facing the Germans across the Don (where the ice is not yet uniform enough for a Russian crossing) and in the Kramatorsk area of the Donets basin, report new gains, increasing the likelihood of Soviet forces closing a trap on the Nazis as far west as Mariupol, 100 miles along the coast from Rostov. Russian planes joined in the attack on the Rostov-Kramatorsk-Mariupol triangle with a big raid on the industrial city of Stalino, 105 miles northwest of Rostov.

The Pacific Area

1. Guadalcanal - General Patch reported that Guadalcanal was completely taken yesterday. In the Guadalcanal-Buna defeat the Japs lost 90,000 killed, 200 ships sunk or damaged, 2,000 planes destroyed.
2. Indications now point to an Allied offensive against Rabaul on New Britain Island or the Jap naval base at Truk Island, although the Navy has issued no official announcement on their next major step.
3. Ground fighting progressed around Salamaua and the Wau-Mubo area as Allied planes continued air attacks on Lae.
4. Dutch East Indies - Allied airmen also raided Kendari, Celebes.

North Africa

1. The British Eighth Army is reported to have driven across the Tunisian border on 2 sectors and a major clash is expected on the eastern side of the Mareth line (55 to 70 mi. inside Tunisia).
2. On the coastal sector, which is heavily mined and defended by rear guards, slower Allied progress is reported.
3. Allied planes bombed the enemy airfield at Kairouan in central Tunisia and returned without loss.

The Far East

1. China - Along the border between China's Yunnan province and Jap-occupied Burma, major fighting has again flared up, according to reports from Chungking.
2. Burma - Allied planes raided various Burmese objectives including Rangoon, Sagaing (5 mi. southwest of Mandalay), and Magyichaung (14 mi. northwest of Skyab).