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TREASURY DEPARTMENT

1

INTER OFFICE COMMUNICATION

DATE August 1, 1942

TO Secretary Morgenthau
FROM George Buffington *GB*

RE: CONFERENCE WITH A. G. GRAHAM, CHAIRMAN OF THE
BOARD, FIRST NATIONAL BANK, BALTIMORE, MARYLAND,
HELD AT THE MERCHANTS CLUB, 3:45 P.M., JULY 14, 1942

Present: A. G. Graham; Robert B. Hobbs, Assistant
Executive Manager, Victory Fund Committee;
and George Buffington

Under Secretary Bell informed me you requested that I talk with Mr. Graham about circumstances surrounding the sale by his bank of large blocks of Treasury 1-1/2s due December 15, 1946. Mr. Graham explained that he had sold \$22-1/2 million of the notes and expected to sell another \$2-1/2 million bringing the total amount liquidated to \$25 million. He subscribed for \$40 million Treasury 2s of 1949-1951 and received an allotment of approximately \$20 million. Following the offering of the 2s, he bought an additional \$15 million in the market bringing his total holdings of 2s to \$35 million.

I told Mr. Graham I considered his action in selling the notes was not in the best interest of the war effort. He stated that as a result of the transaction he had increased his Government bond account from \$147 million to approximately \$156 million, and he could not see wherein the transaction was of any significance to the Treasury since his sales were made prior to the offering of 2s 1949-1951. He further stated that as a result of the transaction he increased his income approximately \$125,000 by bettering the coupon rate on his original purchase of 25 million dollars. I told him I recognized his responsibility to his stockholders, but at the same time believed the transaction was detrimental to the best interest of the Treasury and thought he would have been in a much more plausible position had he subscribed to \$10 million 2s of 1949-1951 and had not sold the 1-1/2s.

Mr. Graham asked if my statement meant that the Treasury was going to tell him how to run his bank. I explained to Mr. Graham I believed we could avoid this possibility if business recognized the existing emergency and endorsed personal interests to those of the country at large. Mr. Graham said he would be glad to call Mr. Bell and apologize to him, but he wanted me to tell Mr. Bell that he would feel free to repeat the transaction in the future if the opportunity presented itself. I told him I thought it was just that attitude which might lead to compulsory methods when all of us in the Treasury were interested in working out the financing program on a voluntary basis.

I had heard some fear expressed that Mr. Graham might not prove to be wholly cooperative as a member of the District Committee. I told him in some detail about the nature and scope of the work to be undertaken by the Committee and that we believed, as an important factor in the banking business, he could be of considerable help in Baltimore if he would cooperate. Mr. Graham stated at the conclusion of our meeting that he had a clear picture of the task before us as a result of our talk and would be happy to cooperate in the activities of the organization.

TREASURY DEPARTMENT

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TO: Mrs. Klots

For the Secretary's files.

Mr. D. W. Bell has read it.

GEORGE BUFFINGTON

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 8/1/42

TO Secretary Morgenthau
FROM Mr. Paul

I have your memorandum of July 31, 1942, stating in part as follows:

"For over a week, Senator Taft has been attacking the Treasury bond program and nobody in the Treasury has taken the initiative to prepare an answer.

"The General Counsel's Office is supposed, each day, to watch for criticisms of the Treasury on the Hill."

I have had the Congressional Record checked and find that the only speech made by Senator Taft during the past three weeks which referred to the Treasury was reported in the July 31 memorandum on the Record.

The Congressional Record contains only two speeches by Senator Taft during the last three weeks. The first was on July 27 and related to newspaper criticism of Congress, with particular reference to an editorial in the Washington Post. The second was on July 30 and referred in part to the Treasury tax-bond program. The latter, being of primary interest to the Treasury Department, was reported to you in the memorandum of July 31, a copy of which is attached.

REP.

Secretary Morgenthau
Mr. Cairns

July 31, 1942

For Your Information: Items of Interest from
Today's Congressional Record (July 30, 1942).

Senator Byrd discussed the matter of unexpended balances for national defense expenditures (6893-94). He stated that as of July 1, 1942, the unexpended balances had reached a total of \$163,000,000,000 and he could see no reason for continuing to increase this huge reserve (6893). Senator Pepper stated in effect that he could see no harm in such balances inasmuch as the Secretary of the Treasury did not have to sell bonds and have that much cash ready to pay out and it was not necessary to pay interest on the balances (6894).

Senator Taft spoke on the topic of inflation. During the course of his remarks he stated that the Secretary presented to the Finance Committee a tax-bond program which calls for borrowing \$53,000,000,000; that, as far as the Treasury has any program, it calls for the sale of only twenty to twenty-five billion dollars worth of bonds to individuals and corporations and the sale of twenty-five to thirty billion dollars to commercial banks, which would double their present holdings; and that in his opinion, the latter creates a far greater

threat to inflation than any action of Congress (6903). He also stated that the sale of bonds to commercial banks is almost the same as printing that much paper money, and that it would create twenty-five to thirty billion dollars of purchasing power out of thin air (6902-03).

Nothing of particular interest to the Treasury occurred in the House.

~~(Signed) [illegible]~~

(Signed) Huntington Cairns

Howe

HAR:rb
7/31/42

JF Jas

July 31, 1942

FROM: THE SECRETARY:

TO: Mr. Gaston ✓
Mr. Paul ✓
Mr. Kuhn
Mr. Schwarz

For over a week, Senator Taft has been attacking the Treasury bond program and nobody in the Treasury has taken the initiative to prepare an answer.

The General Counsel's Office is supposed, each day, to watch for criticisms of the Treasury on the Hill.

In the future, I would like to put the responsibility on Mr. Kuhn to watch for any major criticism of the Treasury or me and bring it to my attention. Mr. Kuhn would rely on the group in the General Counsel's Office for information from the Hill and Mr. Schwarz' office should watch the newspapers and bring the clippings to Mr. Kuhn's attention.

Until Mr. Kuhn returns, I would appreciate it if Mr. Gaston would assume this assignment.

If this memorandum is not self-explanatory, I should be glad to talk to Mr. Gaston and Mr. Paul. In any event, I want to be sure to talk to Mr. Kuhn about this when he returns.

To sum up, we have two groups whose duty it is to watch for this sort of thing: (1) the group in the General Counsel's Office which is supposed to watch for criticism on the Hill, and (2) Mr. Schwarz' office which is supposed to watch the press and radio. They should bring this promptly each morning to the attention of Mr. Kuhn who, in turn, after consulting with whomever he wishes among the 9:30 group, should then promptly bring it to my attention with recommendation.

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It seems ridiculous that I have to go to somebody like Alan Barth, outside the Treasury, to get the kind of material that I need. Attached hereto you will find a copy of what I asked Barth to do for me. I must be supplied with this sort of thing from now on.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 28, 1942

TO Secretary Morgenthau

FROM Alan Barth

Subject: Senate Debate on Editorial Criticism of Congress

The Senate yesterday rose to its own defense. A front page editorial, sharply critical of Congress, appearing in the Washington Post of the preceding day, was the immediate cause of this self-vindication. But the debate expanded into a general reply to the widespread and insistent criticism of Congressional behavior by newspaper and radio commentators.

There has been of late widespread editorial criticism directed at Congress as a body. The general charge most commonly leveled is that the legislative branch of the Government continues to engage in "politics as usual" without full awareness of the war.

Editorial discontent regarding Congress became pronounced with the quickly rescinded Congressional pension plan. Later it was expressed with renewed vigor over the granting of unlimited gasoline ration cards to Congressmen. More recently, the criticism has centered around Congressional failure to enact a satisfactory tax bill, obstruction of the OPA price control program, the conflict concerning dollar-a-year men, interference with WFB in connection with

synthetic rubber production and lack of resistance to farm and labor blocs.

The Washington Post editorial specifically accused Congress of "political profiteering." By implication, it blamed the legislative branch for the inferiority of American military equipment, for a failure to place ceilings on farm prices and wages, for confusion about tires and gasoline and for a general pandering to popular desires out of concern over the approaching Congressional election.

Senator Taft was alone in expressing specific condemnation of the Post editorial. He argued that the executive departments of the Government, rather than Congress, were responsible for the shortcomings enumerated in the editorial. He defended Congressional action on farm prices, wages and rubber, asserting that "if blame attaches to anyone . . . of course, it must attach to the administrative officials." Congress, he said, cannot be blamed. And he ended by accusing the newspaper's editor of "deliberately fomenting dissatisfaction and disunity and the kind of bitter personal recrimination that is bound to interfere with the progress of the war to a greater degree than any action that Congress may or may not take."

At the conclusion of this speech, the Senate's attention was diverted temporarily to a consideration of war production. In a very short time, however, Senator Mahoney rose to discuss the general subject of criticism of Congress by

commentators and newspapers. He declared that for several years Congress has vigorously supported the Executive, appropriating most of the money requested by him and supporting every effort of the War and Navy Departments to expand war facilities. "More than that," he said, "I believe the record will show that the Congress has been far ahead of both the War Department and the Navy Department in its desire to prepare for war."

The Senator launched upon an analysis of the way in which editorial comments are devised. In his opinion "too many radio commentators and too many editors are merely propagandists who are trying to convey to their listeners or their readers the points of view which they themselves hold, even though, in many cases, they entertain these opinions without any factual basis." He cited Raymond Gram Swing as a notable exception, but accused broadcasters in general of filling the air every night with "meaningless words."

Mr. O'Mahoney's indictment prompted Senator Chandler to interrupt with an excoriation of radio commentators in general and Upton Close in particular. Senator Lucas joined the chorus, observing that so far as the Japanese situation is concerned, Close "was just as wrong as Kimmel and Short."

Senator O'Mahoney, thus encouraged, went on to assert that "The gentlemen of the press and of the radio who think they are defending democracy are undermining the very basis of democracy because they are destroying the faith and

confidence of the people of the United States in their elected representatives and they are building the ground-work upon which totalitarianism can be reared." He suggested that radio programs may be influenced by the advertisers who sponsor them, that newspaper headlines give distorted versions of events and concluded with a glowing defense of his colleagues. "I know of no ^{man} member of Congress who is putting his political fortune ahead of his country.

Only Senator Pepper interposed any objections to Senator O'Mahoney's observations. The Senator from Florida felt that Congress could scarcely escape some share of responsibility for inadequate legislation.

Senator Lucas offered the suggestion that Mr. Elmer Davis "prepare a 15-minute radio address once or twice a week for the benefit of the millions of listeners he had throughout America prior to the time he accepted his present important position."

Senator O'Mahoney inserted into the record an article from the Washington Star by T. H. Thomas to the effect that the press has been so busy bolstering morale that it has given rose-colored news and a grossly optimistic version of the war's progress. According to the Washington Post, there were never more than 25 senators in the Chamber during the progress of the debate.

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Progress Report Study 8-70

From July 29-31 an experiment was conducted in Philadelphia by a member of the interviewing staff to determine the best method of approaching a study of the reaction of employees to the withholding tax for the prepayment of income taxes and the proposed increase of the social security tax, with particular reference to whether such deductions from the weekly pay check would reduce purchases of war bonds.

Although an informal conversational approach was used throughout the interview, questions were asked in the order they are listed on the attached questionnaire. Also see attached chart showing the occupational and sex classification of persons interviewed.

Attitude toward withholding tax

Of the 20 persons interviewed, 16 were enthusiastically in favor of the withholding tax because they considered it easier to pay a little every week than to pay larger amounts at the end of the year. A young rigger on guns and torpedoes said, "I don't see why the Government didn't do that last year. I paid \$39 straight right out and it was hard as the devil to raise--a weekly deduction as you go along is much better."

A housewife whose son had been in CCC camp before he got his job at the shipyards said, "That's a fine idea--we have a lot more money coming in now but it's harder to save when you're not used to having anything. It's a lot easier to pay one or two dollars a week than to have it come at the end of the year."

Effect of withholding tax on purchase of War Bonds

There was strong sentiment expressed against reduction of purchases of war bonds and a general feeling that stricter budgeting could offset the deductions for income tax.

Of the 20, only one person thought that deductions for income tax would make it necessary for him to reduce his bond purchases. There were many spontaneous expressions such as "Oh, no, I wouldn't cut down on my purchase of bonds--they are better than money in the bank." "Those war bond deductions make us save--the money helps the Government and helps us too--we'll just economize a little more."

An Italian laborer said, "I'll buy bonds just the same and do without a little beer."

An 18-year-old operator in a pants factory who turns over all her earnings toward the support of a family of 12, responded, "That's the least we can do--the country needs the money and all of us must help." A housewife

felt that "Bonds are savings and maybe they'll benefit us later on when times are not so good. In war all have to sacrifice, and we should keep on buying bonds just the same--we can't go against our country. It might be a little hard, but we can just do without a little more."

Reaction to Increased Social Security Tax Deductions

In contrast to the general acceptance of income tax deductions, considerable opposition was voiced against increasing the social security tax deductions. Most of the people were noncommittal on this question or definitely opposed to an increase. The two or three who made favorable responses took for granted that benefits would also be increased.

A New York shipyard worker said, "It's outrageous--it's not too much benefit to the average man who is ready to kick off at 60. I would prefer that the Government require every company to deduct 10 percent for war bonds from the weekly pay. I'm sure workers would take it with better grace than to have the social security tax increased."

The wife of a shipyard worker replied, "I don't think that's a good idea at all. Enough is already being paid in for the benefit they get out of it. If the Government needs the money I think it would be better to increase the income tax. I think most people would object to increasing social security deductions--there are too many restrictions on the benefits.

An Italian who had said that he would do without a little beer to meet the income tax deductions rather than decrease his purchase of war bonds was opposed to increasing the social security deductions. He said, "I don't like that unemployment compensation--it's too hard to get. If we have to pay out any more there won't be a hell of a lot left in the pay envelope."

A young salesgirl replied, "I don't know about that. If they take it out what can you say. I would prefer to buy more bonds--that helps the country more."

Effect of Increased Social Security Tax on War Bond Purchase

Although there was either strong opposition to increasing the social security tax or lack of enthusiasm for the proposal, apparently the increased deductions would not affect the purchase of war bonds. There was general agreement that it would be necessary to economize on living expenses in order to meet this increased tax. A tailor said, "No, I wouldn't reduce my purchase of war bonds--we gotta buy bonds," and a housewife responded, "We wouldn't like having the social security tax increased, but we would keep on buying the same amount of bonds."

Questionnaire Study S-70

1. As you probably know it has been proposed that part of your 1943 income tax be collected in advance by having the employer deduct a certain amount from your pay check each week. In March, 1944, you would have to pay only the balance of your income tax, if any. In general, how do you feel about this plan?
2. If you will tell me your weekly wage and number of dependents, I can show you on this chart approximately what the weekly deductions would be in your case. (Determine marital status and family composition. Also number in family working and total family earnings. This information is easily obtainable through informal questioning while examining the chart.)
3. Where you work do they make a weekly deduction from your pay for the purchase of war bonds?--(Determine where employed and type of deduction plan used.)

Deductions:

War bonds
 Social security
 Insurance
 Union dues
 Other

(Most of this information comes out spontaneously)

Total _____

4. You now have a total of \$ _____ deducted weekly from your pay. If the additional amount of \$ _____ is deducted for income tax would you feel it necessary to reduce the amount you are now having deducted for the purchase of war bonds?
 If so, about how much?
5. According to the present law, the social security tax deducted from your pay will be increased from 1 percent to 2 percent, starting in January. How do you feel about this?
6. In your case this would mean a deduction of \$ _____ instead of the present deduction of \$ _____. Do you feel that this increase would lead you to reduce the amount you are having deducted for war bonds?
 If so, how much?

Types of People Interviewed in Philadelphia

Study 8-70

New York Ship Yards

1 welder
1 layout man
3 wives of semi-skilled workers

Midvale Steel Co.

1 rigger

Campbell Soup Co.

wife of semi-skilled worker

General Electric

1 laborer

Wool Mill

1 laborer

American Visco

1 semi-skilled

Tailor Shop

1 tailor
1 presser

Meat Packing Co.

1 meat cutter

1 Printer

1 unemployed laborer

1 salesgirl

1 stenographer

1 girl operator in pants factory

2 women investigators--U. S. Wage-Hour Div.

Young man 26, employed at Midvale Steel (Baldwin Locomotive) as rigger on guns and torpedoes, earns \$40 a week. Although there are 9 in the family, only interviewee and father are employed earning a total of \$80 a week.

1. I think that's a very good idea--I don't see why the Government didn't do that last year--I paid \$59 straight right out and it was hard as the devil to raise. A weekly basis is much better.
2. \$1.40 a week would be deducted.
3. I pay \$2.00 a week on war bonds through payroll deduction but the company is planning to make it straight 10%. My dad has 10% deducted at Sun Ship Yards. In addition to deduction for war bonds about \$2.00 is deducted for social security, State U. C. and city wage tax. I'm supposed to pay \$1.00 a month union dues but I haven't paid dues for three months. I'm fed up with the union--too many promises!
4. No, war bonds are a good investment, better than money in the bank. General run of people are making a little more now and they can afford to pay more taxes. Price ceilings will help people get along a little better. Until that happened it took about all people made to live on.

J.B. Are you making more now?

Oh, yes, I never made more than \$30 a week before the war and work was irregular too. My father was on W.P.A. before the war. We're a lot better off now.

5. That would be o.k. if you get more when you're 65.
6. Oh, no--I would just economize a little more somehow.

Man about 30 earns \$45 a week at New York Ship Yards as layout man. Three in family (wife and baby).

1. Personally I prefer to pay tax by the week--it comes out better at the end of the year. A lot of fellows at the ship yards are earning \$100 a week but they are spending it and will be out short when it comes time to pay income tax.
2. 65 cents tax.
3. We signed up for 10% at the ship yards but the bosses decided it made too much bookkeeping because we don't always make the same. They wanted us to pay a flat rate so I cut mine down to \$3.50 because some weeks we may lose some time and the flat rate would take too much out of the pay check.

My social security and state U.C. tax is 90 cents and insurance is 52 cents.

4. It might make a little difference. I might have to cut down to \$3.
5. I think it's outrageous. It's not too much benefit to the average man who is ready to kick off at 60. I've never drawn U.C. It's a racket in some cases where seasonal workers manage to work at big pay for certain months then draw big benefits. A fellow who earns only \$20 a week may work steady for years, then when he is unemployed he can draw only \$8 or \$10 a week while the smart guy who knows the ropes can get \$30 or \$40 a week.

I would prefer that the Government require every company to collect 10% for war bonds from the weekly pay. I'm sure workers would take it with better grace than to have the social security tax increased.

6. If social security tax is increased I would probably have to reduce my war bond purchase accordingly, but I much prefer investing my money in bonds. Personally, I think a little too much comes out of the little fellow's hide. Some of the manufacturers are making big dough on war contracts, and they can afford to pay more taxes.

Housewife in early 40's, husband a printer, earns \$35 a week and 19 year-old son, employed at Sun Ship Yards, makes \$40. Six in family.

1. That's a fine idea--you don't have it all coming at the end of the year. It's a lot easier to pay out one or two dollars a week than \$50 at one time. We have a lot more moneys coming in now but it's harder to save when you're not used to having anything. My boy was in CCC camp and there wasn't much coming in, although my husband made a little more before the war. Now it's hard to get materials.
2. Husband's earning not taxable but son would have to pay \$1.40 weekly.
3. Son now has 10% of wages deducted but husband has been employed only one month and has not begun contributing yet.
4. No, war bonds are savings, and it's a good idea to keep that going. People would have to be a little more careful about other things. War bond deductions make us save; it helps the Government and helps us too. We didn't have nothing for so long it's nice to feel that we are saving and helping the war too.
5. I couldn't say about that. The social security tax comes out of my husband's spending money, and he's always kicking about it.
I thought they were supposed to increase it every few years, but I don't think my husband would like it so well.
6. Oh, no--we'd manage somehow by being more careful about what we spend.

UNITED STATES SAVINGS BONDS - TOTAL

Comparison of July sales to date with sales during the
same number of business days in June and May 1942
(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days			July as percent of June
		July	June	May	
July 1942					
1	\$ 28,418	\$ 28,418	\$ 29,539	\$ 19,981	96.2 7
2	24,269	52,687	45,442	39,430	115.9
3	27,277	79,964	67,046	72,048	119.3
6	46,531	126,495	98,208	88,605	128.8
7	31,110	157,605	132,341	122,575	119.1
8	43,451	201,056	154,085	157,866	130.5
9	39,918	240,974	192,659	181,431	125.1
10	47,755	288,729	206,523	201,464	139.8
11	36,127	324,856	236,552	232,801	137.3
13	47,164	372,020	259,772	246,756	143.2
14	30,102	402,122	281,724	271,525	142.7
15	33,807	435,929	303,163	296,152	143.8
16	31,670	467,599	334,398	317,861	139.8
17	37,659	505,257	345,497	337,371	146.2
18	21,929	527,186	368,782	371,066	143.0
20	53,257	580,443	387,369	385,098	149.8
21	21,686	602,129	414,804	409,987	145.2
22	34,511	636,640	429,158	439,987	148.3
23	33,434	670,075	468,812	466,171	142.9
24	32,987	703,062	485,338	485,109	144.9
25	19,510	722,572	510,446	518,829	141.6
27	53,821	776,393	533,097	539,771	145.6
28	29,834	806,228	554,915	564,973	145.3
29	33,039	839,266	575,657	588,819	145.8
30	29,942	869,209	609,516	615,283	142.6
31	31,653	900,861	633,945	634,357	142.1

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

August 1, 1942.

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

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

UNITED STATES SAVINGS BONDS - SERIES E

Comparison of July sales to date with sales during the
same number of business days in June and May 1942
(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days			July as percent of June
		July	June	May	
July 1942					
1	\$ 15,821	\$ 15,821	\$ 19,834	\$ 12,679	79.8%
2	14,880	30,701	27,841	24,263	110.3
3	16,822	47,523	40,811	46,532	116.4
6	29,797	77,320	58,199	55,460	132.9
7	17,724	95,044	82,988	73,824	114.5
8	21,599	116,643	98,197	97,049	118.8
9	22,746	139,390	125,245	114,218	111.3
10	24,772	164,161	134,157	128,670	122.4
11	19,077	183,238	154,242	151,956	118.8
13	26,550	209,787	169,920	161,346	123.5
14	15,744	225,532	186,470	177,133	120.9
15	18,407	243,938	201,700	194,047	120.9
16	17,828	261,766	225,684	208,939	116.0
17	22,345	284,111	233,218	223,242	121.8
18	12,233	296,344	249,033	247,532	119.0
20	31,368	327,712	261,321	257,374	125.4
21	12,239	339,951	280,742	271,079	121.1
22	18,184	358,135	291,729	290,485	122.8
23	18,261	376,396	321,114	309,584	117.2
24	18,588	394,984	331,806	323,705	119.0
25	10,695	405,679	347,673	347,494	116.7
27	32,577	438,256	362,550	360,564	120.9
28	17,449	455,706	378,505	375,702	120.4
29	18,256	473,962	392,224	392,627	120.8
30	14,211	488,173	417,117	408,409	117.0
31	19,945	508,118	433,223	421,831	117.3

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

August 1, 1942.

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

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

Comparison of July sales to date with sales during the
same number of business days in June and May 1942
(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days			July as percent of June
		July	June	May	
July 1942					
1	\$ 12,597	\$ 12,597	\$ 9,705	\$ 7,302	129.8%
2	9,389	21,986	17,601	15,168	124.9
3	10,455	32,441	26,235	25,516	123.7
6	16,734	49,175	40,009	33,145	122.9
7	13,386	62,561	49,353	48,751	126.8
8	21,852	84,413	55,888	60,817	151.0
9	17,172	101,585	67,414	67,213	150.7
10	22,983	124,568	72,366	72,794	172.1
11	17,050	141,618	82,310	80,845	172.1
13	20,614	162,232	89,852	85,410	180.6
14	14,358	176,590	95,254	94,391	185.4
15	15,400	191,991	101,464	102,106	189.2
16	13,842	205,833	108,715	108,923	189.3
17	15,314	221,147	112,279	114,129	197.0
18	9,696	230,842	119,749	123,534	192.8
20	21,888	252,731	126,048	127,724	200.5
21	9,447	262,178	134,062	138,908	195.6
22	16,327	278,505	137,429	149,502	202.7
23	15,174	293,679	147,698	156,587	198.8
24	14,399	308,077	153,532	161,404	200.7
25	8,816	316,893	162,774	171,335	194.7
27	21,244	338,137	170,547	179,208	198.3
28	12,385	350,522	176,410	189,271	198.7
29	14,783	365,305	183,433	196,192	199.1
30	15,731	381,036	192,398	206,874	198.0
31	11,708	392,744	200,722	212,526	195.7

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

August 1, 1942.

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

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

23
Sales of United States savings bonds
from July 1 through July 31, 1942
compared with sales quota for same period
(at issue price in millions of dollars)

CONFIDENTIAL

Date	Series E				Series F and G				Total			
	Actual sales		Quota	Sales	Actual sales		Quota	Sales	Actual sales		Quota	Sales
	Daily	July 1 to date	July 1 to date	to date as % of quota	Daily	July 1 to date	July 1 to date	to date as % of quota	Daily	July 1 to date	July 1 to date	to date as % of quota
1	\$ 15.8	\$ 15.8	\$ 23.6	66.9%	\$ 12.6	\$ 12.6	\$ 19.4	64.9%	\$ 28.4	\$ 28.4	\$ 43.0	66.0%
2	14.9	30.7	47.9	64.1	9.4	22.0	36.4	60.4	24.3	52.7	84.3	62.5
3	16.8	47.5	73.0	65.1	10.5	32.4	50.6	64.0	27.3	80.0	123.6	64.7
6	29.8	77.3	126.0	61.3	16.7	49.2	82.6	59.6	46.5	126.5	208.6	60.6
7	17.7	95.0	139.3	68.2	13.4	62.6	94.2	66.5	31.1	157.6	233.5	67.5
8	21.6	116.6	162.2	71.9	21.9	84.4	114.5	73.7	43.5	201.1	276.7	72.7
9	22.7	139.4	189.8	73.4	17.2	101.6	129.5	78.5	39.9	241.0	319.3	75.5
10	24.8	164.2	216.0	76.0	23.0	124.6	139.9	89.1	47.8	288.7	355.9	81.1
11	19.1	183.2	236.6	77.4	17.1	141.6	147.7	95.9	36.1	324.9	384.3	84.5
13	26.5	209.8	273.2	76.8	20.6	162.2	160.6	101.0	47.2	372.0	433.8	85.8
14	15.7	225.5	287.6	78.4	14.4	176.6	168.0	105.1	30.1	402.1	455.6	88.3
15	18.4	243.9	311.6	78.3	15.4	192.0	181.8	105.6	33.8	435.9	493.4	88.3
16	17.8	261.8	335.5	78.0	13.8	205.8	193.5	106.4	31.7	467.6	529.0	88.4
17	22.3	284.1	358.7	79.2	15.3	221.1	202.8	109.0	37.7	505.3	561.5	90.0
18	12.2	296.3	377.4	78.5	9.7	230.8	210.5	109.6	21.9	527.2	587.9	89.7
20	31.4	327.7	411.8	79.6	21.9	252.7	223.9	112.9	53.3	580.4	635.7	91.3
21	12.2	340.0	425.9	79.8	9.4	262.2	231.8	113.1	21.7	602.1	657.7	91.5
22	18.2	358.1	451.1	79.4	16.3	278.5	247.0	112.8	34.5	636.6	698.1	91.2
23	18.3	376.4	477.5	78.8	15.2	293.7	260.1	112.9	33.4	670.1	737.6	90.8
24	18.6	395.0	503.8	78.4	14.4	308.1	270.7	113.8	33.0	703.1	774.5	90.8
25	10.7	405.7	525.0	77.3	8.8	316.9	279.5	113.4	19.5	722.6	804.5	89.8
27	32.6	438.3	562.7	77.9	21.2	338.1	295.1	114.6	53.8	776.4	857.8	90.5
28	17.4	455.7	577.2	79.0	12.4	350.5	304.3	115.2	29.8	806.2	881.5	91.5
29	18.3	474.0	601.3	78.8	14.8	365.3	322.1	113.4	33.0	839.3	923.4	90.9
30	14.2	488.2	625.8	78.0	15.7	381.0	337.5	112.9	29.9	869.2	963.3	90.2
31	19.9	508.1	650.0	78.2	11.7	392.7	350.0	112.2	31.7	900.9	1,000.0	90.1

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

August 1, 1942.

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

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 1, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Soviet Reserves and a Second Front

1. All recent reports on the Russo-German front indicate a definite German superiority in numbers of men and volume of equipment.

2. It is possible that the Russian inferiority in the field may be explained by the holding of substantial reserves to be used when the Russians feel that they can afford to stage a counter-offensive. This possibility was strongly suggested by Gregory Alexandroff, Communist Party propaganda chief, when he stated in a recent article in Pravda:

"Whatever the Soviet Union's losses in territory, men and material may be in the present delaying actions, there is no reason to doubt that when the time comes for a coordinated blow the Red Army will be able to put in the field a force strong enough to strike a decisive blow."

(New York Times, July 14, 1942)

3. The opening of a second front by the Allies may be considered by the Russians to be a necessary prerequisite to the use of its reserves in a counter-offensive. This is suggested in another statement by Alexandroff (in the same article) when he states that the task before the United Nations includes a full understanding between Russia, Britain and the United States on the creation of a second front, the working out of a strategic plan between the Red Army High Command and those of the other armies concerned, and the choice of a suitable moment for striking blows at the enemy.

4. The Russians may well be disheartened by the failure of its allies to open a second front. Ilya Ehrenburg, the well-known Soviet correspondent and an advocate of Russian orientation toward the West, sounds an ominous note in a despatch of July 29 from Moscow. The Russians, he says, are perplexed. They are asking, "Where are our Allies?"

Ehrenburg says further: "Our men read German leaflets in which Goebbels, with maniacal persistence, writes: 'Where are your Allies? Where is the second front?'"

"Our men still say 'The British and Americans will soon show them.' But every day their voices grow more subdued and serious.

"It is my duty to tell this to my friends in the West."

(New York Times, July 30, 1942)

5. A July 30th despatch from Moscow quotes Stalin as calling upon the Red Army to halt its retreat and fight to victory or death in defense of Stalingrad and the Caucasus. On the same day a Pravda editorial expressed the firm conviction that the German armies can and will be stopped before Stalingrad. These statements may represent:

- (a) Simply an attempt to bolster the morale of the Russian soldiers and hold the Nazis without the use of reinforcements,
- (b) A Russian decision to risk its reserves regardless of the failure of England and the United States to open a second front, or
- (c) Russian knowledge of an Allied decision to open a second front in the near future. With respect to this possibility, it should be noted that Sir Stafford Cripps stated to the House of Commons on July 30 that the British Government has "intentions" with respect to a second front.

BRITISH MOST SECRETCOPY NO. 13U.S. SECRETOPTEL NO. 263Information received up to 7 a.m. 1st August, 1942.1. NAVAL.

In engagements between motor gunboats and five armed trawlers off the Dutch Coast last night, a trawler was set on fire. One motor gunboat was severely damaged and had seven casualties. Motor gunboats also attacked light craft off Boulogne.

2. MILITARY.

EGYPT. Prisoners counted through the Alexandria cages and base hospitals since 1st July, German officers, 47; other ranks, 1,118. Italian officers, 335; other ranks, 5,787.

RUSSIA. Russian attacks in the Voronezh area continue. The Russians are still stubbornly resisting the German advance in the Don Bend. German thrusts southwards from the Lower Don have made further progress, and the German claim to have cut the railway Stalingrad-Krasnodar is probably true.

3. AIR OPERATIONS.

WESTERN FRONT. 30th/31st. Revised German casualties - 10 destroyed, including 3 by anti-aircraft, 1 probably destroyed and five damaged. Hudsons and Hampdens attacked shipping off the Frisian Islands. A 6,000-ton vessel was torpedoed and four others, totalling about 14,000 tons, were hit with bombs. 31st. One Mosquito bombed Duisburg. Two squadrons of Bostons, escorted by 17 squadrons of Spitfires, attacked St. Malo Harbour and an aerodrome near Abbeville. Twelve other squadrons made diversionary sweeps over Brittany. Eleven enemy aircraft were destroyed, one probably destroyed and five damaged. Ten Spitfires are missing but two pilots are safe.

Two Sunderlands are missing, one from anti-shiping sweep in the Bay of Biscay and the other from convoy escort off the coast of Ireland. 31st/1st. Bomber Command sent out 635 aircraft - Dusseldorf 629, including 244 heavy, aerodromes 6. Fighter Command sent out 28 on "intruder" operations etc. Weather over Dusseldorf was good with slight ground haze. The objective was well identified and numerous fires were seen in the town, some very large. 30 bombers are missing, including six heavy, also 1 "intruder" aircraft. About 12 enemy aircraft flew inland, 1 was destroyed by a Beaufighter.

EGYPT. 29th/30th. Our heavy and medium bombers attacked shipping in Tobruk and laid mines in the harbour. Two ships were possibly hit, and petrol installations were set on fire. One Wellington is missing.

GREECE. 29th. Liberators attacked shipping in Navarino Harbour.

4. HOME SECURITY. 31st. Evening two bombs dropped at Teignmouth killed six persons. 31st/1st. Hull. Bombs were dropped near the docks, 23 persons reported killed and 10 missing.

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRETOPTEL No. 264

Information received up to 7 A.M., 2nd August, 1942.

1. NAVAL

Last night our Light Forces engaged E-boats off CHERBOURG, one was set on fire and two others probably damaged. A Russian aircraft torpedoed and sank an enemy vessel of 15,000 tons off the North Coast of NORWAY on the 30th.

2. MILITARY

EGYPT. No operations of importance.

3. AIR OPERATIONS

WESTERN FRONT. 31st/1st. DUSSELDORF. 471 aircraft attacked including 190 heavy bombers, and dropped about 900 tons of high explosive and incendiaries, including 168 4,000 pound bombs. Four enemy night fighters were shot down. On the morning of the 1st, a photographic reconnaissance aircraft saw 19 fires including 3 large ones still burning, and preliminary interpretation of the photographs shows considerable damage throughout the town.

1st. Mosquito aircraft bombed FRANKFURT, WILHELMSHAVEN and HANOVER. Bostons attacked FLUSHING docks and shipping securing hits on a large warehouse and other buildings in the docks - a ship under construction was also probably hit. Hurricane bombers successfully attacked railway objectives. Two Bostons are missing. In fighting off our coasts, Spitfires destroyed two Focke Wulfes 190 and damaged 4 for the loss of one Spitfire, pilot safe.

EGYPT. 30th/31st. Our bombers attacked shipping and harbour installations at TOBRUK, starting a large fire at naval fuel tanks - one Wellington missing. Naval aircraft hit a merchant vessel at MERSA MATRUH.

31st. Dust storms restricted operations.

31st/1st. A total of 14 enemy aircraft of which 3 were destroyed by Beaufighters, attacked ALEXANDRIA and HELIOPOLIS aerodrome where 12 damaged aircraft were destroyed on the ground.

MALTA. During 24 hours ended 1240/1st about 80 enemy fighters carried out sweeps - two were destroyed for the loss of two Spitfires, pilots safe.

4. HOME SECURITY

NORWICH. 1st/2nd.. Incendiaries started several fires which were all under control by 0600. Very few casualties.

August 3, 1942
12:10 p.m.

GROUP

Present: Mr. Bell
Mr. Gaston
Mr. Haas
Mr. White
Mr. Graves
Mr. Buffington
Mr. Thompson
Mr. Sullivan
Mr. Paul
Mr. Blough
Mr. Schwarz
Mrs. Klotz

H.M.JR: Herbert, will you tell the Secret Service - under this new ruling, beginning today, all these little planes - they have got a war zone along the Atlantic coast. They are all private planes, and they have been shuttled back and shuttled back - back of a certain line. Well, this morning at New Hackensack there were twenty-three private planes there. Well now, they keep the pursuit squadron across the river constantly flying over the White House - Hyde Park - to protect the President, and this morning at New Hackensack there were twenty-three private planes.

Now, I think that New Hackensack should be made out of bounds. The line runs six miles west of it, but what the Army has set up, you see - and if they include New Hackensack in the coastal war zone, then these private planes couldn't go in; but there were twenty-three there this morning. How they can tell that one of them isn't going to drop a bomb on Hyde Park, I don't know. I mean, it is the stupidest thing I ever saw. I mean, they keep a whole pursuit squadron

- 2 -

across the river to guard them, and still they have got these twenty-three private planes just a few miles from them.

I think that Chief Wilson should call Civil Aeronautics and the War Department and have Hackensack be out of bounds - include it in the coastal war zone.

MR. GASTON: Yes.

H.M.JR: It just misses it by six miles. They had better do it fast, because the longer they are there, the more these people will think that they have a claim on it.

MR. GASTON: Yes.

H.M.JR: I mean, the people say that they keep a pursuit squadron there the whole time, and the next minute they stick in twenty-three strange planes.

MR. GASTON: They are flying in and out of there all the time, are they?

H.M.JR: They were, yes. Harold, could you stay behind a minute? I have got a couple of things I would like to whisper to you.

MR. GRAVES: Yes, sir.

H.M.JR: Bell?

I thought Harold, your publicity, what I saw in today's Times, was very good, even though it did get off to a late start. You got a good story. I saw it in the Times.

MR. GRAVES: Yes, Mr. Odegard did that.

H.M.JR: It is a good story. You remember you said your people said it was too late.

MR. GRAVES: Yes.

H.M.JR: Papa was right. (Laughter)

- 3 -

MR. GRAVES: I think they meant by that that the Treasury boys are not here after twelve o'clock - something to that effect.

H.M.JR: Well, it went out because it made the front page of today's New York Times. I don't know how they handled it, but it was all right.

MR. BELL: You recall that Mr. Kirk of the IBM was in to see you the other day and he asked you if you would be willing to ask the WPB to give them priority on some material for rearranging a building that they purchased.

H.M.JR: Thirty thousand dollars.

MR. BELL: Yes. It turns out to be twenty-one thousand dollars for material; and out of two million six hundred thousand dollars' worth of work for all of the Government departments the Treasury has about a million two hundred thousand, a little less than half of it. They have indicated over there, I believe, that if the Treasury will give them a letter that they will give this priority.

H.M.JR: Give us?

MR. BELL: Give the IBM priority on the twenty-one thousand dollars' worth of material.

H.M.JR: What is the twenty-one thousand for?

MR. BELL: I have a list of it some place here. It is a little bit of everything, a little steel, a thousand dollars' worth of steel, plugs, wires, just a miscellaneous lot of stuff to wire the building and put it in shape for use.

H.M.JR: O.K.

MR. BELL: Could this be turned over to Mr. Mack?

H.M.JR: Mr. Mack, yes.

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MR. BELL: I would like to talk to you sometime within the next day or so about investing some of the trust funds in this new security.

H.M.JR: Buffington been calling on you?

MR. BELL: No, not yet. We ~~won't~~ give them credit for that. (Laughter)

H.M.JR: Did you hear that?

MR. BUFFINGTON: Yes, sir.

H.M.JR: You had better go and call on him. You could make me an honorary member of your committee, George - hell, I am chairman of it.

MR. BUFFINGTON: You are chairman already.

MR. BELL: I haven't got a chance then, have I? Somebody checked into this. We turned that down before. This is a formal--

H.M.JR: What do you vote for?

MR. BELL: You vote to reject the sale of this property for that price. "I vote the rejection of the offer."

H.M.JR: What property?

MR. BELL: The Library of Congress trust fund property in Philadelphia which has got about a four-thousand-dollar mortgage.

H.M.JR: Do I say yes or no?

MR. BELL: Just "H.M. Jr."

H.M.JR: You must think I am trusting. This is Monday morning.

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MR. BELL: I assume you are. Here is a letter to Mr. Henderson who has served for years in the Treasury. (Letter to Mr. A. S. Henderson signed by the Secretary.)

This is accepting Mr. Mills' resignation.

H.M.JR: These clear through my office, don't they?

MR. BELL: Yes.

H.M.JR: What else?

MR. BELL: That is all.

H.M.JR: Herbert?

MR. GASTON: Here is a report on that Bishop Sheil matter. I don't know whether you might be interested in this or not. It should be destroyed after you have looked at it. That is one of Dyer's reports from Switzerland.

H.M.JR: Whose reports?

MR. GASTON: Dyer, the Treasury man that went over there as Financial Attache of the Embassy. It is just a sample of the kind of stuff he is sending out.

H.M.JR: Is Ballantyne our man?

MR. GASTON: No, he is a contact man, you see, that he picked up there, a Swiss.

H.M.JR: Have you got copies of this?

MR. GASTON: No, we don't normally, but Harry can snitch some stuff if it is interesting, now and then.

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H.M.JR: Harry who?

MR. GASTON: Anslinger.

H.M.JR: I wish they had somebody like that at the Argentine.

MR. GASTON: This is a very high-grade man.

H.M.JR: I wish we had somebody like that at the Argentine.

MR. GASTON: We could dig up somebody to send if we could get permission.

H.M.JR: Try to get permission!

MR. GASTON: You might be interested to know that there is a refugee ship, the Nyassa came in from Lisbon, and after the FBI had made its searches our men picked up twenty-five thousand dollars' worth of jewelry from one of the men, who has confessed that he was attempting to smuggle it into the United States.

H.M.JR: What else?

MR. GASTON: I have got some German newspapers, very recent German newspapers, here, if you care to look at them.

H.M.JR: Does anybody read them to see what is in them?

MR. GASTON: Yes, there are a few cartoons.

H.M.JR: Anything about me?

MR. GASTON: Oh yes, there is one--

H.M.JR: Let's see it.

MR. GASTON: I haven't looked them all over.

- 7 -

H.M.JR: Does that come from the same place?

MR. GASTON: I don't know just where Harry
Anslinger--

MR. BELL: They come out of Germany, Herbert?

MR. GASTON: Yes.

H.M.JR: I don't know what it means. (Looking at
newspaper) Do you know what it means?

MR. GASTON: No. Somebody here can probably
read it.

H.M.JR: No, that isn't referring to me.

MR. GASTON: I picked out - I thought that might
refer to you. He said there was one. I thought
there was something in the language there.

H.M.JR: No. Give them to Sammy Klaus.

MR. GASTON: I will get somebody to look them
over and see what they can find.

H.M.JR: Give them to Sammy Klaus; he will look
them over. Who is Sammy working for today?

MR. GASTON: It is a little uncertain.

H.M.JR: Have you met Sammy Klaus, Mr. Paul?

MR. PAUL: Oh yes, I saw him Saturday.

MR. GASTON: They sent over your letter Saturday
afternoon.

H.M.JR: Anything else?

MR. GASTON: That is all.

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MR. SULLIVAN: There is a memorandum--

H.M.JR: Thank you for handling that.

MR. SULLIVAN: There is a memorandum on its way over from the Bureau. They have what they think is a fairly accurate final figure.

H.M.JR: Can you talk louder?

MR. SULLIVAN: There is a memorandum on its way over from the Bureau. They think they have a fairly accurate figure on the requirements of industry to handle the withholding tax, and I talked with the WPB man this morning. I think they are in a position now to answer any formal inquiry you make. He said that he didn't want to say that anything was impossible, but in several categories it looked very, very difficult.

H.M.JR: Well, I will wait until you get the final report.

MR. SULLIVAN: All right, it should be here in an hour - half an hour.

H.M.JR: Anything else?

MR. SULLIVAN: That is all.

H.M.JR: George?

MR. BUFFINGTON: We have had a request from two or three Victory Fund members asking if you would sign a letter to the Governors of the forty-eight States calling to their attention this two and a half.

H.M.JR: I told Bell I would.

MR. BUFFINGTON: I didn't bring them all up for fear you might not do it.

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H.M.JR: Have I got to sign one to each?

MR. BELL: Yes.

H.M.JR: Good Gawd.

MR. BUFFINGTON: I could have done it another way, but I thought--

MR. BELL: Do you want to multilith them?

H.M.JR: No, you can't do that.

MR. BELL: It isn't very good to a Governor.

H.M.JR: Who should they go to, Mrs. McHugh?

MRS. KLOTZ: Yes.

H.M.JR: Give them to Mrs. McHugh.

MR. GASTON: I had the wrong one. (Newspaper cartoon shown to the Secretary.)

H.M.JR: The only thing that is missing is Bell and White; they should be there - they ought to be there. That is very cute.

MR. BUFFINGTON: Could Mr. Paul and I see you about the Purcell matter some time today or tomorrow? It won't take five minutes.

H.M.JR: If you would pronounce it Purcell.

MR. BUFFINGTON: He has asked me several times not to.

H.M.JR: What happens is Stephens comes in and says, "Mr. Morgenthau, Paul and Buffington would like to see you about a 'personal' matter." I said, "Well, I am not interested," so I kept putting it off.

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MR. BUFFINGTON: He has corrected me several times about the pronunciation.

H.M.JR: Yes. Well, I swear I thought it was a personal matter. I said, "I don't know about any personal matter."

MR. SULLIVAN: I thought he said "personal" then.

H.M.JR: I swear he came in--

MR. PAUL: So did I, as a matter of fact.

MR. BUFFINGTON: He is very careful about that pronunciation.

MR. SCHWARZ: What is his first name?

MR. BUFFINGTON: Ganson.

H.M.JR: Tell him (Stephens) and see what luck you have.

MR. BUFFINGTON: That is all.

H.M.JR: Listen, what do you hear from the field? You are supposed to be selling.

MR. BUFFINGTON: Well, I have a little publicity here. You indicated the other day you might make some kind of an announcement about the activities of the Victory Fund Committee. I have had requests from every District.

H.M.JR: I said, "Let's see what they do." I have been sitting here off and on for nine years, and I like to talk after we have accomplished something, and I think that they have had a tremendous amount of publicity and I would like to see them deliver a little bit.

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MR. BUFFINGTON: O.K., sir, they are all working at the moment.

H.M.JR: Well, when they begin to deliver, then I will begin to send the various people complimentary letters. I mean, there is just no reason they shouldn't get one just as much as a Hollywood actress.

MR. BUFFINGTON: All right, sir.

H.M.JR: I mean, I write them letters all day long for Harold Graves, who meets them at the railroad station. (Laughter)

MR. BUFFINGTON: That will be very satisfactory with them.

H.M.JR: You heard that story, didn't you?

MR. BELL: No.

H.M.JR: They go down to the station about six o'clock in the morning to meet the State administrator from Ohio, and purely by accident Marlene Dietrich was on the same train, same car and everything else. (Laughter)

MR. BELL: Is that the reason they didn't know what to do with her, because they went down to meet the State administrator?

H.M.JR: It was purely a matter of accident.

MR. GRAVES: They were all in the same party, as a matter of fact.

H.M.JR: They get down at the station at that hour - they swore up and down they were down to meet my cousin, Trounstine. (Laughter)

MR. BUFFINGTON: That is all.

H.M.JR: I will do as much for you.

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MR. PAUL: I want to leave a memorandum with you in regard to your memorandum of July 31 on getting criticisms to you.

H.M.JR: Criticisms?

MR. PAUL: Criticisms in Congress. The only criticism by Taft was furnished to you by the General Counsel - I am only speaking of the General Counsel's office end of it and not the--

H.M.JR: Well, the criticisms of the Treasury or me or anything nice that might be said would flow to Gaston pending Kuhn's return.

MR. PAUL: So far as the Congressional Record is concerned, the Congressional Record goes over at eight o'clock every morning, and the only criticism there was sent in to you in a memorandum. I just wanted you to know.

H.M.JR: Oh, you are making the record.

MR. PAUL: This is a defense.

MR. BELL: I am supposed to get those, too, but I didn't get that one.

H.M.JR: Go after them, Did you get that one, Bell?

MR. BELL: No, I didn't get that one, either.

MR. PAUL: It came in to the Secretary's Office. I will leave this with you.

H.M.JR: He (Bell) is part of the Secretary's Office.

MR. PAUL: I am not sure whether a copy went to you, Dan.

MR. BELL: No, I didn't get it.

MR. PAUL: You asked me what I thought of the Ruml

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plan. You said to speak to you about this plan.

H.M.JR: If you could, put it down on one page.

MR. PAUL: I will say this, that we are going to have, in a day or so, or two days, various suggestions about the tax bill. There are one or two items. They incorporate the Rum1 - aspects of the Rum1 plan. We are going to submit those to you.

H.M.JR: You had better.

MR. PAUL: Its possible technique and things we can do in the Senate Finance Committee, and it is a very basic thing, and I would like to get a chance to talk with you about it.

H.M.JR: Are your recommendations going to be favorable?

MR. PAUL: Favorable to the whole Rum1 plan? No, but there are a couple of items in it.

H.M.JR: I might have to get Colm to give me the points against it.

MR. PAUL: Colm will give you the points for it. I have been in conference with him. He is all for it, much more so than we are.

H.M.JR: What else?

MR. PAUL: Well, I want to be sure to get that conference in because it will be important in a day or so.

H.M.JR: I have granted everybody's requests up to twelve o'clock and taken care of everybody who wanted an appointment except this "personal" matter.

What else?

MR. PAUL: That is all.

H.M.JR: Roy?

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MR. BLOUGH: I had a call from the WPB from a man over in one of the divisions there working on a general order on business machines and he said, "We don't know anything about the needs of business for business machines, and we understand that you have done some work in the field, finding out what business needs. Could we take a look at the results of the study that you have made on the business machine situation?" And we have held it up.

H.M.JR: I am always confused. Is WPB Nelson or Henderson?

MR. BLOUGH: Nelson.

H.M.JR: Can't you introduce the various people that work for Nelson to each other?

MR. BLOUGH: That would be the first thing to do, I think.

MR. SULLIVAN: That is the thought I had. Roy called me about this.

H.M.JR: You two fellows get together and handle it. Certainly if we are working with one group - what is this man's name, Locke?

MR. SULLIVAN: Yes.

H.M.JR: And tell Locke of this request.

MR. SULLIVAN: I think one reason is that Locke has kept everything we have given him very confidential.

H.M.JR: Will you, as long as you are handling it, handle the whole thing?

MR. SULLIVAN: I think the specific question is to know if there is any objection to giving out the results of that investigation.

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MR. BLOUGH: Not "out" but to them.

H.M.JR: You decide it. The matter is in your hands.

MR. SULLIVAN: All right, sir.

H.M.JR: Let Locke - if Locke is suspicious of other people there, let him decide it.

MR. SULLIVAN: If he is keeping it, it is because I told him we would not want the information to get out - that we were disturbed.

H.M.JR: Use the old bean and handle it.

MR. SULLIVAN: All right.

MR. BLOUGH: That is all.

MR. HAAS: I haven't anything.

H.M.JR: I read your memorandum over the weekend on the financing, as the result of which I called off all the New York bond experts for Tuesday. I hope you are right this time, as usual.

MR. HAAS: Thank you. I think you had better talk to them, nevertheless.

H.M.JR: Anything else, George?

MR. HAAS: I haven't anything.

H.M.JR: White?

MR. WHITE: There was a cable from Stettinius and Harriman in London which states that McCabe is going to call you up at once to discuss the question of the valuation of Lend-Lease in Reverse materials. They feel that there should be no valuation of such materials. The cable seemed urgent. Why, I don't understand.

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But McCabe will call you up; he has a memorandum from him, a copy of which was not sent to us, in order not to duplicate cable charges, I suspect, which he will probably bring to your attention in the discussion.

Currie cabled from China to the effect that diplomatic agents and educational institutions and other foreigners are quite upset and angry over the fact that all they get is the official rate for their dollar, which is five cents, when the actual purchasing power, of course, is much less. He is raising the question if we might not want to do something about it.

We have cabled Adler back for a lot more information. As soon as we have it we will be prepared to make a recommendation to you on the subject.

The Mint wants to make a change in the procedure with regard to the handling of miners' affidavits on newly-mined silver.

Mr. Bell, Mr. Bernstein, and myself discussed it and are prepared to recommend that you approve of the suggestion, which is that the affidavits be cancelled as soon as silver is sold to the manufacturer or supplier. If that is not done the Mint will be confronted with a task of tracing these affidavits through a number of industrial users.

H.M.JR: It doesn't interest me.

MR. WHITE: O.K.

H.M.JR: Do it yourself.

Harry, I wanted to work tonight at home to prepare myself for this meeting with Mr. Hull. It is scheduled for Wednesday at eleven o'clock?

MRS. KLOTZ: Tentatively.

H.M.JR: And Stimson. Now, you said you were having

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an answer to Feis. Have you got that?

MR. WHITE: I haven't it ready, no.

H.M.JR: Would you have it ready for me tonight?

MR. WHITE: By tonight, yes.

H.M.JR: Would you? Is that pushing you too hard?

MR. WHITE: No, it is a very brief answer. The issues at stake are not very large, and the area of difference of opinion is rather narrow.

H.M.JR: What I would like to do, if you don't mind - are you free tonight?

MR. WHITE: I am free tonight.

H.M.JR: Well, if you would arrange to have a Treasury car pick you up at your home and bring you to my house at eight-thirty - I will not work any more than an hour. I haven't done my home work on it. He can wait and take you back to your home.

MR. WHITE: All right.

H.M.JR: So would you--

MR. WHITE: Eight-thirty?

H.M.JR: Yes. As a matter of fact, Perry won't be doing anything tonight. He can go out, if you will make a note - what will it take, about fifteen minutes? Tell him ten minutes past eight.

MR. WHITE: I think I will be in the office tonight. I will take care of it.

H.M.JR: Make your own arrangements.

MR. WHITE: I will make my arrangements for the Treasury Car.

H.M.JR: Yes. I don't know whether you (Bell) have studied it or not.

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MR. BELL: I just read the memorandum Harry prepared originally.

H.M.JR: Well, I am going to study it tonight.

MR. BELL: Do you want me to come?

H.M.JR: No, it is not necessary.

MR. BELL: I will get it from him.

H.M.JR: No, I have got to start right from the beginning. I haven't read any of the stuff.

MR. BELL: I have read the first memorandum.

H.M.JR: I haven't, so there is no use tying up two of us. I thought I would study it tonight, then sometime before we go over there the three of us would sit down and discuss it. How is that?

MR. BELL: That is fine.

H.M.JR: We will study it tonight, and the three of us will have a meeting on it.

MR. BELL: All right.

H.M.JR: Anything else, Harry?

MR. WHITE: That is all.

H.M.JR: Chick?

MR. SCHWARZ: No.

H.M.JR: Harold?

MR. GRAVES: You asked me Saturday about a house organ.

H.M.JR: Yes. They didn't have it.

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MR. GRAVES: They had one. I didn't know it.
(Paper entitled "War Savings Staff News" handed to the
Secretary.)

H.M.JR: Is this new - the first edition?

MR. GRAVES: First day of August, Saturday's
date.

H.M.JR: It shows that Callahan and I are good.
Oh, grand.

MR. GRAVES: They didn't have a copy until this
morning.

H.M.JR: I called him up and said I wanted to
get out a house organ on what we are doing for the
radio stations. Now, who does that, over there?

MR. GRAVES: Callahan's section does it.

H.M.JR: Now, I haven't sent anything around to
the people, from the President down, and I got that
whole list - Mrs. Klotz can give you the list - heads
of agencies, and all that. I would like to send that.

Very good.

MR. GRAVES: Starting with the--

H.M.JR: Starting with the President, down through
the heads of the agencies. I think you might send that
with my card, and we have got the list. She can give
it to you. And then I think that I would send this -
you haven't sent anything on the Hill. I would send
this to every member of Congress, Harold.

MR. GRAVES: Yes, sir.

H.M.JR: Within at least a month, and if you have
time you might even send it to the nine-thirty group.
(Laughter)

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MR. GRAVES: Yes, sir.

H.M.JR: What else?

MR. GRAVES: That is all I have, sir.

MR. THOMPSON: I have nothing this morning.

H.M.JR: If Mr. Graves would stay--

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Treasury Department
Division of Monetary Research

Date.....August 3, 1943

To: Miss Chauncey

Described this very briefly to the Secretary at staff meeting today and he replied to "handle it as we saw fit".

As soon as we get Mr. Bell's and the Mint's signature on it we are going to approve the suggestion.

MR. WHITE
Branch 2058 - Room 214½

MEMORANDUM TO THE SECRETARY:

In connection with the sale of newly-mined domestic silver in the industrial market, a problem has arisen concerning the disposition of miners' affidavits which would be submitted with such silver were it deposited at the coinage mints.

If these affidavits remain outstanding and are transferred from one owner to another, the Mint Bureau will be faced with the problem of tracing silver through several owners and several industrial processes. The burden thus imposed upon the Mint Bureau can be alleviated by requiring cancellation of the affidavits each time a producer sells such silver to a manufacturer or supplier. It is believed that such a requirement would not reduce the use of newly-mined domestic silver in the production of articles for civilian consumption, since the War Production Board is presently allocating all other silver to war industries.

The Office of Price Administration is considering permitting manufacturers and suppliers to charge a higher

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price for articles produced from newly-mined domestic silver. Officials of the Office of Price Administration have stated that if such price differential is granted, conditions may be imposed upon those who will be benefited thereby. They are willing to include among the conditions imposed, one that would require producers of newly-mined domestic silver to deliver miners' affidavits to the Mint Bureau for cancellation each time such silver is sold.

It is suggested that arrangements be made to have the Office of Price Administration require the cancellation of miners' affidavits when such silver is sold by the producers to manufacturers and suppliers who wish to take advantage of the price differential. Such action would appear to be consistent with the purpose of section 4 of the Act of July 6, 1939, 53 Stat. 998 (U.S.C. title 31, sec. 316c).

August 3, 1942
12:35 p.m.

WAR BONDS

Present:

Mr. Graves
Mrs. Klotz

H.M.JR: There are two things. This first thing is this. I don't know whether it is a practice or whether it is accident, or what, but both at Richmond and at Stockbridge they announced steadily that I was coming, you see.

Now, I don't know whether the War Bond people do that or whether that is the local committee, or what, but I think it is bad in the long run to keep announcing that I am coming and then I don't show up. Don't you agree with me?

MR. GRAVES: I do, yes, sir.

H.M.JR: See, because - and I wish you would speak to the War Bond people about it. I mean in the case of Stockbridge I wrote a letter turning them down, and I never intended to go to Richmond. I never even considered it.

Now, I want to write a letter, and I would like you to listen because it sort of affects you. I mean this is a letter that I am going to leave behind for Kuhn, you see, and both of you listen.

My dear Ferdie:

This letter will be delivered to you on your return from your holiday.

During your absence I have come to a decision in regard to your future work in

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the Treasury, which I sincerely hope will meet with your approval. Possibly I have come to this decision because due to your absence I have missed the assistance which I feel that you can give me.

I want to take this opportunity to thank you for all that you have done, together with Graves and Odegard, during the past year to put the War Bond program where it is today. However, I feel that this has taken up almost all of your time, leaving you very little, if any, time to think about general Treasury problems. While War Bonds are very important, I needn't tell you that I have a half a dozen other Treasury problems which are as important.

What I would like you to do in the future is to work with me on the problems that I have, particularly where they touch the public, which will, of course, include War Bonds. This will mean that Harold Graves will find somebody else to do the clearance every day of the publicity which War Bonds gets out and which, I understand, you have been doing personally.

In order to give you and Harold a chance to turn around, I suggest that you divest yourself of this particular responsibility between the time that you return and Monday, the seventeenth, when I expect to return.

If my suggestion does not meet with your hearty approval, I will be very glad to sit down and discuss it with you, because after the very valuable service which you have rendered me during the past year I want you to continue to be as happy in your work in the future as I think you have been during this past year.

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Now, you might type it up very rough and give it to Mr. Graves. (To stenotypist)

Does that--

MR. GRAVES: Very nice.

MRS. KLOTZ: Yes, it has a nice tone.

H.M.JR: The only thing is I say I have come to a decision. I don't know whether that is too strong, but I really have; but, on the other hand, I have come to a decision, which doesn't mean that he has to. Is that right?

MR. GRAVES: I don't think there is anything wrong with it.

H.M.JR: Now, I have a suggestion for you. I don't like to do these things. I realize by doing this I am adding to your burdens until you find somebody.

MR. GRAVES: I have found somebody.

H.M.JR: Have you?

MR. GRAVES: Yes.

H.M.JR: All right, I can hold mine.

MR. GRAVES: Would you like me to tell you what I think we should do?

H.M.JR: Yes.

MR. GRAVES: I think we ought to have Peter in that place.

H.M.JR: That would be ideal.

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MR. GRAVES: Give Peter all of the things to do that you and I have been thinking about giving to a director of information.

H.M.JR: Perfect.

MR. GRAVES: Keep him as an Assistant to the Secretary and let him get people to help him if he needs help. Now, take Mr. Gamble and assign him to general supervision of our field operations, including pay-roll allotment, any special events that have given us so much trouble, and I think we will make that division; I mean Peter on the one hand and Mr. Gamble on the other hand. Then we are all going to be much happier and do a lot better work.

H.M.JR: You know you never did write me the memo. I suppose it was impossible, and that is why I didn't follow you up.

MR. GRAVES: You and I decided in the end you didn't want it.

H.M.JR: I realized I was asking you to do something too difficult, to describe what each of these men do.

MR. GRAVES: The trouble was that we sort of all did everything. This divides it.

H.M.JR: Would it be asking too much if you did it just for me - write down what you are saying now. I think if you wrote it, it would clear your own thinking.

MR. GRAVES: I can give you a memorandum by the end of the day.

H.M.JR: Make the special events under Gamble?

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MR. GAMBLE: So far as the field happenings are concerned.

H.M.JR: But everything else would be - now, that would mean you could only do that with Odegard.

MR. GRAVES: I have talked this over with both Odegard and Gamble.

H.M.JR: He would have to leave the college.

MR. GRAVES: We put it this way, that he will give whatever time is necessary, and if need be, all of his time.

H.M.JR: He will have to give all, I am going to say this, that I have watched him, and Odegard cannot - it isn't fair to ask any human being to go home and lecture Thursday and Friday, do his examination papers on Saturday, and then leave there at four o'clock Sunday to come back to Washington. You can't do it. You know he has got his wife and two children that he is crazy about, and he can't have his family up there, and - well, he won't be giving a good lecture to the boys or giving us good work.

Now listen, Harold, you might just as well cross that bridge if he is going to do that.

MR. GRAVES: He has got to give up Amherst.

H.M.JR: Now, whether he wants to move his wife and two children down, that is a personal matter, but at nine thousand a year he could do that. He can afford to do that. But he can't do his teaching and do these things. I have watched Odegard. His brain is tired.

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MRS. KLOTZ: He will break down, too, eventually.

MR. GRAVES: He will agree to that, I am positive.

H.M.JR: I make that a condition.

MR. GRAVES: That is reasonable, I think.

H.M.JR: The man I had suggested, that I wrote down here, is Howard Deitz, from now until the first of January, to come down on a leave of absence. That is what I was going to suggest. But yours is much better.

MR. GRAVES: I think so.

H.M.JR: Yours is because the thing that bothered me was breaking in somebody new. I knew Howard Deitz and I knew he had the same standard of ethics that I have. We went all through that Texaco thing, and he sided with me when it came to the question of how much Texaco should have. I was thinking I might persuade them to let me have him from now until the first of January, and that would make a clean-cut - make a much smoother thing.

MR. GRAVES: Of course there will be a great deal of room for getting together on these things.

H.M.JR: The point is this: Where I get into War Bonds personally, then Ferdie gets in with me. If I say, "Ferdie, I am going to spend an hour on War Bonds I want you here" then he will spend an hour.

Now, look, it is unfair what I have been doing. I will be very honest with George Buffington. He has that publicity. Why don't I want to send it out? I will tell you why, because it is very

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badly done, and I haven't got time to do it myself and there is nobody in the shop that can do it. So George Buffington's publicity doesn't go out, and that is - I mean it happens every day. There is that boy; he is entitled to have it go out, and because there is nobody - now if Ferdie were here I would say, "Here is this thing, it is not right, Ferdie; take it and come back in an hour." And he would have it right.

MR. GRAVES: That is right.

H.M.JR: And I can give you dozens of cases, and Ferdie and - I mean I try to do it, and the result is I am tired all the time. And this thing, I like your suggestion.

MR. GRAVES: I thought you would.

MRS. KLOTZ: I think it is perfect.

H.M.JR: That will do a lot, and then with just a little bit stiffer broom over there on three or four people--

MR. GRAVES: We are beginning to do a little.

August 3, 1942
2:28 p.m.

HMJr: Hello.

Operator: Mr. Paul.

Randolph
Paul: Hello.

HMJr: Randolph....

P: Yeah.

HMJr: I wish you'd put somebody immediately on the -
studying LaGuardia's testimony, because he's
very apt to make some statements which are as
far from the truth as possible.

P: Well, I made a special - I - I did this
special, I had Stanley Surrey and - and Bob
Eichholz go up there....

HMJr: Yeah.

P:to hear it, and as soon as they get back,
certainly we'll make a special study if there's
anything....

HMJr: Well, don't let it drag too long, and if I
should answer it, I'd like to answer it, be-
cause....

P: Well, when....

HMJr:Jim Landis has answered him twice now when
LaGuardia was wrong and Jim was right.

P: (Laughs)

HMJr: What?

P: Well, yeah, I'll - I'll ask them when they get
back. You see that will be the best kind of
study because they were right there. I have
talked to Brown since his testimony was on,
and Brown said he didn't think he made much
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talked to Brown since his testimony was on,
and Brown said he didn't think he made much
impression.

- 2 -

HMJr: Well, still if - if LaGuardia went away from the truth, then I want to know it. Hello?

P: Yeah, I see.

HMJr: Now I've got another suggestion. Mrs. Heming - H-e-m-i-n-g, who happens to be the President of the New York State League of Women Voters....

P: H-e-m-i-n-g.

HMJr: Yes...is doing a lot of work. They're concentrating entirely on trying to help us with this - get across our tax program....

P: Uh huh.

HMJr:and I wish you'd have somebody contact her. And that gave me this idea....

P: Why don't I contact her?

HMJr: Why not? She's very attractive.

P: Well, I didn't think of that.

HMJr: Well, I recommend it. She's very....

P: Where - okay. Well, that's enough said to me. I'll just go right after it.

HMJr: She's a lovely woman.

P: Where - where do you get....

HMJr: Mrs. Charles Heming.

P: Charles, okay.

HMJr: Now - I mean, we're very intimate, the whole family. Now the thing that I wanted to explain was this, which gave me the idea - what's the name of this very good woman tax expert at Vassar?

P: She's with us now....

HMJr: Yes.

- 3 -

P:Dr. - oh....

HMJr: Well, you think up a name.

P: Why, she's with us here now.

HMJr: I know she is.

P: Yeah.

HMJr: Well, I'd like to talk to her. I haven't seen her since she's here.

P: Yes.

HMJr: And I'd like to suggest that she spend a part of her time preparing stuff for organizations like the League of Women Voters and any other women's organizations.

P: Yeah.

HMJr: See?

P: Yeah, Newcomer is her name.

HMJr: Mabel Newcomer. She's tops.

P: Yeah, I know she is.

HMJr: Well, now I wish you'd talk with her and bring her in to see me, and I'd like to have her give a little time and thought to servicing these different women's organizations.

P: I think that's a good idea. Have you any special preference about when I bring her in?

HMJr: Well, if - if she's here, I - if she's in town, I'll give you an appointment now.

P: Wait till I see, and I'll call you right back.

HMJr: Well, you could call me back if - well, if she's - tell you what you do, if she's - you can call Stephens. He's standing here, you see?

P: I see.

- 4 -

HMJr: And....

P: Well, look - if you don't hear from me right away, you'll know she isn't in town today.

HMJr: Well, I can't see her today, but I could see her tomorrow by four o'clock.

P: Okay, well, I'll call Stephens and make an appointment then.

HMJr: Yeah, four o'clock. But I think if we get somebody like that and let her do the women, and she might even - no reason why - any of these, you take, for instance, like the New York City Club. I don't know whether you're a member. I used to be.

P: I used to be, but I think I'm out of it now.

HMJr: Well, there - there are hundreds of organizations like this--I talked before the Cleveland City Club--

P: Yeah.

HMJr:that should be given little bulletins.

P: That's right.

HMJr: And I think Mabel Newcomer could do it.

P: Well, I think she's - that's a - it's got germs of a lot of possibilities, use of her particularly with women.

HMJr: I mean, I thought you were going to say that was a brilliant idea and you've got to make me do it.

P: No, no....

HMJr: Make me say....

P: I don't make you....

HMJr:it's a brilliant idea.

- 5 -

P:I don't make you do much. On the other hand,
I probably don't bother you enough.

HMJr: No, no, no, you didn't understand my - I say you
make me say that my idea was brilliant.

P: Oh, no, no. I'm willing to say it's brilliant.

HMJr: (Laughs) Time will tell. Okay, Randolph.

P: Okay.

HMJr: Goodbye.

TREASURY BILLS

	<u>Aug. 5</u>	<u>July 29</u>	<u>July 22</u>	<u>July 15</u>
Amount offered	\$ 350 M	\$ 350 M	\$ 350 M	\$ 300 M
Bids tendered	583 ✓	645 ✓	679	651
Low rate .....	.297%	.297%	.301%	.316%
High rate .....	.376	.376	.372	.372
Average rate .....	.372 ✓	.369 ✓	.368	.365
Amount in New York	\$ 226 M	\$ 172 M	\$ 179 M	\$ 151 M
Amount in Chicago	42	57	69	59
Amount in San Francisco..	14	23	19	17
Amount in balance of country	68	98	83	73

sub

August 3, 1942

85

An identical letter was sent to each of
the 48 State Governors.

Handwritten notes on the right edge of the page, including the word "Have" and other illegible scribbles.

August 3, 1942

Dear Governor Dixon:

With the thought that your State might have available idle pension or other public funds, I am enclosing a copy of an official circular on the Treasury 2-1/2% registered bond, due 1962-1967, which has been placed on sale today. You will note that the books on this issue will remain open longer than customary, and that subscriptions will be allotted in full as they are received by the Federal Reserve banks.

We earnestly solicit your cooperation in bringing this to the attention of your State Treasurer or trustees of funds as we believe the issue is particularly suitable for their use.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable Frank M. Dixon,
Governor of Alabama,
Montgomery, Alabama

Taken to Airport 5:15 8/4/42
by Sturgis

File in Diary - cc to Thompson

GB:ame GFTJ.

UNITED STATES OF AMERICA

2-1/2 PERCENT TREASURY BONDS OF 1962-67

Dated and bearing interest from May 5, 1942

Due June 15, 1967

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON
AND AFTER JUNE 15, 1962

Interest payable June 15 and December 15

 ADDITIONAL ISSUE

1942
Department Circular No. 692

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, August 3, 1942.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest from the people of the United States for bonds of the United States, designated 2-1/2 percent Treasury Bonds of 1962-67. These bonds will not be available for subscription, for their own account, by commercial banks which accept demand deposits. The amount of the offering is not specifically limited.

II. DESCRIPTION OF BONDS

1. The bonds now offered will be an addition to and will form a part of the series of 2-1/2 percent Treasury Bonds of 1962-67 issued pursuant to Department Circular No. 685, dated May 4, 1942, will be freely interchangeable therewith, and are identical in all respects therewith.

2. The bonds will be dated May 5, 1942, and will bear interest from that date at the rate of 2-1/2 percent per annum, payable on a semiannual basis on June 15 and December 15 in each year until the principal amount becomes payable, the first payment being made December 15, 1942. They will mature June 15, 1967, but may be redeemed at the option of the United States on and after June 15, 1962, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

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

- 2 -

4. The bonds will not be acceptable to secure deposits of public moneys before May 5, 1952, they will not bear the circulation privilege, and they will not be entitled to any privilege of conversion.

5. Bonds registered as to principal and interest will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The bonds will not be issued in coupon form prior to May 5, 1952, but will be available in coupon form after that date, in the same denominations as, and freely interchangeable with, the registered bonds of this issue. Under rules and regulations prescribed by the Secretary of the Treasury, provision will be made for the transfer of the bonds, other than to commercial banks which accept demand deposits, and for exchanges of denominations. They will not be eligible for transfer to commercial banks which accept demand deposits before May 5, 1952. However, the bonds may be pledged as collateral for loans, including loans by commercial banks which accept demand deposits, but any such bank acquiring such bonds before May 5, 1952, because of the failure of such loans to be paid at maturity will be required to dispose of them in the same manner as they dispose of other assets not eligible to be owned by banks.

6. Any bonds issued hereunder, or under the provisions of Department Circular No. 685, dated May 4, 1942, which upon the death of the owner constitute part of his estate, will be redeemed at the option of the duly constituted representatives of the deceased owner's estate, at par and accrued interest to date of payment.^{1/} Provided:

- (a) that the bonds were actually owned by the decedent at the time of his death; and
- (b) that the Secretary of the Treasury be authorized to apply the entire proceeds of redemption to the payment of Federal estate taxes.

Registered bonds submitted for redemption hereunder must be duly assigned to "The Secretary of the Treasury for redemption, the proceeds to be paid to the Collector of Internal Revenue at _____ for credit on Federal estate taxes due from estate of _____." Owing to the periodic closing of the transfer books and the impossibility of stopping payment of interest to the registered owner during the closed period, registered bonds received after the closing of the books for payment during such closed period will be paid only at par with a deduction of interest from the date of payment to the next interest payment date;^{2/} bonds received during the closed period for payment at a date after the books reopen will be paid at par plus accrued interest from the reopening of the books to the date of payment. In either case checks for the

^{1/} An exact half-year's interest is computed for each full half-year period irrespective of the actual number of days in the half year. For a fractional part of any half year, computation is on the basis of the actual number of days in such half year.

^{2/} The transfer books are closed from May 16 to June 15, and from November 16 to December 15 (both dates inclusive) in each year.

full six months interest due on the last day of the closed period will be forwarded to the owner in due course. All bonds submitted must be accompanied by Form PD 1782,^{1/} properly completed, signed and sworn to, and by a certificate of the appointment of the personal representatives, under seal of the court, dated not more than 6 months prior to the submission of the bonds, which shall show that at the date thereof the appointment was still in force and effect. Upon payment of the bonds appropriate memorandum receipt will be forwarded to the representatives, which will be followed in due course by formal receipt from the Collector of Internal Revenue.

7. Except as provided in the preceding paragraphs, the bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions and security dealers generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions must be accompanied by payment in full for the amount of bonds applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest from May 5, 1942, for bonds allotted hereunder must be made on August 3, 1942, or on later allotment. Accrued interest from May 5, 1942 to August 3, 1942 inclusive is \$6.16293 per \$1,000. Each day's accrued interest thereafter is \$0.0683 per \$1,000. Any qualified depository will be permitted to make payment by credit for bonds allotted to its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district.

V. GENERAL PROVISIONS

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

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

^{1/} Copies of Form PD 1782 may be obtained from any Federal Reserve Bank or from the Treasury Department, Washington, D. C.



TREASURY DEPARTMENT
WASHINGTON

August 3, 1942

MEMORANDUM FOR THE SECRETARY:

You suggested on Saturday that we should get out a "House Organ" devoted to the Radio War Bond Drive.

I found that Mr. Callahan had already done this, and attach an advance copy for your information.

GRAVES.
[Handwritten signature]

FOR DEFENSE



Nation-Wide Radio War Bond Sales Drive Wheels Into Action



WASHINGTON, D. C., AUG. 1, 1942

PLAZA BUILDING, 300 FIFTH ST., N. W.

CHICAGO GOES "ALL OUT"

"Impossible?"— There's No Such Word

By VINCENT F. CALLAHAN,
Director, Radio and Press Section, War Savings Staff

Every time the United States Treasury Department asks radio stations of America to do a civic service job in War Bonds, we are asked to do more of the same thing.

And that is, we always get a better response than we had anticipated, as seen in our most optimistic calculations.

The current response to the call for radio stations to do more of the same thing, we thought about 100 stations would be around about the place.

100 was wrong.

More than 400 stations enthusiastically agreed to do the job. More than in every day. That's a magnificent record. It more than matches the Treasury Department's answering call that radio can deliver the goods... see time... say here... it is an answer.

We knew there would be problems. Big problems. Difficult. Difficult. All of them real, logical and sound. We were concerned about them... but not any more.

We know now, more than ever, that radio management has the talent, the ability, the courage and confidence to meet and solve any and every problem that can possibly arise!

"SUCCESS IS GOOD MANAGEMENT IN ACTION"
... and the speed with which radio management is solving into this all-important selling drive, smashing problems as fast as they come up, is positive proof that this campaign will top every success record in the history of this record-breaking industry.

With you like a few examples of this ingenuity—this ability to turn a potential headache into a positive benefit.

One-by-one in Washington are covered with them. Let's run through a few.

Stations are often placed in out-of-the-way, unhandy locations... but smart managers have built booths in bars, building lobbies, taverns, bars bringing their name to the front attention of more people than ever before—and providing a much needed spot for "direct from sales headquarters" broadcasts with better participation. Also, stations are providing their market by selling bonds through phone and mail orders, thereby selling themselves closer to listeners in every locale.

Personal and letters are too limited for a job of this kind... but smart managers are finding inventive ways to get the station and their worthy citizens naturally helpful through and public response.

There might be "conventional" with present bond sales and a number of whom are the station's stock... but smart managers have now seen ways to get their stations to sell more than just bonds with all Americans in a country that all America must do so. There is no competition to start in your country.

Working terms of bond letters on the air might be considered in public policy... but smart managers have found ways to get their stations to sell more than just bonds with all Americans in a country that all America must do so. There is no competition to start in your country.

There is great risk in handling securities, checks and receipts... but smart managers have found ways to get their stations to sell more than just bonds with all Americans in a country that all America must do so. There is no competition to start in your country.

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LOCAL STATION BOND BARRAGE BUYS WAR TOOLS FOR UNCLE SAM!



Bond Sale Gathers Impetus As Stations Work Out Selling Plans

Washington, D. C., Aug. 1.—In the past few weeks, radio stations throughout the country have been working out their plans for the coming fall bond sale. The War Savings Staff has been busy helping stations work out their plans for the coming fall bond sale. The War Savings Staff has been busy helping stations work out their plans for the coming fall bond sale.

Stages Hour Transcription Show
Chicago, Ill., Aug. 1.—The Chicago radio stations are working out their plans for the coming fall bond sale. The War Savings Staff has been busy helping stations work out their plans for the coming fall bond sale.

Sold \$6,000 in First Program
Chicago, Ill., Aug. 1.—The Chicago radio stations are working out their plans for the coming fall bond sale. The War Savings Staff has been busy helping stations work out their plans for the coming fall bond sale.

Makes Tie-Up with RKO Theatre Chain
Chicago, Ill., Aug. 1.—The Chicago radio stations are working out their plans for the coming fall bond sale. The War Savings Staff has been busy helping stations work out their plans for the coming fall bond sale.

Chicago, Ill., Aug. 1.—The Chicago radio stations are working out their plans for the coming fall bond sale. The War Savings Staff has been busy helping stations work out their plans for the coming fall bond sale.

Taxi Company Delivers Bonds
Chicago, Ill., Aug. 1.—The Chicago radio stations are working out their plans for the coming fall bond sale. The War Savings Staff has been busy helping stations work out their plans for the coming fall bond sale.

Safes Has First Bond Sale
Chicago, Ill., Aug. 1.—The Chicago radio stations are working out their plans for the coming fall bond sale. The War Savings Staff has been busy helping stations work out their plans for the coming fall bond sale.

Builds Booth in Fringe of Station
Chicago, Ill., Aug. 1.—The Chicago radio stations are working out their plans for the coming fall bond sale. The War Savings Staff has been busy helping stations work out their plans for the coming fall bond sale.

WINDY CITY STATIONS JUMP GUN IN RESPONSE TO TREASURY CALL—ALL COOPERATE 100 PER CENT

By H. JACK SCOTT
Radio Chief, War Savings Staff,
Chicago and Illinois

Chicago, Ill., Aug. 1.—Chicago stations are cooperating 100% in the sale of War Bonds direct to stations. Always quick to respond to radio needs of the war effort, the stations in Chicago get under way almost immediately upon the receipt of the telegraphic request from the War Savings Department. Many unusual and new methods of presenting the sale of bonds are being used, ranging from hour and fifteen minute broadcasts to straight spot announcements.

One of the first stations to get started in the all-important movement to sell Bonds direct to stations was WBBM, Chicago, which has done an outstanding job of presentation. This 10-station work on the part of the outstanding radio personality of WBBM.

The major programs are already under way in the campaign, starting with the "Victory Matinee" variety program that runs for one hour and 15 minutes five days per week. WBBM has now inaugurated "Victory Circle" a very interesting booth and sales set-up located on Michigan Boulevard between the North and South Wrigley Buildings.

Three days before the official starting date, WBBM threw open its doors to "Victory Matinee" the program, which runs for 1 hour and 15 minutes daily, from 2:30 to 4:00 p. m., in a studio program. Featuring music, news, comedy, song and drama, the program features famous personalities of good stars. A subscription program, which offers a limited number of shares at 50¢ per share, is being offered.

The Old Manors is doing a great job of selling bonds. The program has been approved by the Treasury Department. The program has been approved by the Treasury Department. The program has been approved by the Treasury Department.

Chicago, Ill., Aug. 1.—The Chicago radio stations are working out their plans for the coming fall bond sale. The War Savings Staff has been busy helping stations work out their plans for the coming fall bond sale.

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RURAL CARRIERS GIVEN AUTHORITY ON THEIR ROUTE

Washington, D. C., Aug. 1.—The Rural Mail Carriers have been given the authority to accept applications for routes in cooperation with the Treasury Department, the sale of War Bonds.

The War Savings Staff has been busy helping stations work out their plans for the coming fall bond sale. The War Savings Staff has been busy helping stations work out their plans for the coming fall bond sale.

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Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 3, 1942.

TO Secretary Morgenthau
 FROM Harold Graves

Mr. Bell has asked me to give you the following statement showing the sales of War Savings Stamps, by months:

	<u>Amount in thousands of dollars</u>
1941--May	\$3,349
June	2,738
July	3,520
August	4,372
September	5,192
October	5,985
November	6,354
December	25,657
1942--January	41,169
February	38,649
March	40,599
April	40,173
May	48,027
June	48,618
July (estimated)	53,000

UNITED STATES SAVINGS BONDS - SERIES E

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

(At issue price in thousands of dollars)

Date	August daily sales	Cumulative sales by business days				August as percent of July
		August	July	June		
August 1942						
1	\$ 14,044	\$ 14,044	\$ 15,821	\$ 19,834		85.8%

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

August 3, 1942.

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

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	August daily sales	Cumulative sales by business days			August as percent of July
		August	July	June	
August 1942					
1	\$ 12,222	\$ 12,222	\$ 12,597	\$ 9,705	97.0%

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

August 3, 1942.

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

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

UNITED STATES SAVINGS BONDS - TOTAL

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

(At issue price in thousands of dollars)

Date	August daily sales	Cumulative sales by business days				August as percent of July
		August	July	June	August as percent of July	
August 1942						
1	\$ 26,267	\$ 26,267	\$ 28,418	\$ 29,539		92.4%

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

August 3, 1942.

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

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

Sales of United States savings ⁷⁶bonds
August 1, 1942
Compared with sales quota for same period
(At issue price in millions of dollars)

CONFIDENTIAL

Date	Series E				Series F and G				Total			
	Actual sales		Quota	Sales	Actual sales		Quota	Sales	Actual sales		Quota	Sales
	Daily	August 1 to date	August 1 to date	to date as % of quota	Daily	August 1 to date	August 1 to date	to date as % of quota	Daily	August 1 to date	August 1 to date	to date as % of quota
1	\$ 14.0	\$ 14.0	\$ 16.0	87.5%	\$ 12.2	\$ 12.2	\$ 7.7	158.4%	\$ 26.3	\$ 26.3	\$ 23.7	111.0%
3			47.3				21.5				68.8	
4			61.0				29.6				90.6	
5			84.0				45.4				129.4	
6			107.3				58.7				166.0	
7			134.4				68.8				203.2	
8			154.1				76.3				230.4	
10			190.6				87.9				278.5	
11			205.1				94.1				299.2	
12			227.1				105.1				332.2	
13			247.9				114.0				361.9	
14			271.0				120.9				391.9	
15			287.7				126.4				414.1	
17			319.2				135.8				455.0	
18			332.2				141.3				473.5	
19			353.0				151.9				504.9	
20			373.6				161.0				534.6	
21			397.4				168.3				565.7	
22			415.1				174.3				589.4	
24			449.0				184.8				633.8	
25			462.9				191.0				653.9	
26			484.5				203.0				687.5	
27			505.0				213.2				718.2	
28			527.8				221.4				749.2	
29			544.2				228.1				772.3	
31			575.0				240.0				815.0	

August 3, 1942.

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

Source: Actual sales figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds. Figures have been rounded and will not necessarily add to totals.
Note: Quota takes into account both the daily trend during the week and the monthly trend during the month.



ASSISTANT SECRETARY

TREASURY DEPARTMENT

Washington,

August 3, 1942.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

AHS

Following the memorandums addressed to you on July 24 by Mr. Cunn and Mr. Irely concerning the anti-racketeering investigation in New York City, a conference was held on August 1 in the office of Mr. Cunn with respect thereto. In addition to Mr. Cunn and myself there were present at this conference the following:

Elmer L. Irely, Assistant to the Secretary
J. P. Wenchel, Chief Counsel,
Bureau of Internal Revenue
Matthew Correa, United States Attorney
Boris Kostelanetz, Assistant United States Attorney
Ellis N. Slack, Tax Division, Department of Justice
W. H. Wolf, Acting Chief, Intelligence Unit
George A. Buswell, Head, Fraud Division,
Intelligence Unit

Mr. Correa reviewed the circumstances of this entire investigation beginning with the prosecution of Joe Schenck. He stated that because of their participation in those cases our special agents had acquired a knowledge which enabled them to be of considerable assistance to him in the present investigation. On the other hand, the Treasury officers pointed out the many difficulties confronting their investigators at this time, as outlined to you by Mr. Cunn and Mr. Irely in their memorandums of July 24.

It was finally agreed that the Internal Revenue Bureau would proceed with its tax investigations in Chicago of various racketeers, among whom are those believed to be involved in Mr. Correa's investigation. It was agreed that the Intelligence Unit would conduct this investigation in its own way, and it was pointed out that this

would probably consume considerable time. It was further agreed that Special Agent Oftedal of the Intelligence Unit, who has been cooperating with Mr. Correa in New York, would be detailed to Chicago to associate with Mr. Madden in the investigation of these tax matters at that place, and coordinate with Mr. Correa in making available to him from time to time any information which might develop in these tax investigations which would be helpful to him in his work in New York City. It was finally stated to Mr. Correa that the reports of the tax investigations would be written and submitted in regular course to the Bureau at Washington and forwarded by the Bureau to the Department of Justice for consideration of prosecution.

This was agreeable to the officers of both departments.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE August 3, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending August 1, 1942.

Summary

(1) National income payments continued to expand in June, reaching a new high annual rate of \$111.1 billions. This compares with \$109.3 billions in the previous month and with only \$75.3 billions in June 1940, when the long upswing engendered by the defense program was just getting under way. The estimated purchasing power of national income payments also reached a new high in June, as income expanded more rapidly than living costs.

(2) Aggregate retail trade in June continued to lag behind its "normal" relationship to salaries and wages, which rose to a new high in the month. An important factor in the sales lag has been the blighting effects of production bans and rationing programs on sales by the automotive trade and allied lines. Consumers also have been restricting their buying by cutting down on charge accounts and reducing instalment loans at commercial banks.

(3) Partly in reflection of favorable crop reports, wheat and cotton prices moved lower last week. Nevertheless, the BLS index of basic commodity prices showed a very slight gain, although remaining close to the lowest point touched since mid-June.

(4) Prices received by farmers in July rose to the highest level since May 1928. On the other hand, prices paid by farmers were unchanged for the third consecutive month. The index of prices received by farmers at mid-July stood at 101 percent of parity.

(5) Industrial stock prices have eased off moderately from the mid-July highs under the impact of adverse war news, unfavorable earnings reports and some important dividend reductions. However, the trading volume has been light and price declines relatively small, which may be regarded as a favorable showing in view of the generally adverse news confronting the market.

- - - - -

- 2 -

Markets sobered by war news, earnings reports and crop prospects

Adverse war news, disappointing corporate earnings reports, and favorable crop prospects were among the factors operating last week to restrain buoyant tendencies which had been in evidence in the stock and commodity markets earlier in the month. In this atmosphere recent inflationary talk subsided somewhat, and raw material shortages and overseas transport problems came in for increased attention.

National income still rising

National income payments continued to expand in June, according to confidential data from the Department of Commerce, and rose to a new record high at an annual rate of \$111.1 billions as compared with \$109.3 billions in the previous month. (See Chart 1.) As a result of the extended upswing in national income payments during the past 2 years, the level reached last month was nearly 48 percent higher than in June 1940, when the annual rate was only \$75.3 billions.

Although living costs showed a further advance in June, the rise was not as rapid as the gain in income. As a consequence, the estimated purchasing power of national income payments moved ahead to a new high. (Refer to Chart 1.)

Retail trade fails to keep pace with wages and salaries

Salaries and wages, the largest component of national income payments, surged ahead to a new peak in June, but retail trade again failed to keep pace with the gain in salaries and wages. (See Chart 2.) It will be noted that up to August 1941, retail trade held fairly close to the sales projection based upon the "normal" relationship of sales to salaries and wages. Since that time a divergence has developed which has become increasingly marked in recent months.

One important factor in the lag in aggregate retail trade volume has been the drastic curtailment of some lines due to war-time restrictions. The most conspicuous example of this has occurred in the automotive trade, where retail sales in June, after allowance for seasonal factors, were 60 percent below those of last August. Likewise, filling station business has fallen off under the impact of rationing programs. In fact

- 3 -

all major retail store groups, on a seasonally-adjusted basis, have shown sales declines since last August, with the exception of food stores, drug stores and eating and drinking places. The importance of the decline in automotive sales may be seen from the fact that if such sales are excluded from the total, retail sales in June would be 13 percent higher than in June 1941, instead of 3 percent lower.

In addition to the loss in sales volume caused by production bans and rationing programs, sales also have been slowed up by (1) public purchases of war bonds and stamps; (2) higher taxes; (3) tighter credit restrictions; (4) the shifting of many civilian customers into the armed services, and (5) some reaction from earlier fear buying and stocking-up.

Heavy payments on charge accounts

Part of the increased funds in the hands of the public in recent months has been used for liquidating outstanding obligations. Thus, it is reported that collections on open charge accounts subject to the recent freezing regulation, which had been relatively large in May and June, reached a record high early in July. According to confidential data of the Federal Reserve Board based on a survey of 1221 stores, 22 percent of all charge accounts were frozen on July 10 under the recent amendment to Regulation W. This compares with the 29 percent of charge accounts which were frozen in Canada when a similar regulation was put into effect.

It was further disclosed in the confidential report that consumer instalment loans of commercial banks were reduced 5 percent in June, thus bringing the reduction for the first 6 months of the year up to 24 percent. The amounts outstanding under all major consumer loan categories showed declines in June. A similar trend was shown for new loans in all categories, except personal cash loans, of which new loans were 11 percent higher in June than in May.

Department store sales moderately above year ago

Department store sales in the week ended July 25 ran 5 percent above year-earlier levels for the second consecutive week. (See Chart 3.) While this rate of gain over 1941 levels is moderately better than in June, it still is noticeably less than the rise in prices which has occurred during the past year, indicating that buyers actually are purchasing fewer goods than they were at this time last year. At the beginning of July, typical department store items were about 16 percent higher in price than a year earlier.

- 4 -

Department store sales in the weeks immediately ahead are likely to show an even more unfavorable comparison with last year, owing to the silk buying wave and the heavy pre-tax buying in August and September 1941.

A preliminary report from the New York City area indicates that trade last week was hurt by adverse weather conditions and is estimated to have fallen about 5 percent below year-earlier levels. A somewhat similar trend in general retail trade throughout the country is reported by Dun and Bradstreet, who estimate the decline from the corresponding period of 1941 at from 4 to 7 percent.

Stock prices slightly lower

Industrial stock prices have eased off slightly from the mid-July highs under the impact of adverse war news, unimpressive earnings reports, and some important dividend reductions. However, trading volume on the reaction has been light, and the price decline from the recent high has been only around 3 percent, a favorable showing in view of the adverse news confronting the market. (See Chart 4.)

Among the large companies announcing dividend reductions last week were American Rolling Mill, Wheeling Steel, Westinghouse Electric, Fairbanks Morse, Savage Arms and Sterling Products. At mid-week the market was somewhat unsettled, partly due to a disappointing second quarter earnings report of U. S. Steel and the dividend cut announced by Westinghouse Electric. The U. S. Steel earnings report, however, was distorted by charging unusually heavy reserves for taxes against second quarter earnings to make up for inadequate allowances in the first quarter.

A study of earnings reports of 180 manufacturing companies for the first half of 1942, made by the National City Bank of New York, reveals a decline in net income of 37 percent as compared with the first half of 1941. The primary reason for the decrease, of course, was the sharp increase in reserves set aside for estimated taxes. Tax details available for 97 of the 180 companies reveal an increase in estimated tax liability to \$540 millions in the first half of 1942, as compared with \$397 millions and \$116 millions in the corresponding periods of 1941 and 1940, respectively.

- 5 -

Commodity prices recede in July

A counterpart to the sagging of stock prices in the last three weeks of July has been some weakness in commodity prices in the spot and futures markets during that period. For the time being, the inflationary effect of cracks in OPA retail ceilings has been offset by increasingly favorable crop reports, new crop supplies bearing down on storage and transportation facilities, and a temporary lull in mill buying of such raw materials as cotton and wool.

Basic commodities little changed

Last week the BLS price index of 28 basic commodities rose very slightly but remained close to its lowest level since mid-June. (See Chart 5.)

A slight rise occurred in the index of 9 uncontrolled commodities, reflecting price increases for barley, flaxseed, and butter. Cotton prices were down again on excellent crop reports. Wheat prices declined on favorable crop reports from Canada and unpromising war news, with futures reaching new lows for the season. Feed grains were strengthened by Department of Agriculture warnings that feed must be conserved for unprecedented livestock production. Prices of hogs and steers were weakened by increased marketings and by the Department's statement that lower prices would be paid for Lend-Lease purchases.

Butter prices rose to 39.5 cents, the highest July peak since 1929. The rise occurred as the Department of Agriculture released an estimate of a production decline of 5 percent in the last week from that a year earlier, and a Department forecast that butter would be among the scarce foods before the end of the war.

During the week the Department of Agriculture stated that 131 cheese manufacturing plants, representing a sizeable portion of the country's producing capacity, had closed in the last two months. Reasons given for the shutdown were inability to produce grades satisfactory to the Government, the vast existing surplus of cheese, and the recent Government request for larger production of dried milk and butter.

- 6 -

The index of 19 controlled commodities declined very slightly. A decrease in cottonseed oil prices was not wholly offset by a small rise in prices of wool tops.

In the week ended July 25, the BLS all-commodity index increased 0.1 percent, continuing its horizontal trend since early April.

Additional breaches in OPA ceilings

Several breaks in retail price ceilings occurred last week. Price increases will be allowed by the OPA on domestic distilled spirits, effective August 5, to cover additional taxes which have been or will be imposed since the general price regulation became effective, and to cover higher costs resulting from use of a different basic ingredient as ordered by the WPB. Retail price increases of about 15 percent will be allowed on jams, preserves, and jellies, and an increase has been allowed on certain brands of pancake flour to cover higher material and labor costs.

Details of the Department of Agriculture's price support of 10 canned vegetables announced May 19 were outlined last week. The Agricultural Marketing Administration will purchase canned vegetables at 92 percent of the canners' maximum prices as determined by OPA regulations. The Department said support prices were necessary to encourage processors to pack a large volume of vegetables. A press report states that the resulting price squeeze may be relieved by a subsidy to packers, or a part may be covered by a subsidy and the remainder by breaching the price ceiling.

Ceiling on lamb prices; gasoline subsidy announced

A ceiling will be placed over lamb prices, wholesale and retail, effective August 10, on the basis of prices July 27 to 31. Lamb and mutton were excepted from the general regulation in May, because lamb prices had not reached the highest of the four alternative levels necessary under the Price Control Act before an OPA ceiling could be placed on a farm product. Farm prices on July 15, however, were high enough to permit a ceiling on lamb prices.

The announced reduction effective this Wednesday in maximum prices of gasoline, fuel and heating oils sold on the Eastern seaboard (rescinding earlier increases) will be covered by a Government subsidy. Oil companies henceforth will be reimbursed for abnormal transportation costs of moving such products into the Eastern area by subsidy payments handled through the Defense Supplies Corporation of the RFC, according to an OPA announcement.

- 7 -

Meat and livestock developments

Several significant developments in the meat situation occurred last week:

1. The gross margin between the prices of live hogs and pork products, as calculated by the Department of Agriculture, has declined to minus 19 cents per 100 pounds in the week ended July 25, as compared with plus 3 cents in the previous week.
2. Discontinuance of operations by two Columbus, Ohio, meat packing firms was reported. Among other packing companies in Columbus, one has cut operations 50 percent.
3. The OPA has announced that meat ceilings will be held firm.
4. Secretary Wickard called on farmers to send a large share of their new pig crop to market earlier than usual this fall to avert a serious pork shortage, and said that marketings must be spread out to avert jamming packing and transportation facilities.
5. Opposition to ceilings on livestock prices was announced by the President of the Kingan meat packing company following a conference with Secretary Wickard. The complications in placing maximum prices over live animals was the chief reason given as he predicted that such a regulation would lead to allocation of the animals among packers and to marketing dislocations for farmers. "Plans are under way," he added, "to have the Government's purchases of meat products ...conform to seasonal variations in meat supplies."
6. Possible nation-wide meat rationing by December 1, resulting from curtailed cattle feeding because of price ceilings, was stressed in a brief filed with the OPA by the National Livestock Advisory Council, representing producers and feeders. The brief emphasized that beef tonnage is being reduced under present price ceilings, since cattle are being marketed at lighter weights, causing losses of 100 pounds or more per animal.

- 8 -

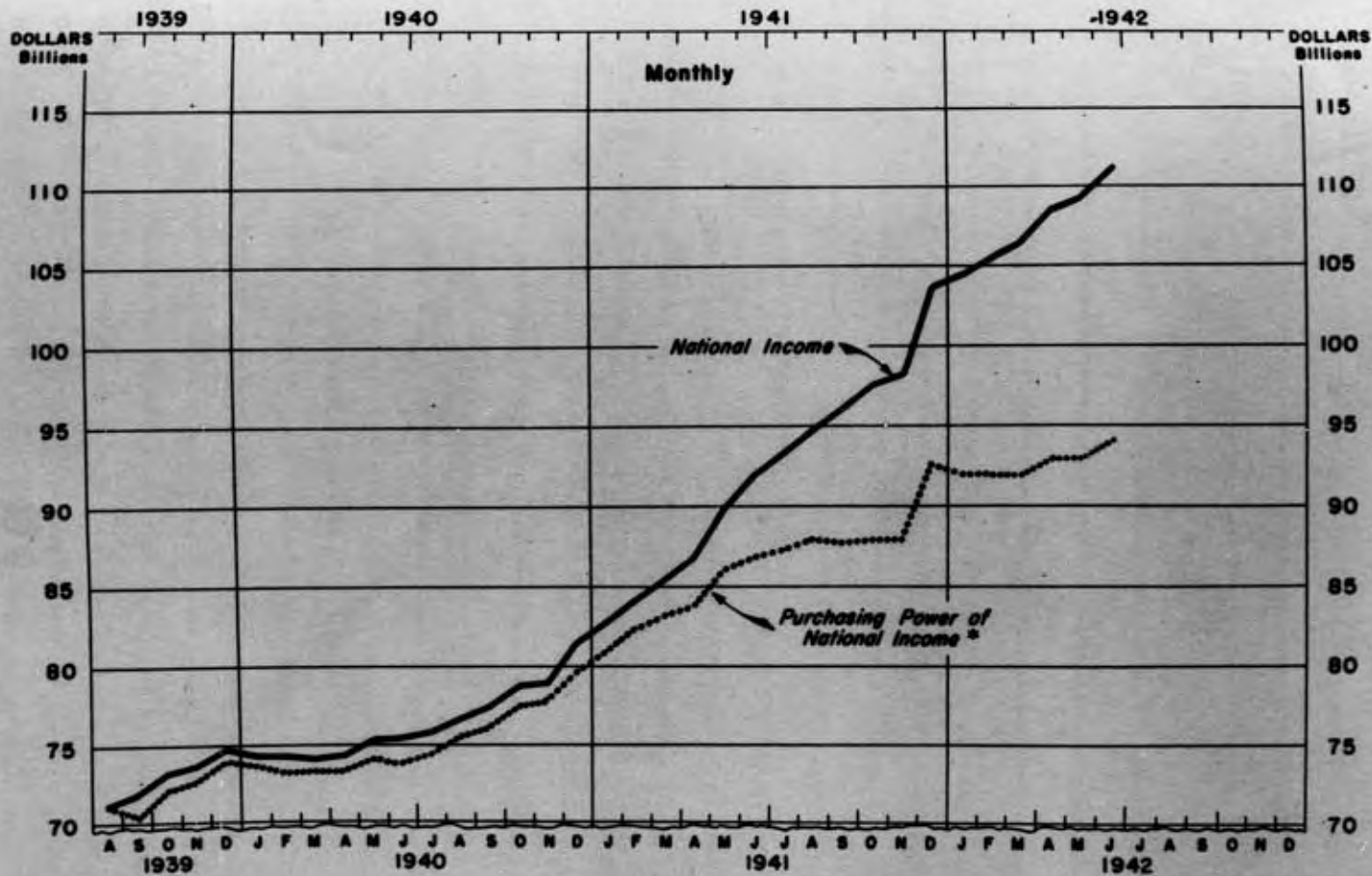
The Council advocates removal of the threat of ceilings on live animals, adjustment of price ceilings on the four recently-promulgated grades of beef to permit 110 percent of parity on each grade of slaughter cattle, and use of Government purchases of beef to help maintain proper differentials between grades of slaughter cattle.

Farm product prices up 3 points; prices above parity

The general index of prices received by farmers rose 3 points during the month ended July 15, to 154 percent of the 1910-14 level, the highest reported since May 1928. (See Chart 6.) The index of prices paid, including interest and taxes, remained unchanged at 152. This was the third consecutive month in which the index of prices paid by farmers stood at this figure, reflecting in part stability achieved under the OPA price regulation. About three-fourths of the commodities in the index of prices paid by farmers were affected directly by this regulation.

Consequently, the index of prices received by farmers in mid-July was 101 percent of parity. The meat animal, cotton and cottonseed, and truck crop groups, which were already above parity in mid-June, continued to advance in July. (Refer to Chart 6.) All other major groups remained below parity levels, although prices of dairy and poultry products rose closer to parity.

NATIONAL INCOME AND ITS EQUIVALENT PURCHASING POWER



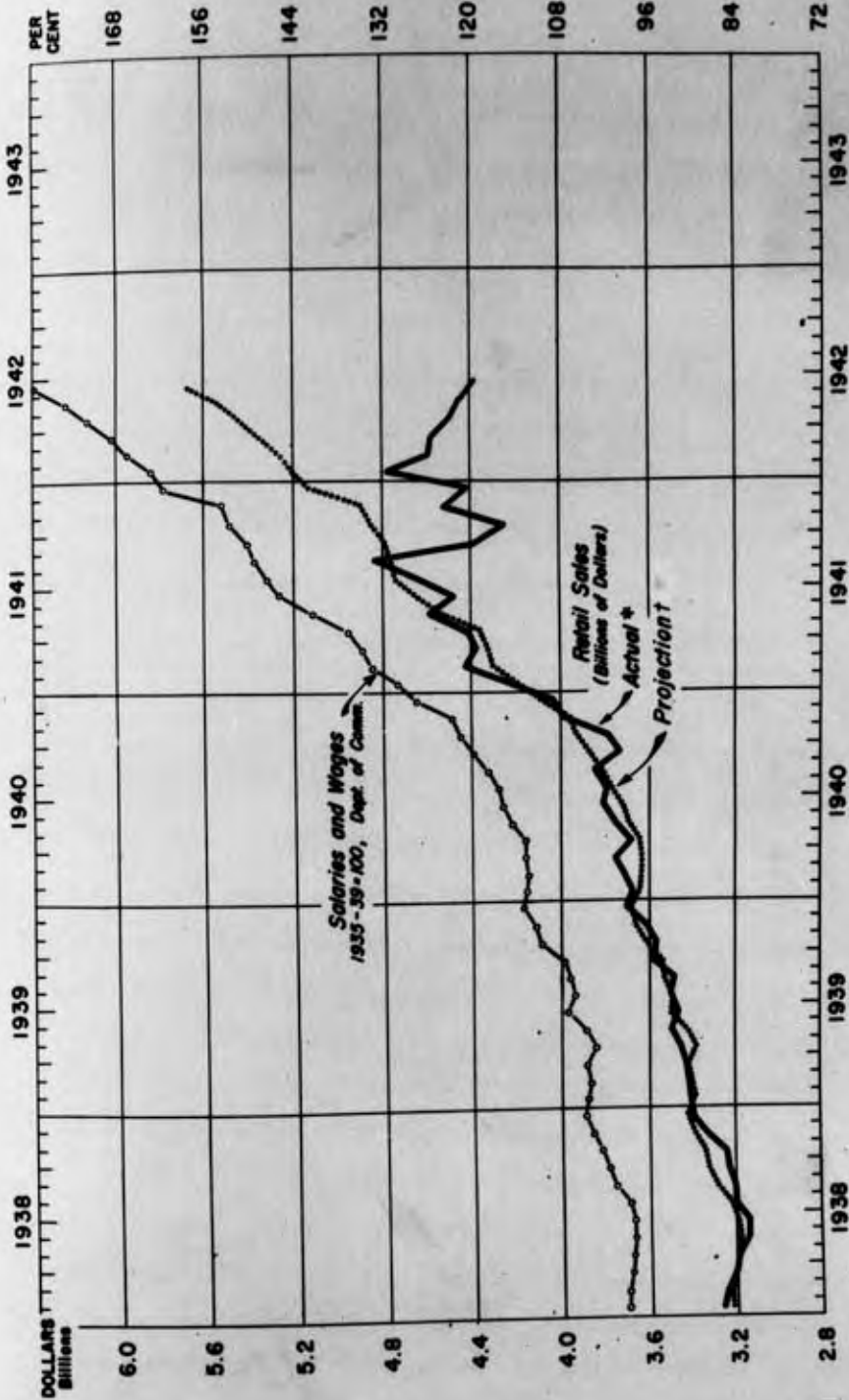
* Based on cost of living index of B.L.S. Aug. 1939=100

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

C-415-A

87
Chart 1

RETAIL SALES COMPARED WITH SALARIES AND WAGES Adjusted for Seasonal

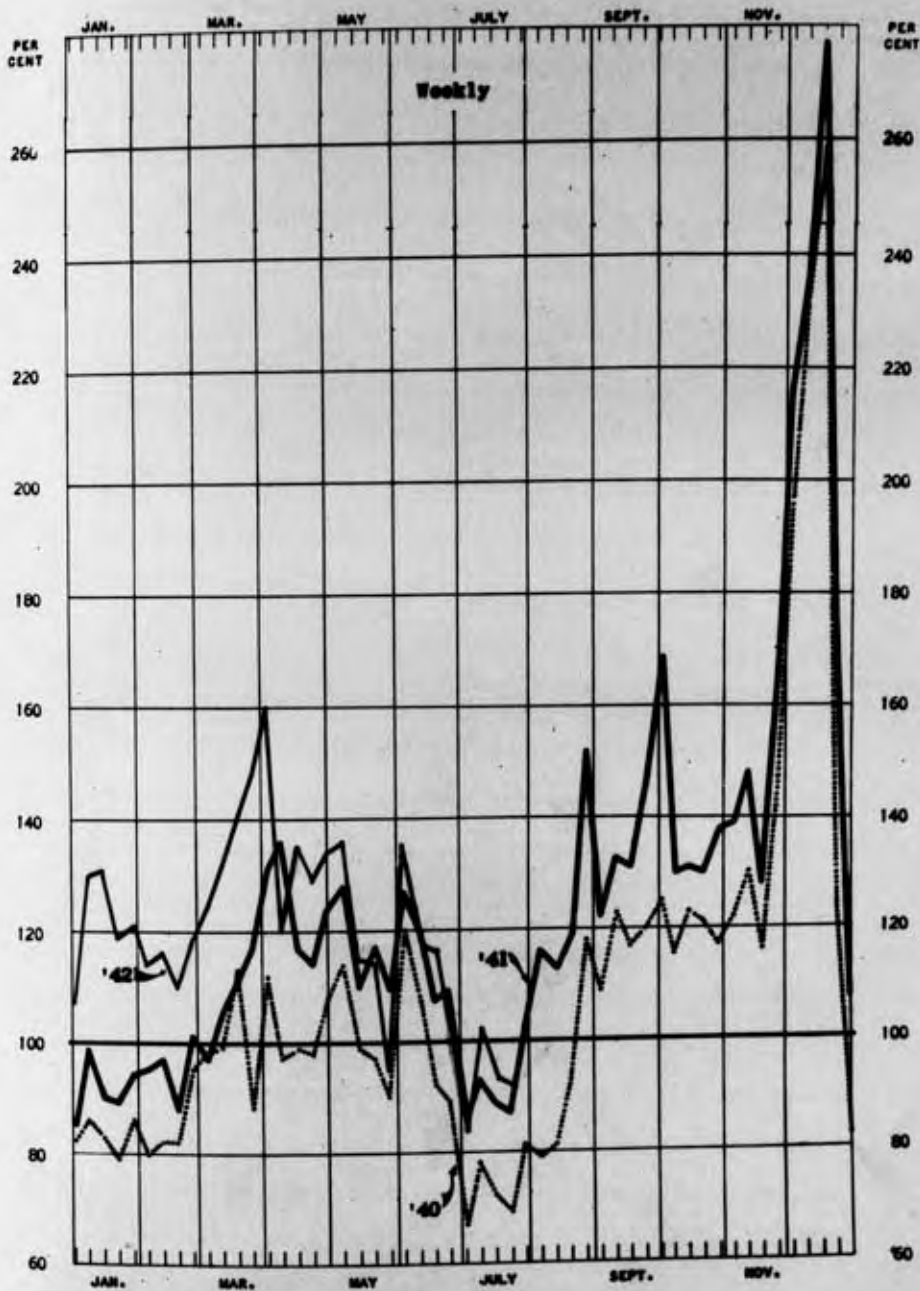


Department of Commerce Retail sales adjusted for seasonal.
 † Based on average relationship to salaries and wages, 1935 through 1940.

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 Division of Research and Statistics

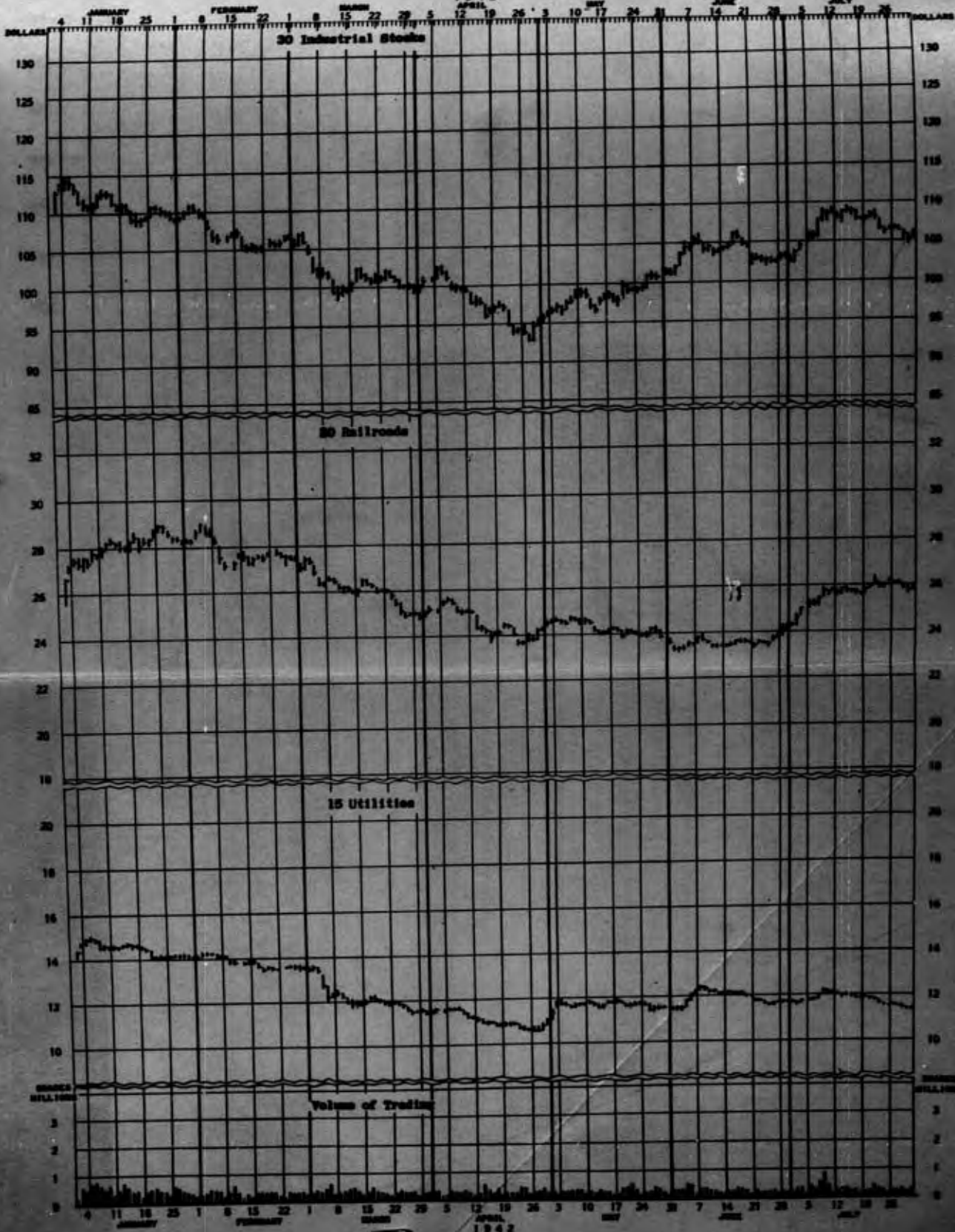
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DEPARTMENT STORE SALES
1935 - '39 = 100, UNADJUSTED

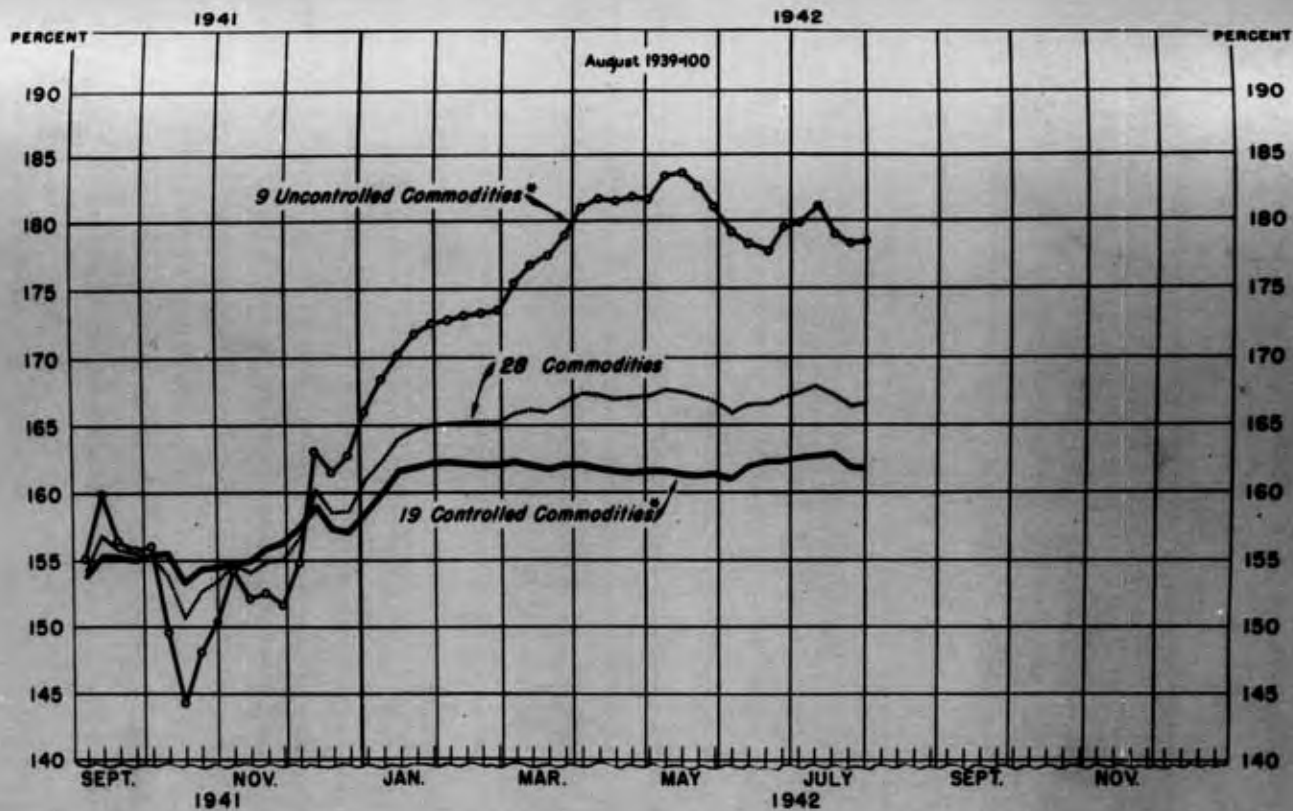


STOCK PRICES, DOW-JONES AVERAGES

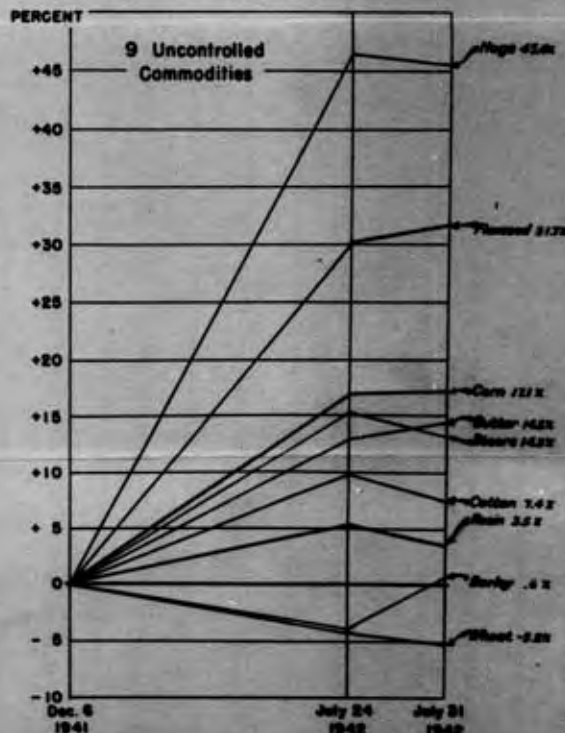
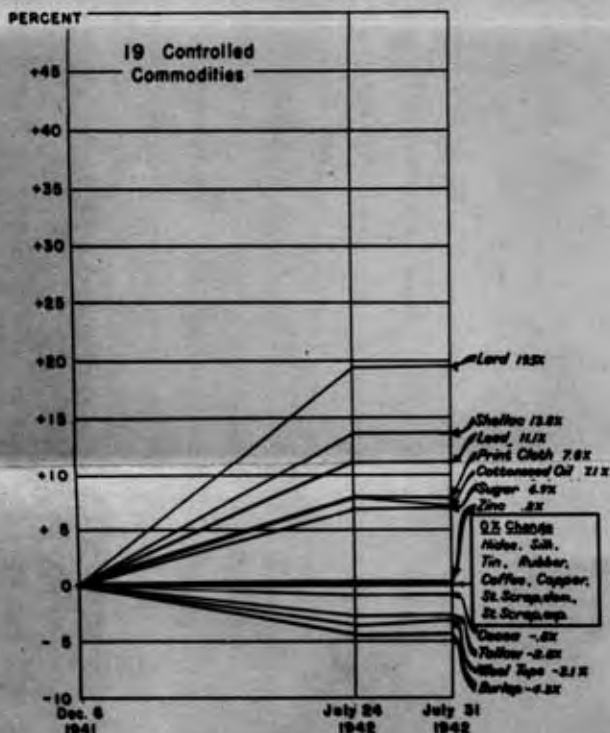
Daily
1942



MOVEMENT OF BASIC COMMODITY PRICES



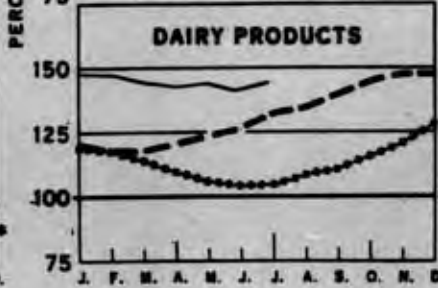
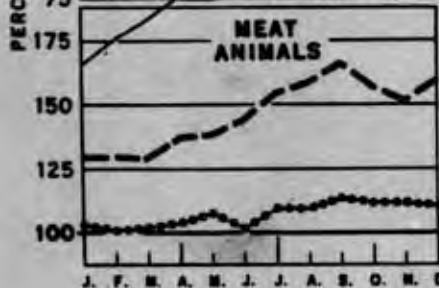
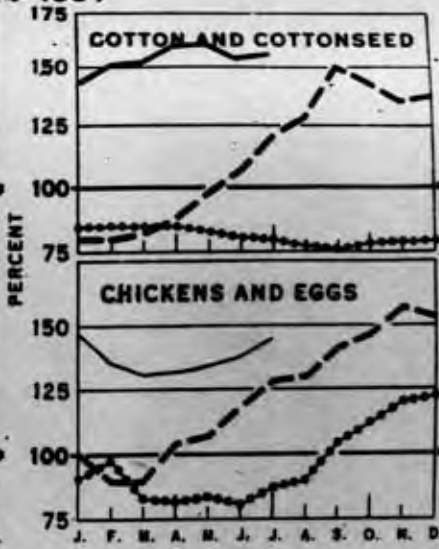
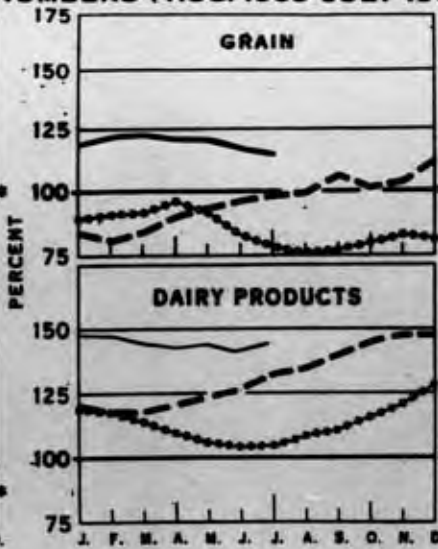
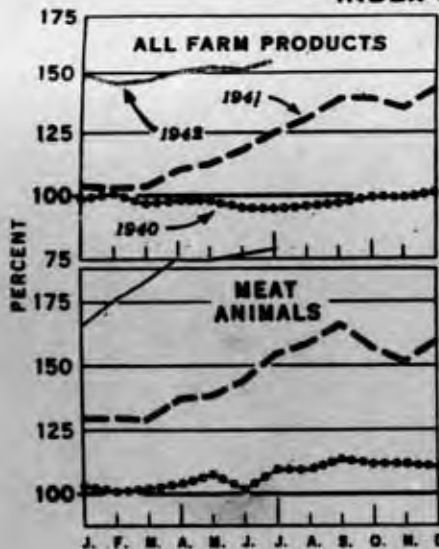
PERCENTAGE CHANGE DEC. 6, 1941 TO JULY 24, AND JULY 31, 1942



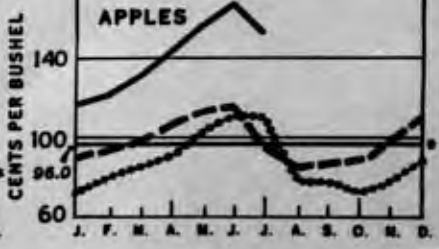
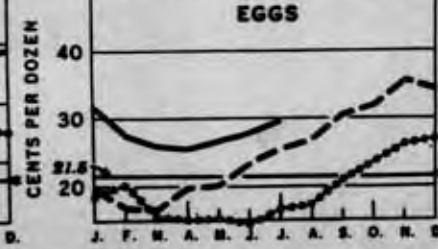
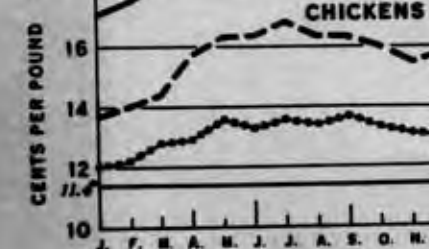
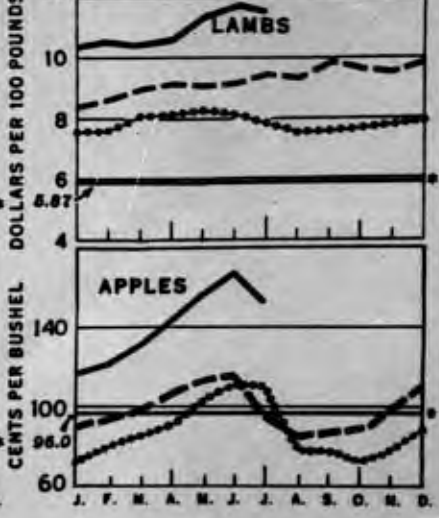
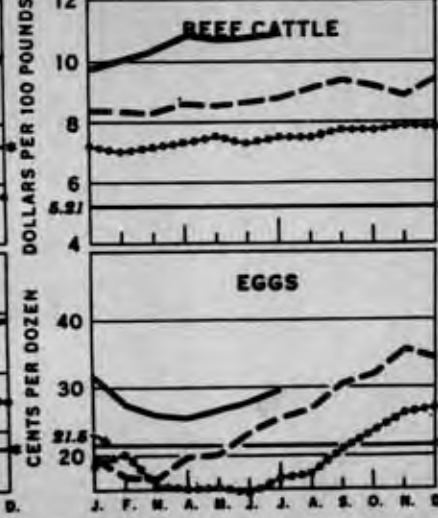
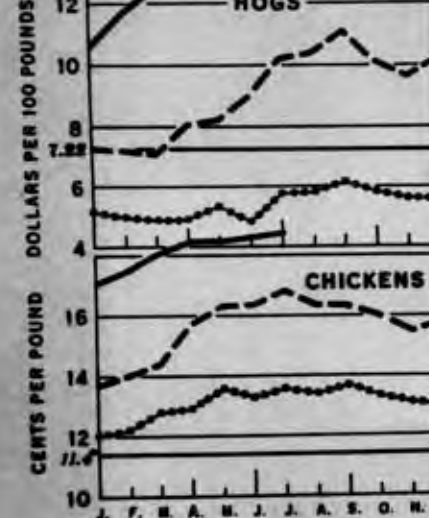
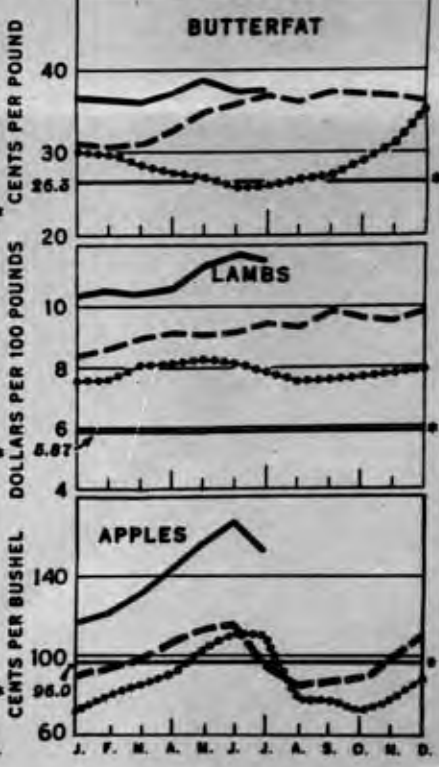
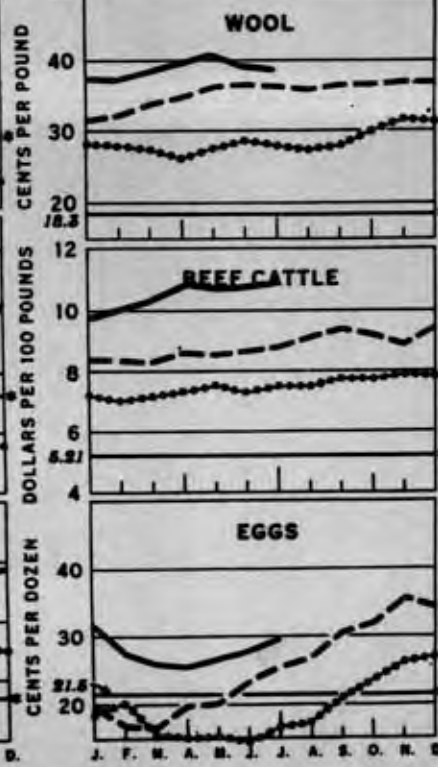
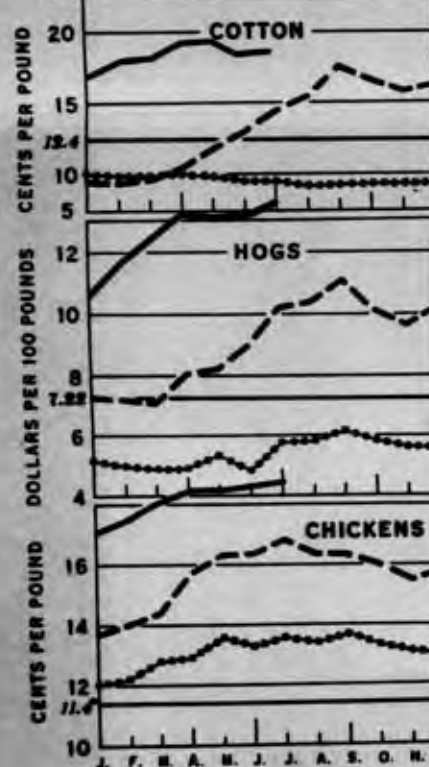
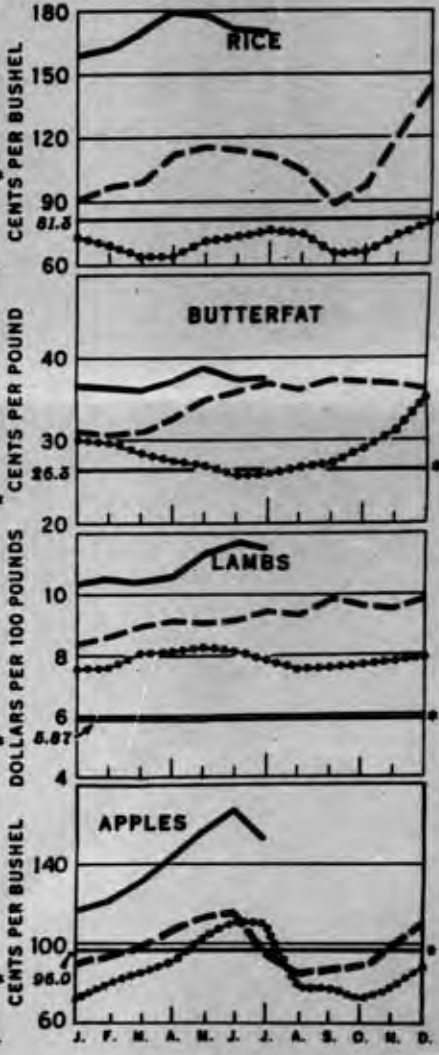
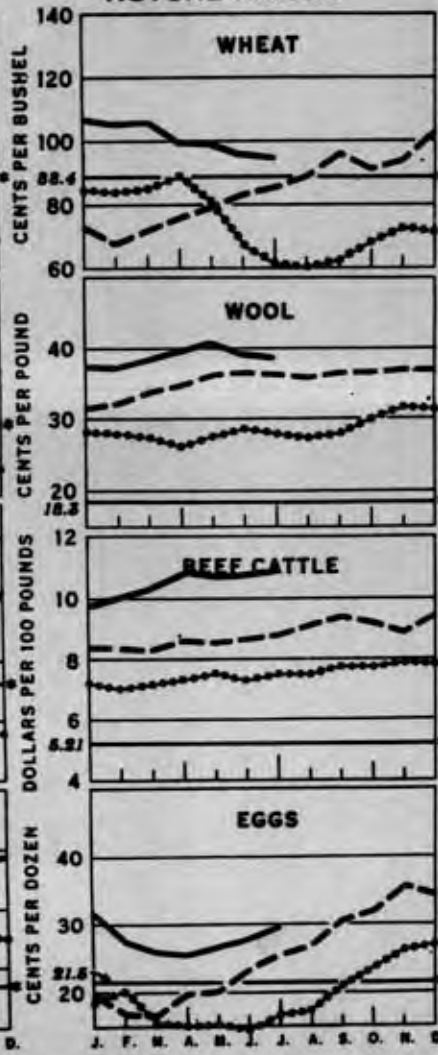
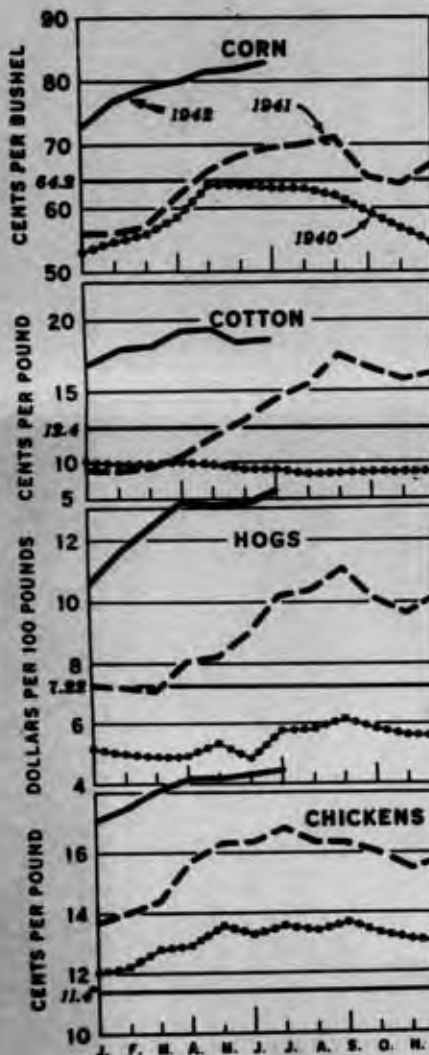
* 20 Controlled and 8 Uncontrolled previous to June 26

AVERAGE PRICES RECEIVED BY FARMERS: GRAPHIC SUMMARY FOR THE UNITED STATES

INDEX NUMBERS (AUG. 1909-JULY 1914=100)



ACTUAL PRICES



© 2-YEAR AVERAGE, AUGUST 1909-JULY 1914

POUGHKEEPSIE CHAMBER OF COMMERCE

POUGHKEEPSIE, NEW YORK

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 EDWARD A. CHAPPELL, 1st Vice-Pres.
 STEPHEN P. BECKER, 2nd Vice-Pres.
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57 MARKET STREET

TELEPHONE 888

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NIGEL H. DIAMOND	DEAN H. TEMPLE
	RALPH T. WATERMAN

Aug. 3, 1942

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

Dear Sir:

Thank you very much for your letter of July 31 regarding the General Aniline and Film Corp. in which you suggest that we approach the Alien Property Custodian, Mr. Leo Crowley. This we will be very glad to do immediately.

We sincerely appreciate your cooperation.

Yours very truly,

POUGHKEEPSIE CHAMBER OF COMMERCE

By

J. E. Doolittle
 Chairman
 Industrial Committee.

JEDoolittle:A

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

August 3, 1942

Dr. Harry White
Director of Monetary Research
Room 214 $\frac{1}{2}$ - Treasury
Washington, D.C.

Dear Dr. White,

I enclose tabulation setting forth the present status of Canex requisitions which you requested at the meeting in the Secretary's office a week or so ago.

Sincerely yours,

Fred Ecker
F. W. Ecker

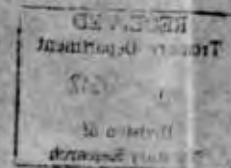
Enclosure

FOR DEFENSE



CANEX REQUISITIONS

Requisitions Number	Description	Quantity	Date Approved by C.L.L.A.			Value	Retransferred by U.K. to Canada
			Date of Transfer Directive	Date of Retransfer Directive	Date of Commitment Letter		
11642	Thompson sub-machine guns and spare parts.	482	7/31/41 10/31/41	11/21/41	-	\$ 52,056.00 *	Retransferred as of October, 1941.
11664	Box magazines for Thompson sub-machine guns.	3,578	7/31/41 10/31/41	-	12/12/41	1,789.00 *	Completed as of October, 1941.
1486	Browning machine guns, .30 Caliber, with spare parts.	5,000	-	-	1/5/42	3,698,969.00	3,782 Retransferred up to July 1, 1942.
201442	Spare parts for Wright engines.	133 Sets	-	-	1/26/42	561,699.00 *	One (1) set delivered as of July 1, 1942.
2170	Transmissions for installation in M3 tanks.	150	-	-	1/5/42	1,908,686.00	482 Retransferred up to July 1, 1942 against
2171	Transmissions for installation in M3 tanks.	1,180	-	-	1/5/42	8,450,000.00	Requisitions 2170 and 2171.
2341	Spare parts and tools for 4" .50 Caliber Naval Guns.	-	8/13/41 10/1/41	-	1/5/42	16,250.00	Sixty percent (60%) delivered as of July 1, 1942. Remaining forty percent (40%) scheduled for delivery in August and September.
2447	Bell "Aircobra" aircraft with spares.	144	-	-	1/5/42	13,500,000.00	Eighty-four (84) "Kittyhawks" delivered as of July, 1942. (For details of swap of "Kittyhawks" in place of "Aircobras" see File Folder)
2815	Browning machine guns, M2 .50" with accessories.	200	11/18/41	-	2/12/42 3/11/42	226,800.00	Completed as of March, 1942.
3632	Used Newton cold saw-off machines.	3	9/26/41	-	1/5/42	7,000.00	Completed as of August, 1941.
3957	Complete units, Air purification equipment.	3	9/26/41	-	12/31/42	3,021.00	Completed as of December, 1941.
455142	Component parts and tool rolls for, and changes in specifications in respect of, 1330 engines, Model R75.	-	-	-	1/26/42	525,350.00 *	643 sets as of July 1, 1942.
11359	Lockheed Hudson airframes and equipment.	55	-	-	4/15/42	15,125,000.00 *	Completed as of July 1, 1942.
11360	PBY-5 Aircraft complete with a full range of spares.	36	-	-	4/15/42	7,879,396.00 *	No deliveries to July 1, 1942.
11361	Vultee "Vengeance" aircraft complete with a full range of spares.	15	-	-	5/5/42	1,875,000.00 *	No deliveries to July 1, 1942.
11362	Fairchild type PB-19A Primary Training Aircraft; a full range of spares; flight delivery.	200	-	-	5/5/42	3,000,000.00 *	No deliveries to July 1, 1942.
11363	Martin B-26B B-engine Bombers; a complete range of spares; modification of aircraft.	100	-	-	4/15/42	29,500,000.00 *	No deliveries to July 1, 1942.
11364	B-26B aircraft - a full range of spares.	118	-	-	4/15/42	34,819,000.00 *	No deliveries to July 1, 1942.
TOTAL VALUE						\$ 121,140,976.00	
<u>Requisitions Filed Direct With War Department</u>							
50782	Spare parts for Wright engines.	35 Sets	-	-	-	-	No deliveries to July 1, 1942.
51369	Spare parts for Wright engines.	722 Sets	-	-	-	-	No deliveries to July 1, 1942.



July 28, 1942

Treasury Department
Division of Monetary Research

96

Date August 4, 1942

To: Mrs. McHugh

Mr. Harry Hawkins telephoned this morning to say that he had taken the matter up with the proper officials and that the State Department had no objection to the letter. But he did point out that the terms of the trade agreement were longer than a year.

The initials "H H" are those of Harry Hawkins, who is Chief of the Division of Commercial Policy and Trade Agreement, Department of State.

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

AUG 3 1942

My dear Mr. Ambassador:

Reference is made to my letter of August 2, 1941, addressed to the Soviet Ambassador, containing assurances to the Government of the Union of Soviet Socialist Republics that no prohibitive or restrictive measures will be applied to the export or import of Soviet gold or silver which will not be applied to all other countries.

Pursuant to the request in your letter of July 31, 1942, I wish to advise you that the assurances in my letter of August 2, 1941 are understood to be in effect until August 2, 1943.

Very sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

His Excellency
Maxim Litvinoff,
Ambassador of the Union of Soviet
Socialist Republics.

BB:del
7-31-42

*Delivered by Simpson 5:32
on 8/4/42*
Photostat File - Diary
Orig. File returned to Bernstein direc

EMBASSY OF THE
UNION OF SOVIET SOCIALIST REPUBLICS
WASHINGTON, D. C.

July 31, 1942

Dear Mr. Secretary:

Today I have exchanged notes with the Secretary of State for the renewal of the Trade Agreement up to August 6, 1943.

In accordance with our recent conversations I shall be glad if you will be good enough to renew the assurances given in your note of August 2, 1941 regarding the importation into the United States of Soviet gold and silver, these assurances to remain in force for the duration of the above mentioned Trade Agreement.

Believe me, My dear Mr. Secretary,

Very sincerely yours,



Ambassador

The Honorable

Henry Morgenthau, Jr.

Secretary of the Treasury

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 3, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Currency to be used by Occupying Forces.

The only area of apparent disagreement between recommendations contained in Mr. Feis' memorandum to Secretary Hull, is with respect to the currency that the United States Army would first use in occupied territories. Dr. Feis believes the currency should be the regular U.S. currency, whereas we are inclined to the opinion that on the balance the advantages seem to be in favor of utilizing a special marked currency.

Feis' opposition to the use of specially marked U.S. currency arises from his belief that a marked currency would be less acceptable to the fighting forces and less likely to win over the local populations than would regular U.S. currency.

If his view is correct, then I believe the advantages of a specially marked currency are not enough to justify their use, because it is important that the currency used be acceptable to the local population. I do not believe, however, that the kind of U.S. currency which you had contemplated using would interfere with its acceptability. Most soldiers would not notice the difference and would not care so long as they would find their currency acceptable at canteens and by the local population. There is even less likelihood that the population would recognize the difference or would pay any attention to the neat over-mark. I believe they would accept the over-marked currency just as willingly as they would the unmarked currency and, therefore, there would be no offsetting disadvantage to the advantages of having an over-marked currency.

These advantages are as follows:

1. In the event of reoccupation of conquered territory by the enemy, it would be easier for the United States to prevent the enemy from utilizing and benefiting from the ownership of the specially marked U.S. currency. The amount of U.S. currency that would be left in occupied areas after several months occupation, may run into very substantial sums and it would be unfortunate if substantial portions of it were to fall into the hands of the enemy who could utilize it even though at a substantial discount.

Division of Monetary
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2. We have restrictions in operation designed to prevent the Axis looted American currency from being used. It would be difficult for us to enforce the regulation if our forces are to use regular currency which will not be distinguishable from looted currency held by the Axis.

3. If the British forces are to use sterling currency, the question of the exchange rate between sterling and U.S. dollars will arise. Sterling would probably go to a discount because of the unquestioned preference of the dollar -- unless the British pegged the rate by supplying dollars with which to buy the sterling offered. If that were done, the United States would probably have to supply the dollars in view of our responsibility with respect to the British dollar position. We would then be financing part of the expenses of the British occupation.

Were American forces to use a marked currency, we could at less cost supply the British forces with any amount necessary to keep the special dollar currency at the ratio selected. A decision could later be made whether and at what rate the specially marked dollars could be redeemed or accepted.

4. With specially marked currency, it would be possible to regulate the exchange value of the specially marked currency vis-a-vis regular U.S. currency. Whether we would wish to do this or not cannot be known in advance, but at least we would have the possibility of choosing among alternative courses.

The possibility would exist of making arrangements later such that the invaded country would not come into as much dollar exchange as would be the case if regular currency were employed. The ultimate burden on our budget from the occupation could be less.

All the advantages taken together are not great, but they seem to be enough to justify a decision to use a specially marked currency provided the judgment is sound that such currency would be readily acceptable.

If our information from General Eisenhower is correct, it is interesting to note that the British plan to use a specially marked sterling currency.

COPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 265

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

1. NAVAL

A Naval aircraft shot down a Japanese four-engined aircraft East-North-East of TRINCOMALEE on the 2nd. GNEISENAU - Reconnaissance of GDYNIA on the 1st shows that the main and secondary armaments have been completely removed. Part of the superstructure has also been removed, and a large area of the forecastle deck cut away. The German Merchant raider NEUMARK was seen in dock at HAVRE on the 1st. The dock is flooded and she may be ready to leave.

2. AIR OPERATIONS

WESTERN FRONT. 2nd. Spitfires attacked railway and other minor objectives in the low countries. One of them is missing. 14 enemy aircraft crossed our coasts, mainly in EAST ANGLIA districts. One was destroyed and two damaged by our fighters.

2nd/3rd. 20 enemy aircraft were over East Anglia and two penetrated to COVENTRY. Night fighters shot down 3 and damaged a fourth.

EGYPT. 31st/1st. Bombe dropped at TOBRUK started fires near the main jetty, where a large and a small vessel were hit and another ship set on fire. One Halifax and one Wellington are missing.

1st. Fighter bombers destroyed or damaged more than 20 enemy vehicles and blew up an ammunition dump. Near SIDI BARRANI enemy barges were bombed, one destroyed, one set on fire and two damaged. Liberators reported two hits on a large vessel in convoy off DERNA. 4 fighters are missing.

MALTA. Between 2.45 p.m. 1st and 9.20 a.m. 2nd, four bombers escorted by 20 fighters ineffectively attacked LUQA. Several other raiders which approached the Island were turned back by our fighters.

4. HOME SECURITY

2nd. Single aircraft dropped bombs at YORK, LINCOLN and scattered localities in NORFOLK, SUFFOLK and LINCOLNSHIRE. Casualties were slight.

2nd/3rd. Scattered minor bombing occurred in SOUTH MIDLANDS, EAST MIDLANDS and EAST ANGLIA. Casualties slight. Damage confined to house property.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 3, 1942

TO Secretary Morgenthau
FROM Mr. Hoflich
Subject: Summary of Military Operations

Stalingrad

The isolation of Stalingrad is the present chief objective of the Nazi drive on the southern front, in the opinion of the Office of Strategic Services. The increasing German menace to Stalingrad's rail communications makes it seem likely that the Volga River will soon represent virtually the only supply line for the city.

Stalingrad is the chief manufacturing and transportation center of southeastern Russia. It has a population of about half a million and contains more than 300 industrial establishments, including a large tractor plant and steel works.

(O.S.S., "The War This Week", July 23 - 30, 1942)

New Guinea

American forces in New Guinea number not more than 1,000 men, including one engineer's battalion, colored, and one anti-aircraft battalion. There are about 11,000 Allied troops on this island, stationed at Port Moresby, all Australians except the U.S. battalions mentioned. The Japanese landed a force of only 1,200 to 2,000 troops at Gona Mission on the night of July 21, but have made another landing since that time.

(Military Intelligence Service, July 31, 1942)

The Aleutians

According to a report from the Office of Strategic Services, the Japanese are believed to have landed on Adak Island, 360 miles southwest of Dutch Harbor. (No indication of such a development from Military Intelligence). American air reconnaissance reveals increased Japanese activity on Kiska,

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including the preparation of a landing strip for planes and the probable occupation of Little Sitkin Island, 40 miles east of Kiska.

(O.S.S., "The War This Week", July 23 - 30, 1942)

French Workers Enlisted by Germany

According to a despatch from Vichy, in the first month since Laval made his appeal for 350,000 volunteer workers for German war factories, only 16,000 have left France for the Reich. It is stated that most of these are untrained and hope to learn a trade at Germany's expense; also that they are attracted by high wages and the promise of good food.

(Associated Press, July 25, 1942)

August 4, 1942.
10:25 a.m.

HMJr: Hello.

Operator: Mr. Young.

HMJr: Hello.

Philip Young: Hello, Mr. Secretary.

HMJr: Hello, stranger, how are you?

Y: I'm swell. How are you?

HMJr: Oh, pretty well.

Y: Good. You going to get away for a vacation?

HMJr: Going to get away for one week.

Y: For a week?

HMJr: Yes.

Y: Well, you ought to have more than that.

HMJr: I agree with you, but there's nothing I can do about it.

Y: Well, I'm sorry, but I'm glad you're going to get that anyway.

HMJr: Yeah.

Y: I just wanted to tell you, do you remember Joe Harsch, the Christian Science Monitor reporter....

HMJr: Yes, I do.

Y:who wrote this "Pattern of Conquest" book?

HMJr: Well, I remember meeting him at your house.

Y: Yes.

HMJr: Didn't I?

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Y: Yes, you did.

HMJr: Yes.

Y: Well, he is back now from the Far East.

HMJr: Oh, really?

Y: He just got in a day or two ago.

HMJr: Oh, really?

Y: And he's coming down to town, I think, either tonight or tomorrow night, and I wondered if you and Mrs. Morgenthau couldn't come out for dinner again with him. We'd get the latest dope on Australia and New Zealand and the Marshall Islands, and so on.

HMJr: When would that be, Philip?

Y: Well, I'd like to make it at your convenience.

HMJr: Yeah.

Y: Ah....

HMJr: Well, could I....

Y: Are you going to be here Friday night, by any chance?

HMJr: No.

Y: You're leaving before then.

HMJr: No, it would have to be....

Y: Thursday night Queen Wilhemina is holding forth, isn't she?

HMJr: Yeah, we're going there, and....

Y: Tomorrow, or say Wednesday night, that's pretty short notice.

HMJr: Yes - yeah, we're out tonight and tomorrow night we told Henry to telephone us and we'd be home.

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Y: I see.

HMJr: Ah....

Y: Well, you're - you're starting your week this week, is that right?

HMJr: I'm going away Friday, yes.

Y: For a week.

HMJr: Yes. Well, will he - he'll still be here when we get....

Y: Oh, he'll be around when you come back. We better put it over then, I guess.

HMJr: Why don't we do that, Philip?

Y: All right.

HMJr: Thank you. My regards to your Missus.

Y: Same to Mrs. Morgenthau.

HMJr: Righto. Goodbye.

Y: Hope you have a good time.

HMJr: Thank you.

Y: Goodbye. .

August 4, 1942
10:30 a.m.

FINANCING

Present:

Mr. Bell
Mr. Haas
Mr. Murphy
Mr. Tickton
Mr. Shields

H.M.JR: Well now, Mr. Shields has what answer?

MR. HAAS: Shields is here today. He will be here all week. He had made some comments on this three-eighths rate, the question of raising it to a half, which I thought would interest you. You might want to talk to him some time.

H.M.JR: I tell you what we will do. This thing can't go on forever because I have made up my mind. I will have him in. Will I wait until I hear him? I mean, will he tell his own story?

MR. HAAS: Yes, he will tell his own story. He said that that is not uniform at all, even among bankers, and certainly not among dealers, of raising it.

H.M.JR: I talked to one Daniel Washington Bell last night.

MR. BELL: About this?

H.M.JR: Well, about this memorandum (indicating memorandum dated July 31, 1942, to the Secretary from Mr. Haas), that going to one percent for a year would clinch the three-eighths--

MR. BELL: Going to seven-eighths.

MR. HAAS: One percent.

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H.M.JR: You said seven-eighths?

MR. HAAS: A year would be in conformity with a half rate.

H.M.JR: Then I read it wrong. I am slipping.

MR. HAAS: Which memo, our memo?

H.M.JR: Yes.

MR. HAAS: Oh, three-eighths is in there.

H.M.JR: (Examining memorandum) It is the other way around.

MR. TICKTON: Eleven and a half requires seven-eighths.

H.M.JR: Somewhere it says--

MR. BELL: In the back, the last paragraph.

MR. HAAS: Way in the back.

MR. TICKTON: Yes, I have got it. "The most important objection that might be raised to the 11-1/2 month certificate is that it would jump the rate 1/4 of 1 percent over the last issue. A collateral point of importance is that the anchor which will have been placed on the long end of the certificate series will make it more difficult for persons who desire to readjust the 3/8 percent bill rate to argue their case."

H.M.JR: "The most important objection that might be raised to the 11-1/2 month" - isn't that funny that--

MR. TICKTON: "The most important point in its favor is that the higher coupon would find

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greater acceptance among country banks and non-banking investors than the lower coupon. A collateral point of importance is that the anchor which will have been placed on the long end of the certificate series will make it more difficult for persons who desire to re-adjust the $3/8$ percent bill rate to argue their case."

H.M.JR: Now, wait a minute. Now you read this thing. "The most important objection that might be raised to the $11-1/2$ month certificate is that it would jump the rate $1/4$ of 1 percent over the last issue. The most important point in its favor is that the higher coupon would find greater acceptance among country banks" - now we are talking about what is in its favor.

The last thing you said was in its favor, that "the anchor which will have been placed on the long end of the certificate series will make it more difficult for persons who desire to readjust the $3/8$ percent bill rate."

MR. TICKTON: That is right.

H.M.JR: Now, which does this refer to, the anchor to the eleven and a half or to the nine?

MR. TICKTON: To the eleven and a half; that is the last thing we said.

H.M.JR: All right, then, that is what I said, by going to eleven and a half at one percent.

MR. BELL: No, seven-eighths.

H.M.JR: At seven-eighths.

MR. BELL: That is what you said before. You said one percent and you meant seven-eighths.

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H.M.JR: I meant seven-eighths. It is a difference of three-quarters and seven-eighths.

I said last night the one percent was a mistake. By going to seven-eighths, eleven and a half months, it makes it more difficult for the Federal Reserve to urge me to go from three-eighths to a half. Is that what that paragraph says?

MR. TICKTON: That is right.

MR. HAAS: I was just reversing Eccles' argument on you.

H.M.JR: But you didn't sell Bell on it, and you didn't sell me on it. That is what I am trying to get at.

MR. HAAS: May I say something on that?

H.M.JR: That is why you were invited. This isn't an Eccles' meeting. (Laughter)

MR. HAAS: I won't talk very long. When Eccles came over he mentioned - he said it here and at the Federal Reserve Board - "You will soon be getting out a longer certificate and you shouldn't get that out based upon a short market rate of three-eighths for three months' bills." He said, "If the rate of three months' bills is going to be raised to a half you should do it now before you put out the year's certificate because that will affect the market price of the year's certificate."

What he was concerned about was if you leave it at three-eighths and put out the year's certificates, then based upon a three-eighths bill rate it would be very difficult - he would be stymied about arguing with you any more. He said that himself.

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H.M.JR: Now why?

MR. HAAS: Because a half on three months' bills would probably justify a one percent rather than a seven-eighths rate, you see.

H.M.JR: Say that again.

MR. HAAS: A half a percent on three months' bills would probably justify a one percent on a year's certificate, whereas a three-eighths rate on three months' bills would justify a seven-eighths certificate.

Now, if you do nothing about the three-eighths rate and put out a seven-eighths, then it is difficult for Eccles to come back and argue about a half percent rate on three months' bills because then your year's certificate which you just put out will go below par. I mean that is Eccles' point.

H.M.JR: Let me give you the Morgenthau point. I don't know whether Bell is in bed with me on this or not. I have said for the time being it is going to be three-eighths. Then I come out now with a nine months' three-quarters.

MR. HAAS: Yes, sir.

H.M.JR: Now, not having raised it, my financing is a success and I get a good distribution; then where does that leave Eccles?

MR. HAAS: Well, that embarrasses him some but not quite as much.

H.M.JR: I don't agree with you. You (Bell) get in on this.

MR. BELL: I don't get it. I don't get George's thinking on this thing. It may have a little bearing

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for a short period, but I don't think it will last long because next month the certificate is ten months; the next month, nine months; so in two or three months you are right back where you are starting from now.

MR. HAAS: Yes.

MR. BELL: Furthermore, I don't think it follows that you have to go to one percent on a year's certificate if you raise the bill rate to a half. You have got now a six months' certificate at five-eighths, and it is contended that you can raise that an eighth for each three months; why couldn't you do it if you had the bill at a half, half for three months, five-eighths for six months, three-quarters for nine months, and seven-eighths for a year? Bob Rouse contends that that will still hold if you have the half.

But I thought the decision was made on the three-eighths, that you said no.

H.M.JR: On the three-eighths I have said no. Yes, I have.

MR. BELL: I thought that was done. I am willing to stand on that.

MR. HAAS: Some people in the market say you can make a pattern almost anything you say. Certainly they can have an easier time with a half for three months and one percent for a year than you would seven-eighths for a year. You may get away with seven-eighths for a year. You can just sort of dictate the market.

Murray Shields says - it is one thing I wanted you to listen to - some dealers in New York think that a half on bills will make it difficult to hold the twos, '49-'51.

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H.M.JR: '49-'51 - why?

MR. HAAS: Because it will bring pressure on those rates. He says there is no uniformity about this thing.

H.M.JR: Well now, the bills now are three months apart, aren't they, November, December, January?

MR. BELL: The bills?

H.M.JR: The certificates.

MR. BELL: No, November and February.

H.M.JR: Yes, November one and February one. When is the next one?

MR. BELL: May one will be the next quarter.

H.M.JR: There will be February, March, April, first of May - what, you don't like my way of counting - you would rather I would use beads? (Laughter)

MR. MURPHY: No, I think you have got the right number of beads in each hole. (Laughter)

H.M.JR: I can use beads; also this square - this Chinese thing.

MR. MURPHY: I--

H.M.JR: Go ahead.

MR. MURPHY: I was going to suggest with respect to the May one certificate that one of the main objections to that is in effect it does raise the rate. The last certificate we put out is five-eighths. Now, it is true this one is nine

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months, but time has also marched on. This certificate will only be one month longer than the last, which was five-eighths. So if we put it out at three-quarters, you advance the rate an eighth, with only an advance in maturity one month. So the three-quarters, it seems to me, really is more of an effective rise in rate than if we put out a year, seven-eighths. It to some extent establishes a pattern if we go up an eighth each time we put out one. It will only be one-eighth longer.

MR. BELL: What was that, seven and a half?

MR. MURPHY: It was put out two months ago.

H.M.JR: Between the last certificate, after we changed the bill rate?

MR. MURPHY: Between the first two certificates.

H.M.JR: Not after?

MR. MURPHY: No.

H.M.JR: Then why do we raise this rate? Why do we have to go to three-quarters, I mean, between the November 1 and the February 1 we raise the thing to three eighths.

MR. MURPHY: That is right.

H.M.JR: And now we did nothing since the February 1 is out, and how are we going to raise it another eighth?

MR. MURPHY: Make it longer.

H.M.JR: How much longer?

MR. MURPHY: One month?

MR. BELL: No.

MR. MURPHY: Two months have elapsed and we are only pushing them forward three months.

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MR. BELL: The other certificate was dated June 25, so you had, really, seven months and five days on it. What have you got on this one - it would be August 15, and you have got eight and a half months, and a little over a month longer if it goes to May.

H.M.JR: For which we pay an eighth. It gets down to, mathematically, which is cheaper, to pay the eighth extra from May 1 or to pay a quarter more and go to eleven and a half months. You fellows can figure it out. I can't. I would like you to figure it, I mean, when you get out of here. See what I mean? The very point that you - which is cheaper?

MR: MURPHY: The only way that you can say it is cheaper is you can say how much you are paying for the additional three months that you get.

H.M.JR: You can figure it any way you want.

MR. BELL: In dollars and cents it would be cheaper to go to May, but you are getting three months for an eighth, whereas the other way only one month's money for the eighth, so in terms of rates it is cheaper to go to August.

(Mr. Shields entered the conference.)

H.M.JR: I hear that you are a lone wolf on this certificate business. You have got ideas of your own?

MR. SHIELDS: Well, I am afraid so, Mr. Secretary.

H.M.JR: I would like to hear them. I mean as to the length of the certificate and the coupon and why, and what your reasons are.

MR. SHIELDS: I think you could sell either a nine-month or a twelve-month certificate, and I think that you could sell a certificate at a rate of three-quarters and have it successful or seven-eighths.

MR. HAAS: For a year?

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MR. SHIELDS: For a year, yes. As I said to Mr. Haas just a little while ago, I think that the probabilities are that the market rate on short-term Treasuries will be made by the rate you offer on one-year or nine-month certificates.

In other words, if you place a three-quarters rate on the twelve-month or eleven and a half month certificate, it--

H.M.JR: Three-quarters?

MR. SHIELDS: Seven-eighths. If you placed the three-quarters rate on the eleven and a half month certificate, then nearby issues would move into alignment with that.

In other words, I think you are really setting the pattern of the market by the coupon you would place on the nine-month and twelve-month certificates.

H.M.JR: Pattern - how close?

MR. SHIELDS: But I did recommend, sir, that seven-eighths be used for the eleven and a half month certificate.

H.M.JR: You do?

MR. SHIELDS: Because corporations are more likely to be interested in certificates at around that pattern of rates than they are if they are three-quarters.

MR. BELL: Murray, don't you think that fixing a three-quarters rate on a twelve-month certificate would be quite a shock?

MR. SHIELDS: It would be a shock.

MR. BELL: Everybody is expecting something around seven-eighths for the year.

MR. SHIELDS: Well, I would rather - the market

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pattern of thought is for something higher than three-quarters, although I have heard many people express the opinion that the rate ought to be either three-quarters or seven-eighths.

MR. BELL: You have had some thought that it ought to be three-quarters?

MR. SHIELDS: No, that it might be three-quarters or seven-eighths. The market generally talks in terms of what might happen.

H.M.JR: Well, look, let me put it another way. Our May 1 date is open. We have been going every three months. I have asked these boys to figure out - of course the first was a half. Now it is five-eighths, and it is a little different length of time. Now we say we go May 1 to three-quarters, from the standpoint of the Treasury, if we do three-quarters May 1, or go to - what is the next date?

MR. TICKTON: August 5.

H.M.JR: August 5 at seven-eighths, which way do we get our money the cheapest? Because we are paying an eighth, it looks to me as though we are paying more money, although we may figure the extra three months - I don't know how you figure it. Certainly it is an eighth more on a billion and a half, any way you figure it. The argument doesn't impress me that you get wider distribution if it is seven-eighths instead of three-quarters. I mean, there isn't any magical line at which a corporation will say, "Well, we will invest in certificates at this rate, but we won't at that rate."

MR. SHIELDS: No, sir, but if you get finally your complete cycle of four issues of Treasury certificates outstanding, and the rates run from a half to seven-eighths, I think corporations will, when they have idle money, hunt a maturity and invest the funds. With a pattern tied to the seven-eighths percent in the twelve months, or eleven and a half months maturity, I think corporations will figure that there is more left after taxes - be more interest.

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H.M.JR: Another eighth, sure.

MR. SHIELDS: It is sliced a little thin, anyhow, and after you eliminate taxes, the taxes that will be paid on income, it is pretty small. It isn't seven-eighths, you know.

H.M.JR: I know. Well, none of these things are. (Laughter) But on the other hand, if we are going to establish a pattern, then the banks and the corporations ought to feel that there is a certificate coming due every three months.

MR. SHIELDS: That is right.

H.M.JR: And then they can adjust themselves - I mean, for their working capital or whatever their own problem is, can't they? I mean, you sit there - you say, "Well, we have got a little idle money, we will go out and buy so many certificates." You can buy one of every three months' maturity.

MR. SHIELDS: Or buy one every time it is offered and have a portfolio, a staggered portfolio, within the cycle of certificate maturities, but all having the higher yield, which is what many corporations would like to do, and many banks.

H.M.JR: But you would have a gap from February 1 to August 1.

MR. SHIELDS: That is right, which in the course of time you would fill in.

H.M.JR: You wouldn't fill in the May first.

MR. BELL: Yes, I think we would have to either the latter part of September or October. I think we should, yes, I think we should.

H.M.JR: If you are going to do it, then I would much rather do it now.

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MR. BELL: Fixing the one year at seven-eighths might be a good thing at this time. It gets you a pattern and it almost determines how you are going to refund your November - the one-year certificates at seven-eighths.

MR. MURPHY: One of the nice things about filling in the gap, you will be able to cut the coupon for once, and it would get away from the increasing sequence of coupons. When you have filled in the gap you could put it out, probably as a five-eighths. (Laughter)

MR. BELL: At five-eighths in October, probably.

H.M.JR: Are you for the one-year certificate?

MR. SHIELDS: Sir?

H.M.JR: Are you for the one-year certificate?

MR. SHIELDS: Yes, I prefer the one-year certificate.

H.M.JR: I think they watch the coupon rather than the maturity.

MR. SHIELDS: In what sense, sir?

H.M.JR: I mean, they are more interested in what they get in the yield than they are in the maturity.

MR. SHIELDS: Yes, sir.

H.M.JR: I suppose so. I am still not sold on it.

MR. HAAS: I think it is very close.

MR. BELL: Yes, it is so close you can almost flip a coin. It really doesn't make any difference. I lean a little toward the August 1 because it does set the top rate.

H.M.JR: You have no assurance that that is the top rate.

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MR. BELL: Oh, no, I just think that I agree with Murphy that it--

H.M.JR: If the Fed will say to me that, "We will fix it at three-eighths for bills and seven-eighths for one year," then I will sit up and listen.

MR. BELL: I don't think you have to pay much more about this half percent. I think it is going to die a natural death, pretty soon.

H.M.JR: Wait a minute. If they will say, "Three-eighths for the low, for the bills, and seven-eighths for one year, and we will hold it at that" - I don't like to use the word "peg", but "We will hold it at that," then I will sit up and take notice.

MR. BELL: Well, this sort of fixes it if you fix it at seven-eighths for one year.

MR. HAAS: If they say they will assure it going over.

MR. MURPHY: They feel it embarrasses their attempt to raise it to a half and that feeling makes it so.

H.M.JR: I tell you what you do, Dan, supposing you sound out Eccles, and ask him whether they would feel, if we went to seven-eighths for a year, say for the time being - say, through the rest of the calendar year, would they feel that I could feel that that would be the top for the certificates. See?

MR. BELL: I think that, as I recall, Eccles recommended the seven-eighths.

H.M.JR: Yes, but he hasn't told me that that is the top.

MR. BELL: You mean top of the balance of this year - fiscal year?

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H.M.JR: Yes - no, the calendar year - always subject to something unusual happening. What would you think of that?

MR. SHIELDS: I should think it would be a good idea, sir.

H.M.JR: You would?

MR. SHIELDS: Yes.

MR. BELL: I am going to hear the argument all over about the half percent.

H.M.JR: Well, it is a nice cool day. You have got nothing to do. (Laughter)

MR. BELL: I can lay the phone down and go on and work. (Laughter)

H.M.JR: Do you mind trying it?

MR. BELL: No, I don't mind. I think he will be all right on the seven-eighths.

H.M.JR: I would like to get some assurances that if I go to seven-eighths - you are for the one-year?

MR. TICKTON: Yes.

MR. MURPHY: Yes.

H.M.JR: Are you George?

MR. HAAS: Yes.

H.M.JR: I would like to get some assurances if I do this for the rest of the calendar year, that is the tops for one-year money.

MR. HAAS: Why not make it fiscal?

H.M.JR: Try it, fiscal. (Laughter) Try it.

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MR. BELL: Edge it up on him.

H.M.JR: Try it.

MR. BELL: Well, I think it has got to be, unless something happens--

H.M.JR: If necessary, tell him to talk it over with his Board. I mean - I don't want this thing creeping up on me. I want a limit.

All right, I will go to one year at seven-eighths, otherwise I don't want to go to one year.

MR. BELL: I think the Board ought to come down on their discount rate for short-term.

MR. MURPHY: To three-eighths?

MR. BELL: A half or three-eighths. A half would be all right.

MR. SHIELDS: You mean for one-year Treasuries?

MR. BELL: For discounts. Any security maturing within a year, Government, I think they ought to come to a half.

H.M.JR: Why can't they do that now?

MR. BELL: I assumed that was part of the program of lowering reserve requirements, which they said they were going to take care of between August 15 and 31.

MR. MURPHY: They said they would lower the rate to a half if they posted the bill rate at a half; it might follow that if they kept the bill rate at three-eighths, they would lower the money rate to three-eighths; but they didn't make a commitment to that effect.

H.M.JR: Have a little talk with them.

MR. BELL: They told you at luncheon yesterday that they did discuss that whole thing.

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H.M.JR: Have a little talk with them and I will see you again, say, at two-thirty.

MR. BELL: All right.

MR. MURPHY: Did you want the rest of us at two-thirty?

H.M.JR: Yes.

JUL 31 1942

Secretary Morgenthau

Mr. Nease

Subject: August financing

SUMMARY

1. Borrowing requirements are estimated at \$1.6 billions for August and \$2.5 billions for September in addition to amounts obtained by (1) the sale of savings bonds, (2) the sale of tax notes, (3) the reopening of the 1962-7 issue and (4) the sale of \$350 millions of Treasury bills a week.
2. Since savings bonds, tax notes and the 1962-7 issue will absorb most of the available funds other than bank funds, it would follow that most of the securities offered in the open-market financing in August and September and most of the bills issued will go to commercial banks.
3. Excess reserves in New York have been declining since early 1941, and are now at the lowest level since September 15, 1937. This emphasizes the desirability of improving the reserve situation before the next general offering of Treasury securities.
4. There are 2 certificate issues that suggest themselves for the August financing. Either of these issues would constitute the third of a regular series of certificates maturing between tax dates. An 8-1/2 month certificate maturing May 1, 1943 would require a 3/4 percent coupon and would sell at a price to yield about .73 percent. An 11-1/2 month certificate maturing August 1, 1943 would require a 7/8 percent coupon and would sell at a price to yield about .85 percent.

Secretary Mergenthau - 2

I. Amount of Money to be Raised

The restricted-issue borrowing programs -- savings bonds, tax notes and the 1962-7 issue -- and the \$350 millions a week bill program will provide an important part of the new money that will be required in August and September. They reduce the financing that it will be necessary to consider to \$1.6 billions in August and \$2.5 billions in September -- a total for the 2 months of \$4.1 billions. These amounts are minimum amounts because no allowance has been made for funds intended to provide a permanent increase in the Treasury working balance -- a working balance which was equivalent, on July 27, to 15 days' expenditures at the current rate.

An analysis of the cash position of the various classes of investors in the country leads to the conclusion that most of these \$4.1 billions must come from the commercial banks. A small portion of the money might be raised from other investors, but the funds of these investors will have been exploited to a very considerable extent already by the sales program covering tax notes, savings bonds and the long-term tap issue already inaugurated. Accordingly, it is to be expected that the volume of Government borrowing from commercial banks, between the bill program and the open-market general financing program will come close to \$4-1/2 billions during August and September.

II. The Reserve Situation

With the large sums which must come from banks at this stage, the importance to successful financing of maintaining adequate excess reserves cannot be minimized. Total excess reserves on Wednesday, July 29 amounted to \$2,196 millions, of which only \$253 millions was in New York City. With the exception of July 15, this was the lowest level of total excess reserves since April 13, 1936, and of excess reserves in New York City since September 15, 1937.

Secretary Morgenthau - 3

Chart I attached to this memorandum shows the movement of excess reserves since the beginning of 1936. The trend in excess reserves of New York City banks has been downward, it will be noted, since early in 1941. For banks outside New York City the downward trend started last winter. The decline in total excess reserves is accounted for primarily by the sharp increase in the volume of money in circulation and by the growth of reserves required to cover the sharp increase in bank deposits that has occurred. A brief summary of the principal factors influencing the movement of excess reserves since November 5, 1941 (the first date for which figures are available that take account of the last change in reserve requirements -- the increase on November 1, 1941) appears below.

Factors Influencing Excess Reserves

November 5, 1941 to July 29, 1942

(In millions of dollars)

Factors Decreasing Excess Reserves:

Increase in money in circulation.....	\$ 2,226
Increase in required reserves.....	1,161
Total.....	<u>\$ 3,387</u>

Factors Increasing Excess Reserves:

Increase in Federal Reserve bank holdings of United States securities.....	\$ 926
Increase in Treasury currency.....	101
Decrease in Treasury deposits in Federal Reserve Banks.....	790
All other (net).....	400
Total.....	<u>\$ 2,117</u>
Decrease in Excess Reserves.....	<u>\$ 1,270</u>

Secretary Morgenthau - 4

As will be seen from the above table, the dominating cause of the decrease in excess reserves during the period has been an increase in money in circulation of \$2,226 millions. Of this increase, only \$101 millions, or 5 percent, was met by currency issued by the Treasury. The remainder -- \$2,125 millions, or 95 percent -- was met by currency issued by the Federal Reserve Banks. If the whole increase had been met by Treasury currency, or if the Federal Reserve Banks had offset the increase in Federal Reserve currency by the purchase of Government obligations, the decrease in excess reserves would not have occurred, and the Treasury would have had the benefit of the increase in money in circulation for its financing program. As it was, practically the full force of the increase in money in circulation reduced member bank reserves and thus tightened the money market.

The \$1,161 millions increase in required reserves due to deposit expansion played a secondary role to the increase in money in circulation during the 6 months just ended. It is not unlikely, however, that the relative importance of these two factors may be reversed in the year ahead when Government borrowing from the banks may be of a very much larger magnitude than heretofore.

Data on the increase in excess reserves which would be provided by lowering the New York and Chicago requirements from the present 26 percent to 24 percent, 22 percent, or 20 percent, respectively, appear in the table that follows:

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**Excess Reserves in New York and Chicago and Increases
That Would be Obtained by Lowering
Requirements in These Cities**

(In millions of dollars)

	New York	Chicago	Combined
Excess reserves July 29..	<u>\$751</u>	<u>\$ 69</u>	<u>\$ 820</u>
Estimated increase in excess reserves, if re- quirements were lowered to -			
24 percent.....	\$130	\$ 70	\$ 200
22 percent.....	660	140	800
20 percent.....	990	210	1,200

The foregoing estimated increases in excess reserves that would occur if reserve requirements were lowered in New York and Chicago have been taken from a memorandum submitted to the Board of Governors of the Federal Reserve System by Dr. Goldenweiser.

III. Background for the New Issue

There are a number of maturities that might be offered for the August financing but before discussing them it might be well to turn attention to the recent market tendencies with respect to the absorption of short-term Government securities by the various classes of investors.

Secretary Morgenthau - 6

(a) Treasury bills. Commercial banks in the financial centers have been traditionally the principal holders of Treasury bills (Chart II). The recent efforts to broaden their market included the Federal Reserve Board announcement, on April 30, of a buying rate of $\frac{3}{8}$ of 1 percent. One purpose of this posted rate, which was higher than the going market rate, was to encourage a wider distribution of Treasury bills and other short-term Treasury securities than had hitherto been obtained among smaller banking institutions outside of New York City and Chicago. The table below indicates that to a degree this action was successful for since April 30 approximately 68 percent of the increase in privately-held bills outstanding was taken by investors other than banks in New York and Chicago. Purchases by non-institutional investors were small during this period, such holdings having increased by only 2 percent of the aggregate increase available.

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**Absorption of Increase in Treasury Bills
April 30 - June 30, 1942**

(Dollars are millions)

	Amount	Percent of total increase
Increase April 30 - June 30.....	\$555	
Less - amount absorbed by Federal Reserve Banks.....	<u>152</u>	
Balance available for private absorption.....	<u>403</u>	<u>100</u>

Absorption by:

1. Commercial banks in central
reserve cities

(a) New York.....	<u>7</u>	<u>2</u>
(b) Chicago.....	<u>123</u>	<u>30</u>
Subtotal.....	<u>130</u>	<u>32</u>

2. Other investors

(a) Commercial banks out-
side New York and

Chicago.....	236	59
(b) Mutual savings banks....	10	2
(c) Insurance companies.....	19	4
(d) All others.....	<u>8</u>	<u>1</u>
Subtotal.....	<u>273</u>	<u>66</u>

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In considering the foregoing it should be noted that commercial banks outside of central reserve cities have grown in importance as holders of Treasury bills since the latter part of 1941. This has been made possible by the greater dispersion throughout the country of Government expenditures than of receipts from either taxation or borrowing. Another factor has been the withdrawal of balances by banks outside New York City from their correspondents inside New York City, although this tendency has diminished in recent months. To some extent, this last-named factor has enabled the banks outside New York City to maintain their own reserve positions at the expense of the reserves of banks in New York City.

(b) Certificates. The issuance of certificates of indebtedness was also designed to broaden the market for short-term Treasury securities, and to cater to the investment needs of non-banking investors. Figures on the distribution of holdings of the two issues that have been offered throw additional light on the success of attempts to broaden the short-term market. The figures are shown in the table below:

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**Ownership of Certificates of Indebtedness
Classified by Type of Investor
June 30, 1942**

(In millions of dollars)

Class of Investor	Annual		Partial	
	1/2% cer- tificates maturing 11/1/42	1 5/8% cer- tificates maturing 2/1/43	1/2% cer- tificates maturing 11/1/42	1 5/8% cer- tificates maturing 2/1/43
I. Commercial Banks in Central Re- serve Cities				
1. New York.....	\$ 312	\$ 386	21	24
2. Chicago.....	86	114	6	7
Subtotal.....	<u>398</u>	<u>500</u>	<u>27</u>	<u>31</u>
II. Other Private In- vestors				
1. Commercial banks outside New York and Chicago.....	441	629	29	40
2. Mutual savings banks.....	38	36	3	3
3. Insurance com- panies.....	129	63	6	4
4. Other corpora- tions, indi- viduals and trusts.....	411	351	22	22
Subtotal.....	<u>1,041</u>	<u>1,081</u>	<u>62</u>	<u>62</u>
III. Other Investors				
1. Federal Re- serve Banks.....	59	7	4	-
2. Government agencies and trust funds.....	9	-	-	-
Subtotal.....	<u>68</u>	<u>7</u>	<u>4</u>	<u>-</u>
IV. Total.....	<u>\$1,907</u>	<u>\$1,588</u>	<u>102</u>	<u>102</u>

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Certificate issues have also been successful in appealing to investors other than financial center commercial banks, it appears, more than $2/3$ of each issue going to banks outside New York and Chicago, other corporations, individuals, and trusts. Mutual savings banks and insurance companies were of minor importance as certificate holders, as might well have been expected. The smaller percentage holdings by insurance companies of the $5/8$ percent certificate offered in June than of the $1/2$ percent issue of April were undoubtedly due in part to the depletion of insurance company cash by their purchases of the restricted $2-1/2$'s of 1962-67.

A comparison of distribution of holdings of the earlier issue with that of the later one indicates that the relative importance of commercial banks outside New York and Chicago was greater in the case of the June offering than it was in the April offering. Individuals, trusts, and non-financial corporations, on the other hand, were less important holders of the second certificate issue than they were of the first, both on a dollars-and-cents basis and on a percentage basis.

IV. The New Issue

There are two certificate issues that suggest themselves for the August financing. Either of these issues would constitute the third of a regular series of certificates maturing between tax dates. An $8-1/2$ month certificate maturing May 1, 1943 would require a $3/4$ percent coupon and would sell at a price to yield about .73 percent. An $11-1/2$ month certificate maturing August 1, 1943 would require a $7/8$ percent coupon and would sell at a price to yield about .85 percent.

The most important objection that might be raised to the $11-1/2$ month certificate is that it would jump the rate $1/4$ of 1 percent over the last issue. The most important point in its favor is that the higher coupon would find greater acceptance among country banks and non-banking investors than the lower coupon. A collateral point of importance is that the anchor which will have been placed on the long end of the certificate series will make it more difficult for persons who desire to re-adjust the $3/8$ percent bill rate to argue their case.

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The table that follows covers prices and yields on the certificate issues referred to:

**Estimated Prices and Yields on Proposed
New Treasury Offerings**

(based on closing bid prices, 7/30/42)

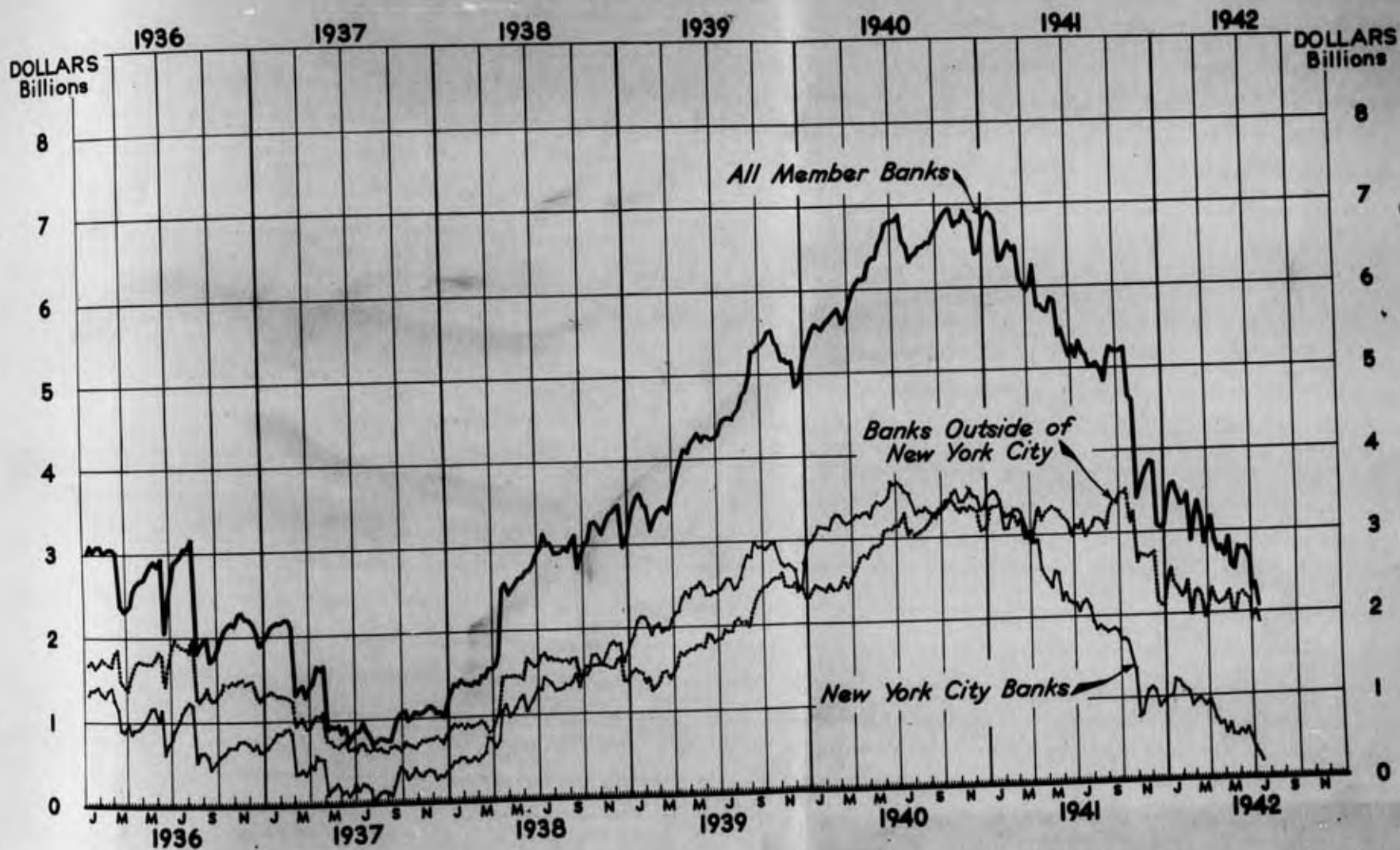
	Coupon	Estimated yield	Approximate price
Certificate of indebtedness due 5/1/43 (6-1/2 months)...	3/4%	.73	100-1/64
Certificate of indebtedness due 8/1/43 (11-1/2 months)..	7/8%	.85	100-1/64

Attachments

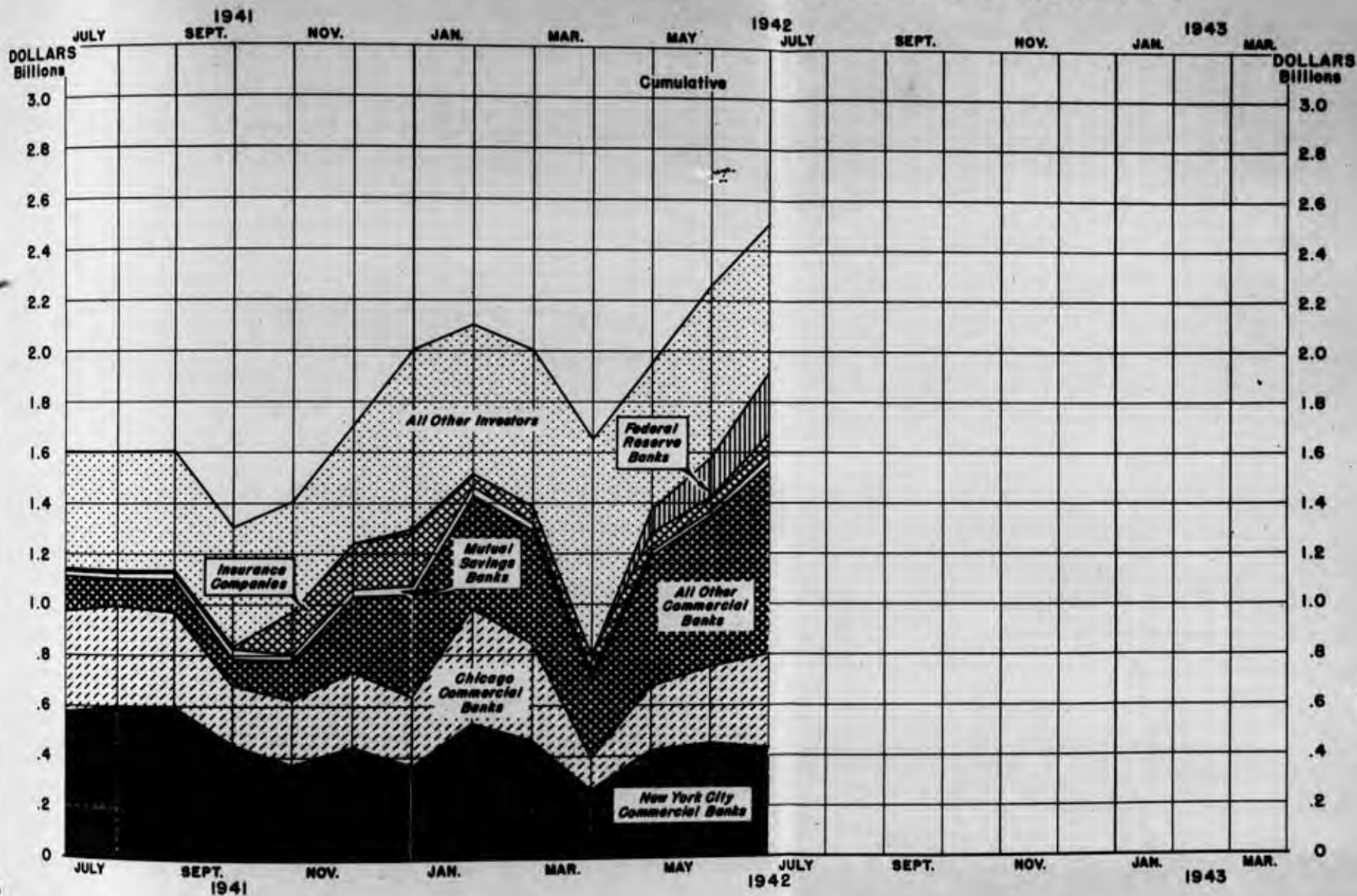
Chart I.

EXCESS RESERVES OF MEMBER BANKS

Wednesday Figures



OWNERSHIP OF TREASURY BILLS, CLASSIFIED BY TYPE OF INVESTORS



August 4, 1942.
11:13 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

John Rothchild: Yes.

HMJr: Mr. Rothchild?

R: Yes, sir.

HMJr: I'll talk as fast as I can, because the farm is paying for this. Some weeks ago you wrote me a letter and said that possibly you might get me some girls who have been working in Massachusetts all summer to come over to the farm.

R: Yes.

HMJr: Well, now through what Arthur Williams, our Assistant Farm Bureau Agent, has been doing in New York with the United States Employment Service, I'm very much discouraged - hello?

R: Yes.

HMJr: Now I want - of course, we would prefer to have boys....

R: Yes.

HMJr:but you can't - you have no boys that you can recommend, have you?

R: Well, now I've been trying to get girls.

HMJr: Yes.

R: I've been trying to get a unit from Bennington College.

HMJr: Yes.

- 2 -

R: It seems that we can't get them.

HMJr: Yes.

R: There are some girls there, but there are also orchards in the neighborhood.

HMJr: Yes.

R: And there's a demand for those girls in those orchards, and we could probably get them but it would be bad policy to do it.

HMJr: Yes.

R: I have been also conferring with Mr. Thomas, Harrison Thomas....

HMJr: I know.

R:and we're - we've been trying to work out a plan to get some boys out of the aviation course....

HMJr: I see.

R:which is going on now in the school and will be over soon, and which has two thousand boys enrolled.

HMJr: Yes.

R: Now that seems to be the one possibility..

HMJr: Well, now here - here's - I mean my own situation, at least I know where I stand now. We can get a place to board boys or girls beginning with the day after Labor Day, which is the eighth.

R: Yeah.

HMJr: Now, at a place called - one place called Gamba's - G-a-m-b-a....

R: Yeah.

HMJr:they have sixteen beds....

R: Yes.

- 3 -

HMJr:and they also happen to have a swimming pool there....

R: Yeah.

HMJr:and they want \$12.50 a week.

R: Yeah.

HMJr: And then there's another place called Borgas - B-o-r-g-a-s....

R: B-o-r....

HMJr:g-a-s....

R: Yeah.

HMJr:that can take care of nine people.

R: Yeah.

HMJr: Now my thought is - of course, I'd rather have boys but if I can't get boys, I could take, I suppose, fifteen girls and some one person who would look after them.

R: Well, the only possibility now I'm sure is boys.

HMJr: Boys.

R: That's my impression at the present time.

HMJr: The girls are out?

R: I think they are.

HMJr: I see. Well, what - what Mr. Thomas in New York City has doesn't look very attractive to me, because they just give me the general run.

R: Well, we would - we would pick, you see, Thomas and I would make a selection.

HMJr: Yes.

R: He's a good man.

- 4 -

HMJr: Well, but you see I can definitely - I mean, because what they wanted to do was to put two in a bed. That's why they said they could take care of thirty.

R: Yeah, well, that won't work.

HMJr: That won't work, but - so at the one place they can take care of sixteen, another place they can take care of nine.

R: Now that means twenty-five.

HMJr: That's right.

R: And is that the number you want?

HMJr: That's the number I definitely want.

Operator: Your three minutes are up.

HMJr: All right, all right.

R: Hello.

HMJr: I'm still here.

R: Mr. Thomas has been away. He's due back in New York tomorrow, I think - tomorrow or the day after.

HMJr: Yes.

R: I have a call in for him.

HMJr: Yes.

R: As soon as I can get a hold of him, he and I can check into this and we can maybe work it out with Mr. Williams.

HMJr: Good. Well, I - if it's - if it's agreeable to you, because Williams is waiting, I'm going to tell him that - that I'm going to look to you. Can I do that, or is that too early for me to say that?

- 5 -

R: Well, I've got to - I've got to talk with Williams - with - with....

HMJr: Thomas?

R:Thomas first, because he has some doubts as to whether we could get the right kind of boys....

HMJr: Yes.

R:out of this group, and unless we can, we better tell you so.

HMJr: Yes.

R: It's going - there's going to be an element of gamble in it anyway, you know, because these won't be experienced workers. We can't get them. They don't exist.

HMJr: Yes. And - and the girls are - are out of the question now.

R: I think so.

HMJr: I see. Well, let's leave it this way, when you know will you call me collect in Washington - District....

R: Yes.

HMJr:District 2626.

R: District 26....

HMJr: 26....

R:26.

HMJr:collect.

R: All right.

HMJr: Because now - I mean that I - I'd like somebody who would take a personal interest in this thing, and I feel your organization would.

R: We will. We'll do the best we can.

HMJr: And otherwise, I - I'm just one of five hundred apple growers who will get whatever they can pick up in New York, which will not be very good.

R: Yes, I - Mr. Thomas - Mr. Williams and I talked about the Employment Service, and I suggested to him that he go down there and make a sampling.

HMJr: Yeah, well, he did and it was very unsatisfactory.

R: Yes.

HMJr: Very unsatisfactory.

R: All right, sir, we'll do the best we can.

HMJr: And then you'll call me within a day or two.

R: As soon as I can reach Thomas....

HMJr: Right.

R:I'll call you.

HMJr: Thank you.

R: Thank you.

August 4, 1942
11:50 a.m.

CAPITAL ISSUES CONTROL

Present:

Mr. Buffington
Mr. Paul
Mr. O'Connell

H.M.JR: What is this "personal" matter you want to talk to me about? (Laughter)

MR. O'CONNELL: What does he mean?

MR. BUFFINGTON: He gets the name mixed up, "personal" instead of "Purcell."

H.M.JR: Who is the spokesman?

MR. PAUL: George.

MR. O'CONNELL: Mr. Buffington.

H.M.JR: Go ahead, mouthpiece. (Laughter)

MR. BUFFINGTON: Following that meeting in Dan Bell's office when Purcell was requested to draw an Executive Order in connection with the sale of securities by investment trusts, industrial insurance companies, and savings and loan associations, he drew one which designated those three companies as the only three in which we were interested.

As it got into conference with the lawyers, I think Mr. O'Connell, and finally Mr. Eccles, decided that the Order couldn't be drawn as

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originally contemplated but would have to be drawn along much broader lines.

It has since been redrawn in two forms: One, only pointing at these three companies; and the second form, pointing at the whole subject very broadly.

Mr. O'Connell and Mr. Purcell and I talked about it in my office, and later Mr. O'Connell and Mr. Paul talked about it; and we are unanimously of the opinion that there is not sufficient reason at this time to ask for an Executive Order.

H.M.JR: Can you write me a letter, which these two gentlemen can see, which I can sign, and tell him so; or would you rather do it by word of mouth?

MR. BUFFINGTON: I would rather do it by word of mouth, but I will do it as you say.

H.M.JR: I would rather do it your way.

Are you all in agreement?

MR. PAUL: Complete.

H.M.JR: All right, class is adjourned. Now let's gossip.

August 4, 1942

If we go in and use U.S. dollars for our Army and for the British Army behind the Second Front, in return for that the President of the United States should strike a bargain with Churchill that the United States would be in charge of reparations, relief and reconstruction.

That was my idea after having lunch with Van Cleffens, Netherlands Foreign Minister.

August 4, 1942.
2:26 p.m.

Operator: Go ahead.

HMJr: Hello.

Dean Acheson: Hello, Henry.

HMJr: Dean, you're a mind-reader.

A: (Laughs) Were you about to call me?

HMJr: Yeah, but I'll listen to you first.

A: You called me the other day about Lend-Lease in Reverse.

HMJr: Yes.

A: I am now very happy to be able to tell you that Phillips came in this morning....

HMJr: Yes.

A:and said that he agreed to the text that we have been over with him, with some changes which I think are more form than anything else.

HMJr: Good.

A: I'm having that typed up....

HMJr: Good.

A:and am sending it over to you this afternoon.

HMJr: Fine.

A: We would like, if we could, to get it to the President either late tonight or tomorrow morning....

HMJr: Yeah.

A:because Churchill wants to announce it before Parliament adjourns on Thursday.

- 2 -

HMJr: Well, if you will send it with some kind of a messenger that will declare it's from you so that I can get it, and it comes over in a reasonable hour, I'll read it before I go home.

A: Oh, fine. So it - it's the - the text that we approved in your office....

HMJr: Yes.

A:striking out, you remember, that part about our taking over the contracts. That's out.

HMJr: I see.

A: And they rearranged the order somewhat more artistically....

HMJr: Yes.

A:but I think there isn't anything in it - we'll mark any passages which are different from that.

HMJr: Have any of my people seen this - prior to this?

A: Harry has seen the last draft which we gave to the British. I sent that to Harry some time ago.

HMJr: I see.

A: Now this is that draft with one or two changes which came through this morning.

HMJr: I see. Well, if you'll get it over and ask them, whoever it is - I'll leave word to please put it in the hands of Mrs. Klotz.

A: Mrs. Thompson.

HMJr: No, Mrs. Klotz - K-l-o-t-z.

A: Oh, Mrs. Klotz, yeah.

HMJr: And I'll tell her to look for it.

A: Fine.

- 3 -

HMJr: Now....

A: Thank you very much.

HMJr: I think - I'm very much pleased. Now can I go on to what I was going to do?

A: You bet.

HMJr: Do you remember--I don't know whether it was weeks or months ago, it seems months--that you sent me over a draft of a - I don't know what you call it - anyway, it was - it was a piece of paper in which you were going to present to the Argentine on this whole question of Foreign Funds....

A: Yeah.

HMJr:and Merle Cochran was to go down, and was to keep me informed, and so forth and so on. Well, I haven't received one single cable that Merle Cochran ever sent back.

A: Well, Merle is back....

HMJr: Yeah.

A: ...and I was about to ask you whether I could bring him and Norman Armour....

HMJr: Yes.

A:over to go over the whole thing with you, tell you the set-up which they have recommended as a permanent thing down there, and tell you what they have done.

HMJr: Yes. Well, I'd be delighted. Was that - was that - I don't know what you call it - the....

A: Oh, well, that was an instruction which we sent down to Norman Armour.

HMJr: Well, was - was that ever used?

A: It - that was used orally.

HMJr: I see.

A: He went to see the Foreign Minister and told him that....

HMJr: Yes.

A:and then he telegraphed us and asked us whether we insisted that he give them a written copy.

HMJr: Yes.

A: He said that he did not want to do that, because the boat which had just been sunk there by the Germans....

HMJr: Yes.

A:was causing a lot of indignation, and he did not want to get them side-tracked into thinking how terrible we were while they were thinking how terrible the Germans were.

HMJr: I see.

A: So we told him to - Welles told him to go ahead and say it to them orally....

HMJr: I see.

A:which he did.

HMJr: Well, now....

A: He - he and Merle think that we've got to very much strengthen the whole financial set-up, and we were going to ask you if - if we could have Jim Mann to go down.

HMJr: Well, now, how would - how would eleven o'clock Thursday be?

A: I think that's all right. I'll have to find out whether Norman is - he told me he was going away for a few days. May I find out about that?

- 5 -

HMJr: Yeah, well, I'll....

A: Wait a minute.

HMJr: Yeah.

A: Eleven o'clock Thursday is all right.

HMJr: Is that - that would be you and Merle Cochran and Norman Armour. Well, let's leave it this way, if I don't hear from you again, I'll take it it's on. How's that?

A: All right, Henry.

HMJr: What?

A: Yes, that will be first-rate.

HMJr: And if it's not on, we'll - we'll - but I'd like very much to see the three of you. And this thing will be coming over, and we - and you'll have your messenger take it direct to Mrs. Klotz.

A: Yes.

HMJr: Right.

A: I will. Fine.

HMJr: I'm very much pleased.

A: And we're going to have the Australians, we hope, in a few days. They've been bucking around making a little trouble.

HMJr: I see.

A: But I think if we get this British thing through, it puts the heat on them a little bit to come through too.

HMJr: What - what happens to you when you ride a kangaroo?

A: (Laughs) Well, it's bouncy.

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HMJr: I see.
A: (Laughs)
HMJr: All right.
A: Fine.
HMJr: Thank you.
A: Goodbye.
HMJr: Goodbye.

August 4, 1942
2:40 p.m.

FINANCING

Present: Mr. Bell
Mr. Haas
Mr. Tickton
Mr. Shields
Mr. Murphy

H.M.JR: Where are you at, Mr. Bell?

MR. BELL: Well, I talked with Mr. Eccles for forty-five minutes, or he talked with me. (Laughter)
He said that--

H.M.JR: You are going to give the New York statisticians a bad impression. (Laughter)

MR. SHIELDS: I am afraid not, Mr. Secretary.

H.M.JR: Too late?

MR. BELL: I couldn't pin him down to any time that this seven-eighths rate would hold, but he said that in his mind there was no question about the rate so long as the Treasury wants it held at that point. He said he didn't think there would be any reason to even consider a change in it until the C/I's outstanding would go up to eight or ten billion dollars, to which the Federal Reserve System would like to see them go eventually, and the required reserves in the central reserve cities are reduced to twenty percent.

Then he said in connection with consideration of reducing reserve requirements in the whole country you might want to reconsider the question of

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the one-half percent rate on Treasury bills, but he said for the time being they have all agreed over there that there will be no further talking about the one-half percent rate. He thinks it is bad to talk about it and get no place. He thought that you were rather emphatic in letting it stand where it is, and they are willing to accept that. They won't talk about it again until it comes up through these other channels.

I asked him what they had done on reducing the discount rate throughout the system, and he said that they had gotten no place on that. They discussed it for an hour or two, and every one of the various presidents there from the Federal Reserve Banks thought that they could not sell that to their boards of directors. Goldenweiser and John Williams argued vehemently against selective rates of that kind. They said that they didn't think it could hold because what people would do would be to pledge their Government securities at the half percent, take the money and loan it for purposes other than Government financing. They thought that would be bad.

They said what they did agree to do after they talked with Allan Sproul is - he couldn't be present, and he is the one member of the committee that hasn't been consulted - that they will enter into repurchase agreements. This is, of course, highly confidential because it hasn't been agreed to and hasn't been announced. They will enter into repurchase agreements with any bank that wants to get funds because of the shortage of reserves, or other reasons, on a three-eighths basis for Treasury bills and Treasury certificates maturing within three months.

H.M.JR: Is that settled?

MR. BELL: It was settled so far as the group present was concerned, subject to Allan Sproul's approval. Of course, he is in the money market, and they thought he ought to have a say in it before they definitely decided to go ahead with it in the form of a resolution.

H.M.JR: I would say you had a very good conversation.

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MR. BELL: I think the best thing out of the whole business is that they are forgetting to talk about the one-half percent for a while. But he wanted to say to you that the whole group there yesterday was unanimous for one year seven-eighths percent. That is their best judgment, and he hopes that you will accept that, because you have asked them whether or not it will be a success; and they say it will be a success, and they could support that more enthusiastically than they could any other.

H.M.JR: What else?

MR. BELL: That is all.

H.M.JR: Have you fellows done any figuring as between one year at seven-eighths and nine months at three-quarters?

MR. MURPHY: With respect to cost, Mr. Secretary, while I would favor the one-year note, I thought that the cost figure should be placed before you. We figured it out this way, if you borrow money at three-quarters for the period until May you have two actions, borrow at three-quarters until May or seven-eighths until August.

Now, what rate during the period from May to August would you have to borrow at so that your two operations would be equivalent? The answer is one and a quarter point - one point twenty-three, to be exact. In other words, assuming that three months' money, May first next, is at a rate less than one point twenty-three percent, it is cheaper to put out the May note; if we suppose that three months' money would be three-eighths of one percent, as it is now, then you are, in effect, by putting out the August note, borrowing money for the three months' period running from May to August of next year, at seven-eighths above the three months' rate.

That general type of result, however, will always come from this kind of computation. In other words, it is more expensive to borrow at long terms than it

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is short, and there are countervailing considerations, but that is the extra cost of putting out the long note, the long certificate.

H.M.JR: Anybody want to argue with Murphy?

MR. HAAS: I would argue if you are going to give that calculation much weight; because if you follow that logic, you put out bills at three-eighths and forget about it.

MR. BELL: All the time.

MR. HAAS: Sure.

H.M.JR: Let me go around. Got any suggestions?

MR. TICKTON: No, sir.

H.M.JR: You haven't?

MR. TICKTON: We started out with seven-eighths at eleven and a half months, and that stands there.

H.M.JR: You are adamant?

MR. TICKTON: Yes, sir.

MR. MURPHY: I take the one-year obligation.

MR. HAAS: That eleven and a half months--

MR. SHIELDS: Yes.

H.M.JR: It is going to be tough if I go the other way, isn't it?

MR. HAAS: You have done it before a good many times.

H.M.JR: Well, unless somebody has got something there is no use prolonging the argument any until the Fed comes at three o'clock.

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MR. BELL: I really don't think it makes a lot of difference, but I think I would give them what they seem to think they want, seven-eighths.

H.M.JR: Drive a bargain on it, anyway.

MR. BELL: I don't think you can get much out of bargaining.

H.M.JR: Sure I can. I made a bargain on the three-eighths, didn't I?

MR. BELL: How do you mean?

H.M.JR: Well, I mean the three-eighths for bills is three-eighths for bills, and they are holding the fort.

MR. BELL: On that, yes.

H.M.JR: They are holding the fort.

MR. BELL: But I mean, there isn't enough involved here to get very much for the bargain.

H.M.JR: Well, there is one-eighth. Three months from now they might say they want to have it one percent for one year.

MR. MURPHY: It is a matter of whether you hold it for the calendar year, fiscal year, or for the duration.

H.M.JR: Yes, we are beginning to get pegs along the way. Gradually we will have a pattern.

MR. BELL: Seven-eighths can be considered a peg the same as anything else.

August 4, 1942
3:05 p.m.

FINANCING

Present: Mr. Bell
Mr. Buffington
Mr. Haas
Mr. Murphy
Mr. Baker
Mr. Tickton
Mr. Eccles
Mr. Szymczak
Mr. Draper
Mr. Williams
Mr. Goldenweiser
Mr. Piser

H.M.JR: Bell told me about this conversation with you, Marriner, and about the only thing there seems to be any doubts about is this: There is no question that if we borrowed for nine months, three-quarters of a percent, we would be borrowing more cheaply than if we borrowed at a year for seven-eighths. But when you look at this thing and you see the way the thing has been steadily going up, naturally I kind of wonder, well, where is it going to end. Therefore, I wanted to ask the Board if they would be willing to say to me, barring always some unforeseen matter coming up that we don't foresee at the minute, that we sort of have an understanding that seven-eighths for one year is the price just the way three-eighths is for the bills; that we sort of establish a peg there, you see, we sort of make a peg and this isn't going to go up every three months one-eighth.

MR. ECCLES: I said this to Dan--

H.M.JR: There is another milestone in this financing. We have got three-eighths for bills, and

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the rate for one-year money is going to be seven-eighths, always barring something happening.

MR. SZYMCAK: I think that makes sense.

H.M.JR: Does that make sense?

MR. SZYMCAK: Always of course having the privilege of going at it, because you don't know what is going to develop in the meantime.

H.M.JR: You have got that privilege on the bills.

MR. ECCLES: What you mean is that--

H.M.JR: You can raise this question with the bills. I can raise the question; I may say that three-eighths is too high.

MR. ECCLES: But this is what is going to happen: As long as we have a posted rate on bills, and as I told Dan, it seemed to me that if you put out a certificate at seven-eighths, a one-year certificate, which we all strongly recommend - I will give the reasons in a moment why we do - that that isn't going to affect the bill rate. There was some feeling that a seven-eighths, year's certificate was going to press awfully hard on the bill rate. I said that we had agreed at the time we posted the three-eighths rate that we would maintain that three-eighths rate until such time as the Treasury felt or was willing that it be changed.

Now, we are committed to that. There isn't any - and so far as the discussion of rate is concerned, we agreed yesterday afternoon that we ought to forget, at least for the time being here, any further discussion of the rate, that we thought that a continued discussion here of a - changing - changing the buying rate from three-eighths to a half, and so forth, each week or every other week or each month, didn't

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seem to us to possibly serve a good purpose, and that the discussion in so far as the present was concerned, it seemed to me that it was inappropriate to discuss it further.

Now, it seems to us that the moves over the next few months will be to give to the New York and the Chicago money market reserves through the reducing of reserve requirements as well as open market operations until it gets down to the twenty percent. Now, that may carry this thing along - I don't know - November - it may go longer, but at least that long. When that period has been reached and we still find there may be two billion of reserves in the country - we may find that the money market is entirely out of reserves again - that we are buying a hundred million or two hundred million of certificates and bills a week - and I think we ought to take a whole look at the entire picture again, because it would be apparent then that it was merely the reserve in the money market, and the country wasn't in on it as they should be. I think you would want to, under those conditions - in other words, before we begin to decrease reserves in the country as a whole; if the country as a whole had substantial excess reserves, we would want to see what was wrong with - what we might do in order to get more of the financing in the country and outside of the money market, wouldn't we?

H.M.JR: Well, all you are saying is this: After all, take your three-eighths rate for bills.

MR. ECCLES: That is right.

H.M.JR: There is no act of Congress - anybody can raise the question on it any time you want to.

MR. ECCLES: That is right.

H.M.JR: And all I am saying is that if the thing goes along about the way it is, and I now go - I would much rather do nine months at three-quarters

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but you people all want this. If you do want this, I don't want to feel that I have got an interest rate creeping up on me, that is, between three-months bills and one-year money; that one-year money from now on, as long as conditions stay comparatively the way they are, is going to be seven-eighths.

MR. ECCLES: I would think that the market for seven-eighths--

H.M.JR: That is all.

MR. ECCLES: As long as you have got a three-eighths bill rate, it would seem to me that the market would be about seven-eighths for a year's certificate. Now, I am not--

H.M.JR: It might, but these fellows might manipulate it on us so the first thing you know they would say, "Well, one percent sounds nice, you know. With one percent you get a lot of corporations."

"Now, a lot of people will come in at one percent, you would be surprised." (Laughter)

MR. DRAPER: That is true of a half, but it isn't true of one percent.

H.M.JR: It will be in two months from now. (Laughter)

MR. SZYMCAK: Get the corporations on the ninety percent.

H.M.JR: There is something about one percent, that if you go to one percent you get a lot of corporations.

MR. ECCLES: It is just a question of where you are going to do the financing. There is a point at which you can't just do it all through the money market, that they won't have the reserves, and we have said

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time and again that they will spend the reserves when they get them.

H.M.JR: If the boys don't say anything - I will make you a bet that New York says in two months, "If you could only go to one percent for one year you would be surprised how much money you can get out of the banks."

MR. ECCLES: I don't think New York wants to hold the rate down; the Fed doesn't. New York doesn't. The Fed has got this responsibility--

H.M.JR: I mean the banks in New York.

MR. ECCLES: No, no, the banks in New York want to keep the rate down, and I will tell you why. Now here is why the dealer and why the New York banks want to keep the rate down. That sounds unusual, but they do want to keep it down because they don't want the securities, bills and certificates, short-term market, to be directly with the rest of the country and with the other Federal Reserve Banks. They want that money market in New York. They know that if you give a piece of paper - they would prefer today a three-eighths - three-quarters certificate. A seven-eighths certificate will sell better outside, outside the banks - I mean to the outside banks. I am sure that New York would today prefer the three-eighths bill market because the balances are carried in New York, the banks carry balances in there, and they like to get those balances, on which they pay no interest, and invest them from that source instead of having the banks and the holders outside invest them directly.

Now, they are thinking in terms of the normal New York money market, and they are not thinking in terms of a controlled market. They don't have the responsibility, as we do, for furnishing funds to the market. They are not concerned about who furnishes the

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funds to the market. They are merely concerned about having as much of this short-term financing routed through them as possible. Now that is an aspect of it that I don't know whether you had thought of or not, but I am thoroughly convinced that they are more interested in keeping rates down to the point where the stuff will not go out in the country.

H.M.JR: Is there anything else you people - I mean, if we have an understanding on this--

MR. SZYMCAK: No.

MR. ECCLES: Let me get - you mean that you would want us to have two posted rates, and that means we have got to establish another rate.

H.M.JR: That is right.

MR. ECCLES: I think there may be--

MR. SZYMCAK: I don't understand that. I don't understand, you want us to post a rate on certificates?

H.M.JR: I don't mean post.

MR. BELL: Just maintain that pattern, you mean.

MR. ECCLES: Oh, sure.

MR. BELL: You don't want to post the three-eighths like the seven-eighths.

H.M.JR: Just to maintain the pattern.

MR. SZYMCAK: Just maintain the pattern.

MR. WILLIAMS. The seven-eighths rate is in line with the pattern. You are asking that it not be disturbed.

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H.M.JR: Well, yes, but as you don't let it get out of line in the next three months - I mean, if you see it begins to move so that it is going towards one percent, do something about it.

MR. ECCLES: Yes.

H.M.JR: I don't know whether you call that posting a rate or not. I mean, if you begin to see the thing get out of hand so that I am going to have to pay one percent in three months, that you don't wait, and get busy, that is all.

MR. ECCLES: Well, you can say whether you disagree with me or not. My idea would be that as long as your bill rate is three-eighths that we would have to maintain approximately the seven-eighths rate for a year's certificates, but the three-quarters rate for nine-months' certificates, because that is about where your pattern comes. I don't believe that you can get your certificate rate changed without changing the bill rate.

H.M.JR: That isn't posting.

MR. BELL: No. The posting is agreeing to pay all bills presented at a price, which is three-eighths.

H.M.JR: What I mean is this: If the pattern today calls for seven-eighths for one year, I am looking to you gentlemen to keep it in that pattern.

MR. SZYMCAK: That is understood.

MR. ECCLES: That is right. We would expect to do that.

H.M.JR: To keep it in that pattern and not let somebody jockey it around, so that when we sit here together two months or two and a half months from now, you say, "Well, it calls for - you have got to pay one percent."

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MR. ECCLES: It isn't what it calls for, Henry, it is what we fix. The rate is three-eighths - it is seven-eighths - not because of a market at all, because this market is a completely - a controlled market, and that is what we have fixed it.

H.M.JR: Your man, Piser, and Haas come in and they show me a curve and say the market today calls for seven-eighths--

MR. ECCLES: Yes, but the market is pretty well what we made it.

H.M.JR: All right then, if that is true then it is all the more reason that what I am asking for is tiddly winks; it ought to be easy.

MR. ECCLES: Of course it will be easy. The market is just what we have made it.

H.M.JR: If that is so, then make it stay where it is for one year.

MR. ECCLES: You don't think the purchase of over a billion dollars of securities since last April--

MR. DRAPER: Did you say one year or five years?

H.M.JR: I said one year.

MR. ECCLES: A billion dollars of securities since last April has not had something to do with it.

H.M.JR: I am not saying it.

MR. WILLIAMS: There has been some discussion among the banks and others about the change in the three-eighths rate. It came up when we brought our District committeemen in, Victory Fund Committee. Of course, there is always discussion as to why it

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ought not to be higher than it is. It seems to me we can give intimations that three-eighths seems to be a pretty stable rate and that seven-eighths is a stable rate.

H.M.JR: But put kind of a little - a little conviction behind your voice when you say it.
(Laughter) You don't sound very positive to me just now.

MR. ECCLES: I wouldn't want to say you would do it for a year.

MR. SZYMCAK: He is speaking of seven-eighths on a year's certificate.

MR. ECCLES: I would like to say this, that the question of the three-eighths and the seven-eighths and the other relative rates and relationship to that - that we wouldn't even want to discuss the question for at least three months or longer, until the reserves in the central reserve cities have been reduced by the billion and a quarter, which we can reduce them, and until after those reserves have pretty well been absorbed again. Then you begin to face another problem, which is dealing with the reserves in the country as a whole.

Now, at that time I would like to have us all take a look and see what we can do to get a wider and a broader distribution.

H.M.JR: Now you are going to go ahead with the dropping of the New York and Chicago to twenty percent?

MR. ECCLES: That is right.

H.M.JR: You are going to go ahead with it?

MR. ECCLES: In line with what we said the other day we expect to do that.

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H.M.JR: Well, I am satisfied. Then after you have done that, and after we see the effect of that, and so forth, which would mean most likely do one more financing--

MR. ECCLES: In other words, we are going to maintain the market situation in two ways over the next three months. First, by the reducing of the reserve requirements in these points where the funds are short and where they are not getting the funds in relation to the rest of the country; secondly, we will buy likewise. I mean, we will combine that reduction with an open market operation on bills and certificates, short-term papers primarily, buying only such long-term as it may be necessary to maintain the pattern.

Now, it seems to me that that - we talked about this yesterday. I talked to Allan about it on the phone, and that, I think, is the general feeling now of the trend for the next several months.

H.M.JR: Dan?

MR. BELL: It is all right.

H.M.JR: What do you want to add?

MR. BELL: That is all right with me.

H.M.JR: George?

MR. HAAS: It is O.K. I would make it a year rather than three months, but--

H.M.JR: Well, that is - how about other members of the Board?

MR. DRAPER: O.K.

H.M.JR: Dr. Goldenweiser?

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MR. GOLDENWEISER: That arrangement suits me fine. I think that is perfect.

MR. ECCLES: How do you feel about that, Piser?

MR. PISER: Yes.

MR. SZYMCZAK: Do you want to mention at this time - I think Dan already knows about it. I don't know whether the Secretary has heard from Dan about that three-eighths--

MR. BELL: I told him; Marriner might briefly touch on it if he wants to.

MR. SZYMCZAK: ... option to repurchase.

MR. ECCLES: Instead of just the buying rate on which they can tender the bills at any time, the Open Market Committee agreed to instruct the banks to offer repurchase--

MR. SZYMCZAK: Give an option.

MR. ECCLES: Give an option to the purchaser.

MR. SZYMCZAK: The banks purchase the bills, the Federal Reserve Banks, and give them an option to repurchase those bills any time.

MR. ECCLES: The purpose of that is that they will not have to sell the bills if they are going to be short, maybe, for a day or a week or two weeks.

MR. SZYMCZAK: It is another way into the banks for funds.

MR. MURPHY: That would apply to certificates?

MR. SZYMCZAK: We did include both certificates and bills on both, that is, ninety days' certificates at three-eighths, but we hit some bugs on that one,

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trying to get both of them in if we can. But if we can't, we will get the bills. In other words, give them as much chance to come into the banks and get money as they can on those short maturities.

H.M.JR: I understand.

MR. BELL: There is no difference in it between bills and the certificates in that case.

MR. ECCLES: Except this, there is this point that Allan Sproul raises, with justification, and that is that there may be some chiselling, that they will buy a year's certificate with the idea that when it gets - when they have held it for nine months they would immediately sell it on an option-to-repurchase basis without any idea of repurchasing it, and get - it figures about one point twenty on the nine months that they hold it. It is sort of an invitation, in other words, to put that certificate to use.

MR. SZYMCAK: Anything we can do, however, to do it, to make it possible - perhaps general discounts would be the thing, working in this direction, but that has to go before the board of each Federal Reserve Bank. They may take a preferential rate on a selective kind of paper, for example, a year's Governments, but they may not want to - the directors of the banks - to go down to three-eighths on general discounts. That is something we have to work out with each bank.

MR. BELL: I think it is a good move.

H.M.JR: I am satisfied.

MR. ECCLES: Then you are figuring on a seven-eighths?

H.M.JR: Yes, for Thursday morning.

August 4, 1942.
4:10 p.m.

HMJr: Hello.

Operator: Mr. Forster.

HMJr: Hello.

Operator: Go ahead.

Rudolph Forster: Hello.

HMJr: Hello, Rudolph?

F: Yes, Mr. Secretary.

HMJr: I'm coming to the old life-saver again.

F: Good.

HMJr: Listen, Rudolph....

F: Uh huh.

HMJr:what the hell's the matter with the War Savings - with the White House on War Savings Bonds? You're dragging your feet over there on all the rest of the country.

F: Sure, you're talking through your hat.

HMJr: Well, I've got Admiral Conard sitting here, and he says that when we get through, the White House is going to be at the bottom of the list.

F: Oh, to hell with Admiral whoever-he-is.

HMJr: (Laughs) Well, what are the facts?

F: Well, the facts are - I don't know anything about the facts except this, that the White House is doing darn well, and that....

HMJr: Well, they're at the bottom of the list of all the departments, and they should be at the head.

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F: No doubt they are.

HMJr: Well, now listen....

F: Now I know three people over here....

HMJr: Yes.

F:who are buying darn sight more than ten percent, but they haven't entered in any club and be damned if they're going to.

HMJr: Any club?

F: Yeah, in the clubs - ten percent clubs or something like that. But you'll find the White House will stand on its feet....

HMJr: Well, it - it - it....

F:and proudly wave its head.

HMJr: Well, it's dragging its feet though, Rudolph. That's why I'm calling you.

F: No, it isn't, it isn't.

HMJr: Well, now have you ever met - you know, the President appointed Admiral Conard. He's - he's directly responsible to the President to head up this interdepartmental committee.

F: Uh huh.

HMJr: Now would you have a little talk with him? He's tried everybody else in the White House.

F: No, sir.

HMJr: What?

F: No, sir.

HMJr: You don't want to talk to him.

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F: No, he can talk with the President if he wants to, and he can tell the President he ought to come across with his ten percent or whatever.

HMJr: Well, now seriously, Rudolph, what - what can you do to help me?

F: I don't know, but....

HMJr: Seriously.

F:I know, take my own case....

HMJr: Yes.

F:I put more than ten percent of what I make into your bonds....

HMJr: Yes.

F:but those bonds are going to do me no good ten years from now.

HMJr: Why not?

F: It won't matter - won't make much difference to me, so I buy them in the name of my two grandchildren.

HMJr: Well, that's good.

F: One - one a month for one, and one a month for another.

HMJr: Yeah.

F: I've only got two. But I don't want to put you people to the trouble of doing that and withholding so much from my salary check and all. I think that's all damn foolishness.

HMJr: Well, now listen....

F: In my case, and....

HMJr: Seriously, I - I'm in dead earnest. We're having - we're really having - now I spoke to the President about it - oh, a month ago, see?

F: Uh huh.

HMJr: Hello?

F: Yeah.

HMJr: And he said that I should talk with you and Grace Tully....

F: Uh huh.

HMJr:and between you, that you'd line up the people.

F: No, I'm - I'm - I've done mine....

HMJr: No, what I....

F:and I see - I see Sanderson coming around here with bonds every pay-day and....

HMJr: Yeah.

F:getting checks. I don't know who they're for.

HMJr: Yeah, well, now how are we going to do this? Do I have to go back to the President again?

F: Uh huh.

HMJr: Do I?

F: Yeah, absolutely.

HMJr: Oh, go on, you don't want me to bother him on a....

F: Well, I....

HMJr:thing like this.

F: (Laughs)

HMJr: Seriously.

F: No, I'm not - I'm not going to get in on it.

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HMJr: You're not going to get in on it?

F: No.

HMJr: You're going to turn me down for the first time?

F: Yeah, absolutely and....

HMJr: Oh, don't do that, Rudolph.

F: (Laughs)

HMJr: Now you've never turned me down.

F: Now - now you - you see my position.

HMJr: Don't you....

F: I don't know how the other - the other people may be fixed the same as I am. I know - I know of three - three individual people over here who put in more than ten percent....

HMJr: Yes. Well, now listen....

F:but who....

HMJr:I - I - you'll be here - you'll be here after I leave, and I want to be able to say that Rudolph Forster never turned me down on a reasonable request.

F: Uh huh. Well, and that's all right. I'm doing what you request.

HMJr: Yeah, but I'm not talking about you. I'm not calling up about your damn old pay-check. I'm talking about the White House employees.

F: Well, they're coming across.

HMJr: What?

F: They are coming across.

HMJr: No, that's the trouble. I'll - did you think I was calling up about your check?

F: Yeah.

HMJr: Honest, is that what you thought?

F: (Laughs)

HMJr: I'm - look, I haven't got time to call you up. I'm calling you up for the employees. After talking with the President, I'm calling up about the employees of the White House....

F: Yes.

HMJr:all of them, not Rudolph Forster.

F: Uh huh.

HMJr: I'm not interested in Rudolph Forster. I'm interested in the White House setting the example for all the other departments.

F: Uh huh.

HMJr: I'm not interested in any individual.

F: Yeah. Well, I - I - I don't know why you say that we're dragging our feet.

HMJr: Well, that's what....

F: Never have dragged them before in any drive that I know of. They've always gone well over.

HMJr: Well, I tell you, we - we won't - we'll....

F: Always have.

HMJr:quit just guessing about it, and I'll send you over personally some figures to show you where the White House stands with the....

F: All right.

HMJr:rest of the departments. How about that?

F: That's it.

- 7 -

HMJr: And now get this straight, I wasn't calling up about your check. I'm calling you up about the - as the hub of the wheel over there on all the other employees.

F: Uh huh. Well, you send the figures.

HMJr: I'll send you the figures.

F: All right.

HMJr: Thank you.

F: Thanks.



DEPARTMENT OF STATE
WASHINGTON

August 4, 1942.

Dear Henry:

In accordance with our conversations over the telephone this afternoon, I am enclosing a copy of the draft note from the British Ambassador on the subject of lend-lease in reverse as it has been approved by the British Government.

You recall that a draft which I sent to Dr. White on May 19 was redrafted in accordance with decisions reached at a meeting in your office a few days later. The draft as determined at that meeting was approved by the President on May 30. Words which have been added since then are underscored on the attached copy. The changes which have been made during the negotiation do not affect the substance of the matter from our point of view.

Sir Frederick Phillips informs me that Parliament will adjourn on Thursday, August 6 and that Mr. Churchill wishes to effect the exchange of notes and to make an announcement in Parliament regarding them on that day. Since the Secretary would like to discuss the note with the President tomorrow morning, would you let me hear from you as soon as you conveniently can.

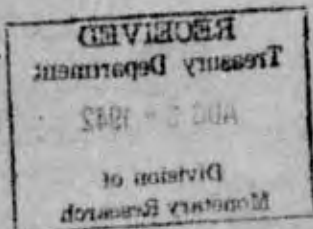
Most sincerely,

Dean Acheson

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.



DRAFT

FROM THE BRITISH AMBASSADOR TO THE SECRETARY OF STATE

In the United Nations Declaration of January 1st, 1942, the contracting governments pledged themselves to employ their full resources, military or economic, against those nations with which they are at war and in the Agreement of February 22nd, 1942, each contracting government undertook to provide the other with such articles, services, facilities or information useful in the prosecution of their common war undertaking as each may be in a position to supply. It is further the understanding of the Government of the United Kingdom of Great Britain and Northern Ireland that the general principle to be followed in providing mutual aid as set forth in the said Agreement of February 22nd, 1942, is that the war production and the war resources of both Nations should be used by the armed forces of each and of the other United Nations in ways which most effectively utilize the available materials, manpower, production facilities and shipping space.

With

-2-

With a view, therefore, to supplementing Article 2 and Article 6 of the Agreement of February 23rd, 1942, between our two Governments for the provision of reciprocal aid, I have the honor to set forth below the understanding of the Government of the United Kingdom of Great Britain and Northern Ireland of the principles and procedures applicable to the provision of aid by the Government of the United Kingdom of Great Britain and Northern Ireland to the armed forces of the United States and the manner in which such aid will be correlated with the maintenance of these forces by the United States Government.

1. While each Government retains the right of final decision, in the light of its own nationalities and responsibilities, decisions as to the most effective use of resources shall, so far as possible, be made in common, pursuant to common plans for winning the war.

2. As to financing the provision of such aid, within the fields mentioned below, it is my understanding that the general principle to be applied, in the main, is

which

-2-

which the ~~same~~ ~~the~~ effort is ~~made~~ ~~affording~~, is that as large a portion as possible of the articles and services which each Government may authorize to be provided to the other shall be in the form of reciprocal aid so that the need of each Government for the currency of the other may be reduced to a minimum. It is accordingly my understanding that the United States Government will provide, in accordance with the provisions of, and to the extent authorized under, the Act of March 11, 1941, the share of its war production made available to the United Kingdom. The Government of the United Kingdom will provide on the same terms and as reciprocal aid as much of its war production made available to the United States as it authorizes in accordance with the Agreement of February 23, 1942.

3. The Government of the United Kingdom will provide the United States or its armed forces with the following types of assistance, as such reciprocal aid, when it is found that they can most effectively be procured in the United Kingdom or in the British Colonial Empire:

(a) Military

-4-

(a) Military equipment, munitions and military and naval stores.

(b) Other supplies, materials, facilities and services for the United States forces, except for the pay and allowances of such forces, ^{local} ~~ADMINISTRATIVE EXPENSES~~, and such local purchases as its official establishments may make other than through the official establishments of the Government of the United Kingdom as specified in paragraph 4.

(c) Supplies, materials and services needed in the construction of military projects, tasks and similar capital works required for the common war effort in the United Kingdom or in the British Colonial Empire, except for the wages and salaries of United States citizens.

(d) Supplies, materials and services needed in the construction of such military projects, tasks and capital works in territory other than the United Kingdom or the British Colonial Empire or territory of the United States to the extent that

the

*Mr. [unclear]
[unclear]
[unclear]*

*w-pay
Local labor
in supply
line*

-4-

the United Kingdom or the British Colonial Empire is a more practicable source of supply than the United States or another of the United Nations.

4. The practical application of the principles formulated in this note, including the procedure by which requests for aid by either Government are made and acted upon, shall be worked out on occasion may require by agreement between the two Governments, acting when possible through their appropriate military or civilian administrative authorities. Requests by the United States Government for such aid will be presented by duly authorized authorities of the United States to official agencies of the United Kingdom which will be designated or established in London and in the areas where United States forces are located for the purpose of facilitating the provision of reciprocal aid.

5. It is my understanding that all such aid, as well as other aid, including information, received under Article 2 of the Agreement of February 22, 1942, accepted by the President of the United States or his

-2-

authorized representatives from the Government of the United Kingdom will be received as a benefit to the United States under the Act of March 11, 1941. In so far as circumstances will permit, appropriate record of aid received under this arrangement, except for miscellaneous facilities and services, will be kept by each Government.

If the Government of the United States concurs in the foregoing, I would suggest that the present note and your reply to that effect be regarded as placing on record the understanding of our two Governments in this matter.

I have the honour to be, etcetera, etcetera.

August 4, 1942.
4:50 p. m.

LEND-LEASE IN REVERSE

Present :

Mr. Bell
Mr. White
Mr. Paul
Mr. Cairns

H.M.JR: (Reading) "In accordance with our conversations over the telephone this afternoon, I am enclosing a copy of the draft note from the British Ambassador on the subject of lend-lease in reverse as it has been approved by the British Government.

"You will recall that a draft which I sent to Dr. White on May 19 was redrafted in accordance with decisions reached at a meeting in your office a few days later. The draft as determined at that meeting was approved by the President on May 30. Words which have been added since then are underscored on the attached copy. The changes which have been made during the negotiation do not affect the substance of the matter from our point of view.

"Sir Frederick Phillips informs me that Parliament will adjourn on Thursday, August 6 and that Mr. Churchill wishes to effect the exchange of notes and to make an announcement in Parliament regarding them on that day. Since the Secretary would like to discuss the note with the President tomorrow morning, would you let me hear from you as soon as you conveniently can."

Now, who is the youngest man here - Cairns, when he comes?

MR. WHITE: You have an earlier draft which indicates the differences on the front sheet.

- 2 -

H.M.JR: Let's work from this.

MR. WHITE: That only indicates the changes between this draft and the last draft.

H.M.JR: Don't get too complicated. If you want to get it - I haven't got time.

MR. WHITE: All right, use that draft.

(Mr. Cairns entered the conference.)

H.M.JR: How old are you?

MR. CAIRNS: I will be thirty-eight in September.

H.M.JR: I said the youngest man because he has the best eyes.

MR. CAIRNS: (Reading) "From the British Ambassador to the Secretary of State.

"In the United Nations declaration of January 1st, 1942, the contracting governments pledged themselves to employ their full resources, military or economic, against those nations with which they are at war and in the Agreement of February 23rd, 1942, each contracting government undertook to provide the other with such articles, services, facilities or information useful in the prosecution of their common war undertaking as each may be in a position to supply. It is further the understanding of the Government of the United Kingdom of Great Britain and Northern Ireland that the general principle to be followed in providing mutual aid as set forth in the said Agreement of February 23rd, 1942, is that the war production and the war resources of both Nations should be used by the armed forces of each and of the other United Nations in ways which most effectively utilize the available materials, manpower, production facilities and shipping space.

"With a view, therefore, to supplementing Article 2 and Article 6 of the Agreement of February 23rd, 1942,

- 3 -

between our two Governments for the provision of reciprocal aid, I have the honor to set forth below the understanding of the Government of the United Kingdom of Great Britain and Northern Ireland of the principles and procedures applicable to the provision of aid by the Government of the United Kingdom of Great Britain and Northern Ireland to the armed forces of the United States and the manner in which such aid will be correlated with the maintenance of those forces by the United States Government.

"1. While each Government retains the right of final decision, in the light of its own potentialities and responsibilities, decisions as to the most effective use of resources shall, so far as possible, be made in common, pursuant to common plans for winning the war.

"2. As to financing the provision of such aid, within the fields mentioned below, it is my understanding that the general principle to be applied, to the point at which the common war effort is most effective, is that as large a portion as possible of the articles and services which each Government may authorize to be provided to the other shall be in the form of reciprocal aid so that the need of each Government for the currency of the other may be reduced to a minimum. It is accordingly my understanding that the United States Government will provide, in accordance with the provisions of, and to the extent authorized under, the Act of March 11, 1941, the share of its war production made available to the United Kingdom. The Government of the United Kingdom will provide on the same terms and as reciprocal aid so much of its war production made available to the United States as it authorizes in accordance with the Agreement of February 23, 1942.

"3. The Government of the United Kingdom will provide the United States or its armed forces with the following types of assistance, as such reciprocal aid, when it is found that they can most effectively be procured in the United Kingdom or in the British Colonial Empire: (a) Military equipment, munitions and military and naval stores.

- 4 -

"(b) Other supplies, materials, facilities and services for the United States forces, except for the pay and allowances of such forces, administrative expenses, and such local purchases as its official establishments may make other than through the official establishments of the Government of the United Kingdom as specified in paragraph 4.

"(c) Supplies, materials, and services needed in the construction of military projects, tasks and similar capital works required for the common war effort in the United Kingdom or in the British Colonial Empire, except for the wages and salaries of United States citizens.

"(d) Supplies, materials, and services needed in the construction of such military projects, tasks and capital works in territory other than the United Kingdom or the British Colonial Empire or territory of the United States to the extent that the United Kingdom or the British Colonial Empire is a more practicable source of supply than the United States or another of the United Nations.

"4. The practical application of the principles formulated in this note, including the procedure by which requests for aid by either Government are made and acted upon, shall be worked out as occasion may require by agreement between the two Governments, acting when possible through their appropriate military or civilian administrative authorities. Requests by the United States Government for such aid will be presented by duly authorized authorities of the United States to official agencies of the United Kingdom which will be designated or established in London and in the areas where United States forces are located for the purpose of facilitating the provision of reciprocal aid.

"5. It is my understanding that all such aid, as well as other aid, including information, received under Article 6 of the Agreement of February 23, 1942, accepted by the President of the United States or his authorized representatives from the Government of the United Kingdom will be received as a benefit to the United States under the Act of March 11, 1941. In so far as circumstances will permit, appropriate record of aid received under this arrangement, except for

- 5 -

miscellaneous facilities and services, will be kept by each Government.

"If the Government of the United States concurs in the foregoing, I would suggest that the present note and your reply to that effect be regarded as placing on record the understanding of our two Governments in this matter.

"I have the honour to be etcetera, etcetera."

MR. WHITE: They are going to charge us for the information end of it on the ground that it costs them something to produce it.

H.M.JR: What do you mean? Well, the main point that is out - the objection that I raised was that if they are going to go through with the outstanding contracts and pay, that was the big thing. Dean Acheson agreed with that, and I refused to go along on that. Otherwise it is like it was. You remember?

MR. BELL: That isn't in here.

H.M.JR: No, he told me that is out. No, it is out. They agreed on that, and I said I wouldn't go along. What I want to ask, Dan, is - because I don't know - we keep referring to the February 23--

MR. CAIRNS: February 23, 1942 agreement.

H.M.JR: Have we got a copy of that?

MR. WHITE: A copy of the draft of February--

H.M.JR: No, an agreement.

MR. CAIRNS: It is vital to the interpretation of that document, I should say.

MR. WHITE: Isn't that the Lend-Lease over-all general agreement that was published? I think so.

- 6 -

MR. BELL: Lend-Lease didn't go through until March 11.

MR. CAIRNS: Forty-one. That is a year later.

MR. WHITE: I think that is what they refer to.

H.M.JR: What they do - they called me up an hour ago, they sent it over, and say they want an answer tonight.

MR. BELL: A couple of hours to give an answer on a document like that? There is one place in there that says that the United States shall--

H.M.JR: Now look, if you fellows want to study this I can tell Dean I can't come - I have just seen the thing, and I can't answer until tomorrow morning.

MR. WHITE: I think we ought to go over it. We may come out with no suggested changes, but some of the phraseology here - I think we probably will want to discuss it.

H.M.JR: He ought to come over himself and explain the thing.

MR. WHITE: I don't think that is necessary, but I think you can definitely promise it immediately - tomorrow morning or late tonight.

H.M.JR: I won't do it. I mean, after all, they have had this thing for almost - what is today? He hasn't seen the President.

MR. WHITE: The earlier drafts which he sent me indicated the changes, but we made no attempt to evaluate them. So he is now asking for your approval. I think you ought to have at least one evening.

MR. PAUL: The changes don't seem very material.

MR. BELL: Had you seen that draft before?

- 7 -

MR. WHITE: No, they had an earlier draft, much longer, which we digested and sent copies around. It showed the difference between that - they dropped out three hundred million in the draft before this, which was a couple of weeks ago.

(The Secretary held a telephone conversation with Mr. Acheson, as follows:)

August 4, 1942.
5:00 p.m.

HMJr: Hello.

Operator: Mr. Acheson.

HMJr: Dean....

Operator: Go ahead.

HMJr: Dean....

Dean
Acheson: Yes, sir.

HMJr:I have your letter now on this thing, and I think it's - to put it mildly, it would be only reasonable to give us until tomorrow morning to study this thing.

A: All right.

HMJr: What time does Mr. Hull see the President?

A: I don't know. I just called in trying to find out.

HMJr: Well, he certainly won't see him much before ten.

A: Yeah.

HMJr: And I don't know how long you've had this, but we - we consider this an important document, and - what time will you be in your office in the morning?

A: I'll be in about eight-thirty.

HMJr: Well, I'll give you a call - oh, not later than nine-fifteen.

A: Hmm.

HMJr: Hello?

A: Yes, sir, I shall be here.

- 2 -

HMJr: I'll give you a call not later than nine. Our men have just started studying this thing.

A: Yes. Well, this - this is the reordering of the document which - it's the one we went over in your office....

HMJr: Yes.

A:you remember, and I think the only changes in it are changes in the order of presentation....

HMJr: Well, I....

A:striking out the part that you objected to.

HMJr: Well, I - I - I....

A: That's all right.

HMJr:I want - I want to go along with you, but on the other hand, if I didn't give the people in my office a chance to look at it, I think I'd be negligent.

A: That's quite right. I'm - I'm only reassuring, not complaining. (Laughs)

HMJr: Right. Well, certainly between now and nine-fifteen tomorrow, you'll hear from me.

A: All right, first-rate.

HMJr: And thank you very much.

A: First-rate. Thank you, Henry.

- 8 -

H.M.JR: I will see you all at nine o'clock tomorrow morning, here. That is the best way.

MR. BELL: Have you got the February 23 agreement?

MR. WHITE: I will get it. I think I have it, and I will get the earlier draft, and get busy on this right away.

DEPARTMENT OF STATE
Washington

August 4, 1942.

Dear Henry:

In accordance with our conversations over the telephone this afternoon, I am enclosing a copy of the draft note from the British Ambassador on the subject of lend-lease in reverse as it has been approved by the British Government.

You recall that a draft which I sent to Dr. White on May 19 was redrafted in accordance with decisions reached at a meeting in your office a few days later. The draft as determined at that meeting was approved by the President on May 30. Words which have been added since then are underscored on the attached copy. The changes which have been made during the negotiation do not affect the substance of the matter from our point of view.

Sir Frederick Phillips informs me that Parliament will adjourn on Thursday, August 6 and that Mr. Churchill wishes to effect the exchange of notes and to make an announcement in Parliament regarding them on that day. Since the Secretary would like to discuss the note with the President tomorrow morning, would you let me hear from you as soon as you conveniently can.

Most sincerely,

(Signed) Dean Acheson

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

8/6/42

194

to talk to EM Jr after he returns.

9/15/42

reported he had talked to Secy about
and Secy said to "Let it set."

August 4, 1942.

MEMORANDUM FOR HENRY STANBURN, JR., SECRETARY OF THE TREASURY

SUBJECT: Airplanes Diverted from British Contracts.

1. Sir Frederick Phillips has furnished me with a copy of his memorandum to you dated July 30, 1942. In essence his arguments are as follows:

a. That under original agreements as to the utilization of Lend-Lease funds, a certain number of airplanes were allocated to the British, that the number of such airplanes allocated to the United Kingdom has recently been decreased, and that therefore it would be equitable to pay for airplanes from British contracts to offset this decrease.

Comments: The acceptance by the War Department of an airplane program submitted by the United Kingdom prior to December 7, 1941 was not an assurance that the United Kingdom would receive the airplanes called for in the program. Under the Lend-Lease Act the final decision of the disposition of the completed airplanes rested with the President or his designated representative. Such a decision may allocate the airplanes to a department of the United States Government, to other United States or to the requisitioner, the United Kingdom.

b. That the general principle indicated in the President's Lend-Lease report is that each country should devote roughly the same fraction of its national production to the war, that the United Kingdom is already contributing more than its full proportionate share insofar as airplane production is concerned and that therefore the United Kingdom should be reimbursed for airplanes diverted to the Army Air Force from United Kingdom's contracts in the United States.

Comments: The statement insofar as airplane production is concerned may be correct at the present time, but the principle stated by the President should be applied for the country as a whole for all types of production and over a more extended period of time.

It may be necessary that the problem will have to be solved in the light of expediency insofar as it pertains to dollar balances. In this connection, the following is presented:

Memo for the Sec'y. of State.

- 2 -

Subject

2. At the time of the agreement to pay the United Kingdom for the airplanes diverted from them on or about December 7th, it was generally understood that funds were needed to strengthen their low dollar balances in the United States. It is my understanding that this bolstering of their dollar balance was partially for the purpose of payment of obligations incurred in the United States. It was also my impression from the recent conference in your office that the present total purchases (material not available under Lend-Lease) of the United Kingdom in the United States are less than the total obtained from the disposition of materials in the United States.

3. My I estimate that in the agreement under which the United States is taking over the airplanes in question, the following is pertinent:

U.K. will receive 900 airplanes from A.A.F. Contracts
 U.K. will receive 1,000 airplanes from Lend-Lease Contracts.

FROM L-577

U.S. will receive 773 airplanes from United Kingdom Contracts.

It is merely an exchange of use of equipment, based on strategic employment of the aircraft and minimum amount of shipping.

D. E. HEINE,
 Brig. General, U.S.A.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

August 4, 1942

OFFICE OF THE DIRECTOR

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended August 1, 1942.

Within the past few days there have been encouraging developments in the shipping situation in Russia which it is hoped will materialize promptly. In anticipation of the possibility of increased shipping for Russia in the near future, we have taken physical inventories of stocks which we have been storing for them so that goods may be moved promptly.


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 AUGUST 1, 1942
 (In Millions of Dollars)

	Total	U. K.	Russia	China	Administrative Expenses	Undistributed & Miscellaneous
Allocations	\$1775.7 (1771.4)	\$1024.1 (1003.4)	\$449.0 (443.7)	\$57.1 (56.0)	\$3.7 (3.7)	\$241.8 (264.6)
Purchase Authoriza- tions (Requisitions)	\$1354.9 (1329.8)	\$ 896.0 (873.6)	\$403.5 (401.9)	\$48.0 (46.9)	- -	\$ 7.4 (7.4)
Requisitions Cleared for Purchase	\$1319.7 (1285.3)	\$ 876.1 (847.8)	\$389.3 (384.3)	\$47.6 (46.5)	- -	\$ 6.7 (6.7)
Obligations (Pur- chases)	\$1260.4 (1225.9)	\$ 862.9 (833.3)	\$351.3 (346.6)	\$40.2 (40.2)	\$1.7 (1.7)	\$ 4.3 (4.1)
*Deliveries to For- eign Governments at U. S. Ports	\$ 497.7 (484.9)	\$ 398.0 (387.5)	\$ 77.9 (75.6)	\$20.0 (20.0)	- -	\$ 1.8 (1.8)

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

Note: Figures in parentheses are those shown on report of July 25, 1942.

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE: REPUBLIC 7810



BOX 880
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

August 4, 1942.

Dear Dr. White:

You may like to know that the Treasury in London has received a letter from the eight United States Film Companies in the following terms:

"One of the companies is making application to de-freeze all of its funds on various grounds which it believes entitles it to relief. Should the British Treasury see fit to grant R. K. O's application, it should be understood that this will not militate in any way against any companies to which the same arguments apply for de-freezing that R. K. O. has presented. This means that the other companies individually or as a group waive no rights at all, including the right to claim release of funds for themselves, for the same reasons as are recognized in R. K. O's case, in addition to all other reasons for the release of such funds in justice to their own obligations to their separate stockholders."

The British Treasury has replied:

"While this is not the understanding for which we had asked, I should not regard it as unreasonable for the remaining companies to support any claims they may wish to put forward by considerations similar to those advanced by R. K. O. But equally I should not be prepared to accept as an argument in support of claims from other companies merely the fact that R. K. O. might have received a concession without satisfactory evidence that the other companies have valid arguments to urge showing that their circumstances are similar to those which we have recognized in the case of R. K. O. If therefore, we are to proceed with R.K.O's claim, it must be on this understanding and I should be glad to receive your confirmation."

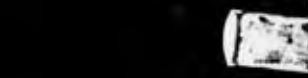
Dr. H. D. White,
Director of Monetary Research,
U. S. Treasury,
Washington, D.C.

2.

Owing to cyphering vagaries I cannot be certain that the wording of the letters is precisely as above, but any differences must be quite small.

Yours sincerely,

T. Keenley



THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE: REPUBLIC 7880


 BOX 880
 BENJAMIN FRANKLIN STATION
 WASHINGTON, D. C.

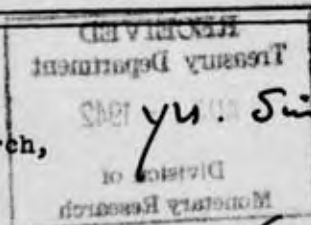
August 4, 1942.

Dear Dr. White:

The gold and dollar figures for
the month of July are as follows:

	July 3	July 10	July 17	July 24	July 31
Total Gold (incl. Belgian)	741	741	744	748	747
Official Dollar Balance	136	101	137	156	144
Total Gold and Dollars	877	842	881	904	891
Less: Belgian Gold	105	105	105	105	105
Scattered Gold	152	165	166	167	167
Gold Reserve against immed- iate liabilities	10	10	10	10	10
Available Gold And Dollars	610	562	600	622	609

Dr. H.D. White,
Director of Monetary Research,
U. S. Treasury,
Washington, D.C.



AUG 4 1942

My dear Mr. Secretary:

The Treasury has been discussing with the Federal Reserve Board and the Federal Reserve Bank of New York the problem of the removal to inland points from the New York area of about \$2-1/2 billion of gold now held in New York for account of various foreign countries and foreign central banks. The Post Office Department has also raised with us the question of the protection of Post Office assets along the seaboard. It seemed to the Treasury that these problems are simply facets of a far greater problem of the protection of property assets (including bullion, currency and securities) along the coasts against the possibility of invasion.

I am, therefore, bringing the matter to your attention and to the attention of the Secretary of War. If you deem the problem of sufficient importance, you may wish to designate a representative of your Department to meet with representatives of other interested agencies with a view to studying the questions involved in safeguarding such assets from the possibility of invasion

- 2 -

and perhaps also to work out plans of action that can be used if the situation warrants.

I should appreciate your letting me know if the Treasury Department can be of any help to you in the consideration of such problems.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of the Navy.

BB/ma - 7/27/42

Del. by messenger (Bundy) 4:48 8/4/42
Photostat file - in Diary
Orig. File - ret'd to Bernstein direct

C
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Y

FEDERAL RESERVE BANK
OF NEW YORK

June 17, 1942.

Board of Governors of the
Federal Reserve System,
Washington, D. C.

S i r s:

We now hold under earmark for foreign account approximately \$2,501,716,000 of gold (calculated at \$35 per troy ounce of the stated fine gold content), all of which is held in the vaults of this bank in New York except approximately \$3,015,000 held in the vaults of the Federal Reserve Bank of San Francisco by that bank as agent for the Federal Reserve Bank of New York. Of this total, approximately \$2,154,934,000 is held in the names of foreign governments or central banks of countries designated in Executive Order No. 8389, as amended (commonly known as the foreign funds "freezing order"), and transactions involving such gold are, therefore, subject to the licensing requirements of that Executive Order. Of the balance of approximately \$346,782,000, which is not subject to the freezing order, approximately \$45,986,000 consists of gold held by this bank as fiscal agent of the United States for account of Banco do Brasil as fiscal agent of the Brazilian Government. All of the \$2,501,716,000 of gold is, of course, held by us under earmark pursuant to license issued to us by the Secretary of the Treasury pursuant to the regulations issued under the Gold Reserve Act of 1934.

We enclose a schedule showing the amounts of gold aggregating \$2,501,736,263.66 which we held for foreign account in the various earmarked gold accounts at the close of business on June 13, 1942.

In addition, we now hold approximately \$19,379,000 of gold in the name of the Secretary of the Treasury which has been pledged as collateral for the obligation of the Central Bank of China to repurchase Chinese yuan sold to the United States; and approximately \$137,000 of other gold as fiscal agent of the United States.

For some time past, we have given consideration to the possibility at sometime of moving to interior points the gold which we hold under earmark for foreign account. As long ago as last June we ascertained that the Federal Reserve Banks of Chicago, Cleveland, Minneapolis, St. Louis, and Kansas City have vault

space which they could make available for the storage of such gold in amounts up to \$5,000,000,000 (gold bars), or practically twice the amount of gold now held by this bank.

It would appear that the removal of this foreign-owned gold to the interior could be ordered under the authority of Section 5(b) of the Trading with the Enemy Act, as amended by Section 301 of the First War Powers Act, 1941, approved December 18, 1941.

As a measure of precaution and preparedness, we feel that it would be appropriate to suggest to the Treasury Department the possible desirability of discussing certain aspects of the procedure which would have to be followed in case it should be decided, on grounds of national policy, to order the movement to the interior of all or part of the foreign-owned gold held by us. We would want to make it clear that we do not recommend action by the Government directing such movement of gold, and that, in the absence of a Government order, we do not contemplate moving such gold unless, and except to the extent that, we might receive appropriate instructions to do so in behalf of any of the governments or institutions in whose names the gold is held. We do, however, think that a discussion of the question of possible removal of the gold might be helpful.

One of the points we would wish to bring up for discussion is the fact that certain of the foreign-owned gold has been attached, by the service upon us of warrants of attachment in connection with law suits against Banque de France and Banque Nationale de Roumanie. The amounts of the claims against these banks, referred to in the warrants of attachment, are over \$228,000,000 and \$54,000,000 against the Banque de France and over \$4,000,000 against the Banque Nationale de Roumanie.

Another point would be the question of expenses of transportation; that is, whether the Government would arrange for payment of the expenses incident to such moving or for reimbursement of this bank for such expenses incurred by it in the first instance, or whether we would charge the expenses to the respective foreign owners. Assuming that transportation arrangements were made similar to those in moving \$9,000,000,000 of gold of the United States from the New York Assay Office to Fort Knox, Tennessee, we estimate that the total cost of moving gold to Chicago, Cleveland, Minneapolis, St. Louis, and Kansas City, would be about \$250 per million dollars. Additional expense would, of course, be involved in bringing gold back to New York for shipment abroad, or for sale to the United States at the New York Assay Office, if that were necessary.

Federal Reserve Bank of New York 3.

We are writing this letter to the Board to suggest that it consider the subject and that, if it agrees as to the desirability of doing so, it arrange a meeting of representatives of the Board, the Treasury Department, and this bank for an informal discussion.

Yours faithfully,

(signed) Allan Sproul

Allan Sproul,
President.

Enclosure

COPY

SCHEDULE OF MANAGED GOLD HELD FOR
 FOREIGN ACCOUNTS AS AT THE CLOSE OF
 BUSINESS JUNE 13, 1942.

OPPE

gium, Banque Nationale de Belgique	\$	166,770,123.56
mark, Danmarks Nationalbank		13,365,771.60
land, Finlands Bank		3,240,561.17
nce, Banque de France		501,773,245.39
nce, Banque de Grece		6,706,065.20
via, The Government of Latvia		3,429,973.80
uania, The Government of Lithuania		2,805,980.08
erlands, De Nederlandsche Bank		358,994,190.39
erlands, Royal Netherlands Government		11,231,340.31
eam, Surinaamsche Bank		1,097,206.67
ey, Royal Norwegian Government		73,701,843.68 (c)
nd, Bank Polski		2,246,202.39
ugel, Banco de Portugal		154,032,234.82
ula, Banque Nationale de Roumanie		13,121,126.90
en, Sveriges Riksbank		169,380,827.23
erlend, Bank for International Settlements		8,761,593.40
erlend, Banque Nationale Suisse		510,024,715.01
can City, Amministrazione Speciale Della Santa Sede Stato Della Citta' del Vaticano		8,361,784.10
slavia, The Government of Yugoslavia		46,886,537.06
an City, Amministrazione Pontificia Per Le Opere Di Religione, Citta' Del Vaticano		3,490,838.28

ICAS

co, Banco de Mexico		13,351,053.72
ica, Banco Nacional de Costa Rica, Issue Dept.		746,064.00
lvador, Banco Central de Reserva de El Salvador		2,549,512.16
cala, Banco Central de Guatemala		12,375,817.76
, Banque Nationale De La Republique d'Haïti		749,995.08
agua, Banco Nacional de Nicaragua, Departamentó de Emision, Special Account		1,501,727.48
la, Banco Central de Bolivia		190,531,641.44
l, Banco do Brasil as Fiscal Agent of the Brazilian Government		8,992,339.77
, Banco Central de Chile		45,986,051.23 (b)
, Curacao'sche Bank		617,161.72
Banco Central de Reserva del Peru		5,839,252.50
y, Banco de la Republica Oriental del Uruguay		1,948,330.73
ela, Banco Central de Venezuela S.A.		29,521,744.01 (d)
l, Banco Central del Ecuador		14,999,946.36
		1,749,996.78

anistan, De Afghanistan Bank	4,437,261.53
s, The Central Bank of Cairo Currency Reserve Board	6,036,784.51
, De Javasche Bank	175,254,194.61
land, Royal Thai Treasury	8,998,985.69
ry, Banque Centrale de la Republique de Turquie	27,719,587.64

\$2,501,736,263.66

Includes \$3,015,284.37 held by F.R.B. of San Fran. as our agent and
for our account.

Held by us as fiscal agent of the United States.

Includes \$555,156.07 held as collateral to foreign loans on gold.

FEDERAL RESERVE BANK OF NEW YORK

copy to Mr. 209 8/51

THE ASSISTANT SOLICITOR GENERAL
WASHINGTON

August 4, 1942

Dear Secretary Morgenthau:

It's good news. Randolph Paul is in the Oliphant tradition. Brains, imagination, integrity and the willingness to spend himself on a cause are all there. And that's saying something.

Sincerely,

Oscar Cox

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

August 4, 1942.

Mr. E. E. Brown, President,
First National Bank,
Chicago, Illinois.

Dear Mr. Brown:

I have been advised that although you were in Mexico at the time of my call last week for you to come to Washington to confer with me along with the other members of the group which had heretofore conferred, you desired to be present and would fly from Mexico City if arrangements could be made. Arrangements were made, but I understand that you did not receive notice of them in time to make connections.

I just want to let you know that I appreciate very much your attitude in this connection and the effort you were willing to make to come to Washington for this conference. I am sorry that you could not be here, but I shall look forward to seeing you at the next meeting.

Sincerely yours,

Wm. H. Morgenthau, Jr.

Secretary of the Treasury.

DWB:ew 8-3-42

*copy to Den Bell
File in Diary*

swB

WE37 TWS PD 3

CHICAGO ILL AUG 1 1942 1235P

1942 AUG 1 PM 2 07

D W BELL

UNDER SECY OF THE TREAS

MR BROWN UNABLE TO ATTEND MEETING AS HE RECEIVED PRIORITY
TOO LATE TO MAKE THE PLANE. WE THOUGHT HE HAD NOTIFIED YOU
DIRECT

B G MCCLLOUD.

E. Brown C. J. P. L. C.

AUG 4 1942

My dear Mr. Director:

The receipt is acknowledged of your letter of August 3, suggesting an advisory conference of representatives of all Government agencies which are interested in securing volunteers to assist them in carrying on their war programs. The Treasury Department will be glad to send representatives to such a conference. These will be Mr. P. H. Odegard, Assistant to the Secretary, and Mr. Eugene W. Sloan, Executive Director, War Savings Staff, who have been advised in accordance with your request.

Sincerely,

(Signed) H. Morgenthau, Jr.

HNG/mff

Hon. James M. Landis,
Director, Office of Civilian Defense,
Washington, D. C.

Photostat file in Diary
Orig. File to Thompson

OFFICE OF CIVILIAN DEFENSE
WASHINGTON, D. C.

AUG 3 1942

Honorable Henry Terrell, Jr.
Secretary of the Treasury
United States Treasury Department
Washington, D. C.

Dear Mr. Secretary:

In many localities the agencies of Federal departments and agencies to secure volunteers to assist them in carrying out their community war program, has resulted in considerable confusion. To eliminate this confusion and duplication in the enrollment of volunteers, the Office of Civilian Defense was authorized by the President of the United States "to assist other Federal agencies in carrying out their war programs by mobilizing and making available to such agencies, the services of the civilian population." It is further directed "to review and approve all civilian defense programs of Federal agencies involving the use of volunteer services to assure unity and balance in the application of such programs."

To assure good sense and unity in demands made upon the civilian population for volunteer services, I am suggesting that there be called an advisory conference on volunteer services at which we can consider the whole matter.

I believe this group should be composed of responsible individuals from all Government agencies who are interested in securing volunteers to assist them in carrying out their war programs. Consequently, I suggest (though the specific persons are only tentatively named) that the committee be composed of the following representatives:

Office of Price Administration	John E. Hamm
United States Department of Agriculture	Lyle Webster
United States Treasury Department	Eugene W. Sloan
Office of Defense Transportation	Guy Richardson
Office of Defense Health and Welfare Services	Geoffrey May
War Production Board	Paul C. Cabot
Office of War Information	Gardner Cowles, Jr.
Office of Civilian Defense	Jonathan Daniels

and such other members as might hereafter be designated.

FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

AUG 3 1942

Honorable Henry Morgenthau, Jr.

Page 2

There is little doubt that the conference will serve a useful purpose if it only indicates the present rush on volunteers from various agencies. It may develop into a permanent advisory committee which will give order to the national use of volunteers which is too much lacking now.

If you agree with me that such a conference would be helpful, I should be very grateful to you if you will speak with Mr. Sloan about the matter and advise me what we may proceed to call such a conference in the near future.

Faithfully yours,


J. Edgar Hoover
Director

AUG 4 1942

Dear Mr. French:

In view of recent discussions between representatives of the National Service Board for Religious Objectors and representatives of the Treasury Department, my letter to you of June 2, 1942, is revised to read:

In line with our recent conversation I think you understand that the Treasury needs some six billion dollars annually to maintain civilian services of the Government which are essential to the basic needs of human life, to conserve our natural resources, and to keep in repair our national plant. The Treasury would be willing to have the funds which you propose to collect from your people invested in Treasury bills, Treasury certificates of indebtedness, Treasury notes, and Treasury bonds, which the Treasury offers publicly to the people of the United States from time to time, and which are not designated by their terms "war issues". I shall be glad to see that you are notified each time an offering of this kind is made.

In this connection you have submitted to the Treasury Department a plan for subscription to United States Government Bonds for persons who feel unable to purchase war bonds because of religious convictions, and we are willing to cooperate with you in this plan. It is our understanding that a Civilian Bond Committee has been formed by the National Service Board for Religious Objectors and that a Fiscal Agent has been appointed for the purpose of accepting subscriptions for the purchase of securities not designated as "War Bonds" from members of the groups represented by your organization. The Treasury Department upon receipt of subscriptions from the Fiscal Agent for any issues of Government obligations hereafter offered, will issue such securities in either registered or coupon form as the subscribers may direct, but only in accordance with the terms of the circulars offering the various issues for subscription. Securities so issued will be delivered direct to the subscribers by the United States or will be delivered to the Fiscal Agent as the various subscriptions may request. Such deliveries will be at the risk and expense of the United States.

File in Diny

File from Miss Eddy. She said Mr. French called for in person.

- 2 -

We understand that the groups you represent are making contributions to the support of the Civilian Public Service camps for conscientious objectors authorized by the Congress and the Selective Service System which would otherwise have been a charge on the Treasury of the United States.

We are all seeking the same objectives and are glad that our American democracy is able to recognize the conscientious convictions of a minority of our citizens.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Paul Conly French,
Executive Secretary,
National Service Board
for Religious Objectors,
1751 "N" Street, N.W.,
Washington, D. C.

TWC/rbs 8/3/42

AUG 4 - 1942

Dear Mr. Grimes:

Will you convey to the many thousands of earnest, loyal retail and wholesale grocers, the deep appreciation of the Treasury for the thorough manner in which they are taking hold of the campaign to sell War Bonds and Stamps through retail food stores.

I am greatly pleased with your report that over 50,000 retail grocers are now cooperating by having Molly Pitcher War Stamp and Bond booths operating in their stores, and with your estimate that over one million women have already enlisted as Molly Pitchers to man the booths in these stores.

May I stress to these retailers and wholesalers, the imperative need for continuing the sale of War Stamps and Bonds. It is vitally important that this great voluntary program be accelerated to meet urgent war needs now and to provide a backlog of purchasing power when the war is over.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. Frank Grimes
Independent Food Distributors Council
309 West Jackson Boulevard
Chicago, Illinois

Photostat file in Diary
Orig. File to Thompson

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 7/29/42

TO Mr. Graves.
Mr. Sloan.

FROM Mr. Mahan.

The attached letter has been prepared for signature by the Secretary, in connection with the literature being sent this week-end to the 50,000 grocery stores now have 111,000. His intention to increase this number to 150,000.

This is the activity, described in the report which Mrs. L. L. Lawrence and Miss H. H. Lawrence.

(Mr. Mahan called Mr. Graves, who would like to have the letter & will wait for it.)
m.j.f. - Aug. 1.

Rec'd in Mr. Graves' office
Aug. 1 - 11:00 am

TREASURY DEPARTMENT

219

INTER OFFICE COMMUNICATION

DATE

AUG 4 1942

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Operation of payroll savings plan in companies where deductions have reached 10 percent of payroll.

In accordance with your request to Mr. Graves, the State Administrators of the War Savings Staff are reporting to us each week the names of organizations which have reached the goal of 10 percent of payroll deducted under the payroll savings plan.

These reports cover plants, units, branches, or subdivisions of companies as each of these reaches the goal of 10 percent of payroll deducted for the purchase of war savings bonds.

As of August 1, 1942, 8,746 companies, firms, plants, branches, units or subdivisions were reported to have reached the goal of 10 percent of payroll. These organizations employed 626,000 persons according to the reports or approximately 2.8 percent of the 22 million persons employed in companies that have installed the payroll savings plan. Details on the amount deducted in the organizations with more than 1,000 employees which were included in the reports submitted this week are shown in the table attached.

Attachment

Firms with 1,000 or More Employees Reported to be deducting 10 Percent or More
of Aggregate Payroll Under Payroll Savings Plans

(As Reported by the War Savings Staff's State Administrators July 29, 1942)

Name of firm and state	Number of employees	Approximate aggregate monthly payroll (in thousands)	Percent of aggregate pay deducted	Average monthly deduction per employee
United Aircraft, Conn.....	42,618	11,028	10	\$ 25.88
Denver Ordnance Plant, Colo.....	14,747	2,536	10	17.19
York Safe & Lock Co., Pa.....	5,885	1,258	10	21.38
Kearney-Trecher Corp., Wisc.....	4,311	1,329	14	43.16
Colonial Stores, Ga.....	3,800	*	10	*
R. R. Donnelley & Sons, Ill.....	3,705	*	14	*
Arma Corp., N. Y.....	3,300	717	12	26.06
R. C. A. Mfg. Co., Ind.....	3,100	*	10	*
Bigelow-Sanford Carpet, Conn.....	2,605	*	10	*
De-Soto--Wyoming Ave. Plant, Mich.....	2,278	*	10	*
Du Pont de Nemours, Ky.....	2,200	429	12	23.40
De-Soto--Warren Ave. Plant, Mich.....	2,159	*	10	*
American Sales Book Co., N. Y.....	1,973	355	10	17.98
Apex Hosiery Co., Pa.....	1,800	300	10	16.66
Montgomery Ward & Co., Colo.....	1,775	*	10	*
Doshler Die Castings, Ohio.....	1,732	*	10	*
Norton C. Tuttle Co., Mass.....	1,504	*	10	*
Halle Bros. Co., Ohio.....	1,500	*	13	*
Sonoco Products, S. C.....	1,475	166	10	10.94
International Correspondence Schools, Pa.....	1,330	139	10	10.43
Edison Anthracite Coal, Pa.....	1,201	186	10	15.49
Magee Carpet Co., Pa.....	1,188	201	13	22.01
Cooper-Bessemer Corp., Ohio.....	1,150	*	10	*
Westinghouse Electric & Mfg. Co., Ky.....	1,146	230	10	20.07
Courier Journal & L'ville Times, Ky.....	1,000	202	10	20.23

August 3, 1942

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

* Not available.

UNITED STATES SAVINGS BONDS - TOTAL

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

(At issue price in thousands of dollars)

Date	: August : daily : sales	Cumulative sales by business days				: August as : percent of July
		: August	: July	: June		
August 1942						
1	\$ 26,267	\$ 26,267	\$ 28,418	\$ 29,539	92.4%	
3	38,765	65,032	52,687	45,442	123.4	

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

August 4, 1942.

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

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

UNITED STATES SAVINGS BONDS - SERIES E

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

(At issue price in thousands of dollars)

Date	August daily sales	Cumulative sales by business days				August as percent of July
		August	July	June	August as percent of July	
August 1942						
1	\$ 14,044	\$ 14,044	\$ 15,821	\$ 19,834	88.8%	
3	22,178	36,222	30,701	27,841	118.0	

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

August 4, 1942.

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

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	August daily sales	Cumulative sales by business days			August as percent of July
		August	July	June	
August 1942					
1	\$ 12,222	\$ 12,222	\$ 12,597	\$ 9,705	97.0%
3	16,587	28,810	21,986	17,601	131.0

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

August 4, 1942.

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

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

224
Sales of United States savings bonds
From August 1, through August 3, 1942
Compared with sales quota for same period
(At issue price in millions of dollars)

CONFIDENTIAL

Date	Series E				Series F and G				Total			
	Actual sales		Quota,	Sales	Actual sales		Quota,	Sales	Actual sales		Quota,	Sales
	Daily	to	August 1	to date	Daily	to	August 1	to date	Daily	to	August 1	to date
	to	to	as % of		to	to	as % of		to	to	as % of	
	date	date	quota		date	date	quota		date	date	quota	
1	\$ 14.0	\$ 14.0	\$ 16.0	87.5%	\$ 12.2	\$ 12.2	\$ 7.7	158.4%	\$ 26.3	\$ 26.3	\$ 23.7	111.0%
3	22.0	36.2	47.3	76.5	16.6	28.8	21.5	134.0	38.8	65.0	68.8	94.5
4			61.0				29.6				90.6	
5			84.0				45.4				129.4	
6			107.3				58.7				166.0	
7			134.4				68.8				203.2	
8			154.1				76.3				230.4	
10			190.6				87.9				278.5	
11			205.1				94.1				299.2	
12			227.1				105.1				332.2	
13			247.9				114.0				361.9	
14			271.0				120.9				391.9	
15			287.7				126.4				414.1	
17			319.2				135.8				455.0	
18			332.2				141.3				473.5	
19			353.0				151.9				504.9	
20			373.6				161.0				534.6	
21			397.4				168.3				565.7	
22			415.1				174.3				589.4	
24			449.0				184.8				633.8	
25			462.9				191.0				653.9	
26			484.5				203.0				687.5	
27			505.0				213.2				718.2	
28			527.8				221.4				749.2	
29			544.2				228.1				772.3	
31			575.0				240.0				815.0	

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

August 4, 1942.

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

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

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Paul

August 4th, 1942

It does not seem to me that anything can be gained by making any statement on the tax exempts at this time, or having a witness try to answer La Guardia. We are cultivating Taft to the limit of our ability. On some nearby occasion I will talk to George about the whole problem and report to you.

hsp.

August 4, 1942.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Senator Taft, at the Finance Committee hearing yesterday, challenged statements by LaGuardia and others that the Federal Government would not gain by the taxation of State and local securities and indicated that he (Taft) favored taxation of future issues of these securities. LaGuardia referred contemptuously to "these semicolon boys from the Treasury."

Senator Wiley (Republican of Wisconsin) in a long speech on the floor of the Senate renewed his proposal for thirty-six billion in annual taxes, or one-third of the National income. He said he did not intend that the rule of one-third of income should apply to low bracket incomes. He made these "concrete proposals":

"(a) I would study the British schedule of rates, and increase the tax rate all down the line until most of the additional difference between \$22,000,000,000, the amount which will be raised by the present bill, and the \$36,000,000,000 would be raised.

"(b) If that did not do the job, I would suggest an all-over retail sales tax, excepting nothing.

"(c) If that did not do the job, I would seek new sources of revenue. There are great institutions in this country that have hundreds of millions of dollars' worth of investments -- eleemosynary institutions -- that will lose everything if we lose the war, and that will lose most of their investments if we have runaway inflation."

- 2 -

He thought the \$25,000 limit on incomes "would be a healthy thing" particularly for those who are making a large profit out of the war. He believed the English plan of 100 per cent war profits tax, with a post-war credit, a good idea, but thought the post-war credit should be canceled unless it was needed for "paying overhead or reconversion charges."

Attached, from the General Counsel's office, is a copy of a supplemental report by the Joint Committee on Reduction of Non-Essential Federal Expenditures of which you are a member.



*Some municipal or State office
of prominence should be brought before
the Committee to answer La Guardia.
We should cultivate relations with Toft.*

Attachment.



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Mr. Cairns

For your information, there is attached a copy of the supplemental report made by the Joint Committee on Reduction of Nonessential Federal Expenditures (Senate Document No. 152, Part 2).

He

REDUCTION OF NONESSENTIAL FEDERAL
EXPENDITURES

SUPPLEMENTAL REPORT

OF THE

JOINT COMMITTEE ON REDUCTION
OF NONESSENTIAL FEDERAL EXPENDITURES
CONGRESS OF THE UNITED STATES

PURSUANT TO

SECTION 601 OF THE REVENUE
ACT OF 1941



JULY 27 (legislative day, JULY 23), 1942.—Referred to the
Committee on Appropriations and ordered to be printed

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1942

REDUCTION OF NON-ESSENTIAL FEDERAL EXPENDITURES

CONGRESS OF THE UNITED STATES

JOINT COMMITTEE ON REDUCTION OF NON-ESSENTIAL FEDERAL EXPENDITURES

CREATED PURSUANT TO SECTION 601, OF THE REVENUE ACT OF 1941

HARRY FLOOD BYRD, Senator from Virginia, Chairman

ROBERT L. DOUGHTON, Representative from North Carolina, Vice Chairman

SENATE

HOUSE OF REPRESENTATIVES

WALTER F. GEORGE, Senator from Georgia.

THOMAS H. CULLEN, Representative from New York.

ROBERT M. LA FOLLETTE, Jr., Senator from Wisconsin.

ALLEN T. TREADWAY, Representative from Massachusetts.

CARTER GLASS, Senator from Virginia.

CLARENCE CANNON, Representative from Missouri.

KENNETH MCKELLAR, Senator from Tennessee.

CLIFTON A. WOODRUM, Representative from Virginia.

GERALD P. NYE, Senator from North Dakota.

JOHN TABER, Representative from New York

HENRY MORGENTHAU, Jr., Secretary of the Treasury

HAROLD D. SMITH, Director of the Bureau of the Budget



Printed at the Government Printing Office, Washington, D.C.

U.S. GOVERNMENT PRINTING OFFICE: 1941

REDUCTION OF NON-ESSENTIAL FEDERAL EXPENDITURES

LETTER OF TRANSMITTAL

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON REDUCTION OF NON-
ESSENTIAL FEDERAL EXPENDITURES,
July 25, 1942.

HON. HENRY A. WALLACE,
The Vice President of the United States.

MY DEAR MR. VICE PRESIDENT: In accordance with title 6 of the Revenue Act of 1941, Public Law No. 250, Seventy-seventh Congress, as chairman of the Joint Committee on Reduction of Nonessential Federal Expenditures, it gives me pleasure to present a report supplementing the first report, of December 24, 1941, submitted by this committee, which I ask that you lay before the Senate of the United States, with a view to its being printed as a Senate document.

Respectfully submitted.

HARRY F. BYRD,
Chairman.

REDUCTION OF NONESSENTIAL FEDERAL EXPENDITURES

The Joint Committee on Reduction of Nonessential Federal Expenditures is composed of Representative Robert L. Doughton (Democrat, North Carolina), chairman of the House Ways and Means Committee, Senator Carter Glass (Democrat, Virginia), chairman of the Senate Appropriations Committee, Representative Clarence Cannon (Democrat, Missouri), chairman of the House Appropriations Committee, Senator Walter F. George (Democrat, Georgia), chairman of the Senate Finance Committee, Senator Kenneth McKellar (Democrat, Tennessee), ranking member of the Senate Appropriations Committee, Representative Clifton A. Woodrum (Democrat, Virginia), ranking member of the House Appropriations Committee, Representative Thomas H. Cullen (Democrat, New York), ranking member of the House Ways and Means Committee, Representative Allen T. Treadway (Republican, Massachusetts), ranking Republican member of the House Ways and Means Committee, Representative John H. Taber (Republican, New York), ranking Republican member of the House Appropriations Committee, Senator Gerald P. Nye (Republican, North Dakota), ranking Republican member of the Senate Appropriations Committee, Senator Robert M. La Follette, Jr. (Progressive, Wisconsin), ranking minority member of the Senate Finance Committee, and Senator Harry F. Byrd (Democrat, Virginia), chairman, Hon. Henry Morgenthau, Jr. Secretary of the Treasury, and Hon. Harold D. Smith, Director of the Bureau of the Budget.

ECONOMY IN WARTIME NONESSENTIALS

The Joint Committee on Reduction of Nonessential Federal Expenditures was established pursuant to title 6 of the Revenue Act of 1941 (Public Law 250, 77th Cong.), approved September 20, 1941, which directed it to—

make a full and complete study and investigation of all expenditures of the Federal Government, with a view to recommending the elimination or reduction of all such expenditures deemed by the committee to be nonessential, and to report to the President and to the Congress the results of its study, together with its recommendations * * *

Pursuant to the act establishing it, and before the presentation of the President's Budget message to Congress, the Joint Committee on Reduction of Nonessential Federal Expenditures, on December 24, 1941, rendered a preliminary report to the President of the United States and the Congress recommending reductions in a group of 15 items where functions were considered by the committee to be nonessential in a nation called upon to strain every governmental sinew in the war effort. In addition to recommending the reduction of expenditures, the committee made other suggestions designed to promote economy in wartime nonessentials.

These recommendations and suggestions were made after approximately 2 months of intensive hearings in which responsible representatives of the agencies involved submitted evidence and testimony relative to the functions, expenditures, and necessity of their respective agencies. The committee had also the benefit of factual information compiled by the Bureau of the Budget, and presented by Budget Bureau examiners. Moreover, the committee had the benefit of the views, advice, and deliberation of the Secretary of the Treasury and the Director of the Budget Bureau, representing the executive branch of the Government as members of the committee.

\$1,313,983,208 SAVINGS IN ITEMS OF COMMITTEE REPORT

Based on committee studies and testimony the majority of the committee, prior to the convening of the current session of Congress, recommended cash appropriation and loan authorization reductions in the 15 specified items, which it regarded as not absolutely essential during the war period, totaling \$1,301,075,000.

In appropriation supply bills for the fiscal year 1943, which began July 1, 1942, appropriations and loan authorizations for the agencies included in the committee's specific recommendations totaled \$1,313,983,208 less than the total for the same appropriation items for the year preceding.

Appropriation figures used in this report were supplied by the Bureau of the Budget or confirmed by the Bureau.

SAVINGS ITEMIZED—AS RECOMMENDED AND AS ENACTED

However, with available Budget Bureau figures and the committee estimate on the Agriculture Department items the committee has compiled the following comparison of appropriations for the fiscal year 1943 against appropriations for 1942 for the items treated specifically in the committee's report of December 24, 1941:

The committee recommended abolition of the Civilian Conservation Corps, with saving of its entire appropriation.....	\$246, 960, 000	
The Congress abolished the Civilian Conservation Corps but re-appropriated \$8,000,000 of un-expended balances for liquidation. Savings.....		\$238, 960, 000
The committee recommended abolition of all nondefense functions of National Youth Administration. Savings.....	91, 767, 000	
The Congress eliminated National Youth Administration nondefense functions except reduced student aid fund for which there was appropriated \$8,000,000. Savings.....		83, 767, 000

The committee, trying to anticipate relief need in the peace-to-war industrial conversion, recommended reduction of the Work Projects Administration appropriation of \$875,000,000 to \$50,000,000 monthly for the first quarter and a gradual reduction thereafter. Savings-----	\$400, 000, 000
The Congress reduced the Work Projects Administration appropriation to \$280,000,000 plus \$55,000,000 of reappropriated unexpended balances, making a total of \$335,000,000. Savings..	\$540, 000, 000
The committee recommended deferment of land purchases, reduction of overhead costs, and the curtailment of other nondefense activities of the Department of Agriculture. Savings-----	153, 000, 000
The Congress reduced the appropriation for the Department of Agriculture to \$665,742,646. Savings (exclusive of authorization for parity payments of \$212,000,000)-----	195, 731, 208
The committee recommended that the farm-tenant program be abolished-----	7, 122, 000
The Congress reduced this appropriation. Savings-----	2, 270, 000
The committee recommended that the Farm Security Administration be abolished. Savings-----	70, 500, 000
The Congress reduced the appropriation for administrative expense of Farm Security Administration. Savings-----	26, 180, 000
The committee recommended 50-percent deferment of expenditures for Federal highway projects. Savings-----	64, 000, 000
The Congress passed appropriations for Federal aid to highway projects totaling \$82,700,000. Savings-----	50, 300, 000
The committee recommended deferment of nondefense public building construction. Savings-----	43, 164, 000
The Congress reduced the appropriation for nondefense public buildings to \$14,908,000. Savings-----	33, 148, 000

4 **REDUCTION OF NONESSENTIAL FEDERAL EXPENDITURES**

The committee recommended deferment of certain nonessential Interior Department public-works projects. Savings.....	\$26, 727, 000	
The Congress appropriated \$111,333,000 for nonessential Interior Department public works projects which already were under construction. Savings.....		\$56, 985, 000
The committee recommended deferment of rivers and harbors and flood control items. Savings.....	27, 835, 000	
The Congress appropriated money for rivers and harbors projects for the fiscal year 1943 the sum of \$43,358,000 in excess of appropriations for the fiscal year 1942.		-43, 358, 000

Total cash appropriation savings recommended by the committee.....	1, 131, 075, 000	
Total cash appropriation savings effected by Congress.....		1, 183, 983, 208

Also—

The committee recommended cancellation of loan authorization for farm-tenant program. Savings.	50, 000, 000	
The Congress reduced the amount authorized to be borrowed from the Reconstruction Finance Corporation for the farm-tenant program to \$32,500,000. Savings..		17, 500, 000.
The committee recommended cancellation of loan authorization for the Farm Security Administration to borrow from Reconstruction Finance Corporation. Savings.....	120, 000, 000	
The Congress reduced the authorization for the Farm Security Administration to borrow from the Reconstruction Finance Corporation to \$97,500,000. Savings.....		22, 500, 000

Total loan authorization savings recommended by the committee.....	170, 000, 000	
Total loan authorization savings effected by the Congress on specific items recommended by the committee.....		40, 000, 000

On page 5, item (g) of the preliminary report the committee recommended that the non-defense Rural Electrification expansion program be deferred. The Congress reduced the loan authorization of Rural Electrification Administration to borrow from Reconstruction Finance Corporation to \$10,000,000. Savings.....

\$90,000,000

Total reduction of loan authorizations effected by Congress.....

\$130,000,000

	Committee recommendations	1943 appropriations
Cash savings.....	\$1,131,075,000	\$1,183,983,208
Reduction of loan authorizations.....	170,000,000	130,000,000
Total.....	1,301,075,000	1,313,983,208

In addition to savings specifically indicated, other substantial sums will be saved during the 1943 fiscal year, such as those resulting from the 10 percent reductions in travel appropriations made in some of the supply bills.

COMMITTEE ACTIVITY

Since the preliminary report was issued members of this committee have appeared before the appropriations and other committees to give testimony with reference to nonessential Government spending. Reports were presented showing the amount expended for travel, publicity, and information, and other activities of the Federal agencies. In general, the committee cooperated with the Members of Congress in every way to turn the spotlight on possible governmental economies.

Of course, the committee does not claim sole credit for these reductions. Some of the agencies themselves have cooperated in bringing them about. The Budget Bureau has worked diligently in reducing nonessential expenditures and in paring down budget recommendations. Many Members of Congress, as individuals and as members of committees have made invaluable contributions. And, of course, Congress has been the final authority.

ECONOMY SURFACE ONLY SCRATCHED

The committee realizes that the possibilities for economies have been no more than scratched. On the basis of studies being made it is apparent that further reductions should be made in Federal spending. Although the committee recommended that over a billion dollars could be saved in its preliminary report it has since determined that there are many other necessary savings that can be effected without any interference with the war program. In normal times the amount recommended by the committee would be considered a substantial

saving but due to the tremendous war expenditures it is imperative that the committee continue its efforts to reduce nonessential Federal spending.

Meanwhile, the committee is pleased with the fact that for the first time in years a beginning has been made for economy in non-essential Federal spending. The committee regards as a privilege its authority to study the problem and call at least some reduction possibilities to the attention of the public, the Congress and the executive branch of the Government.

The committee notes especially the abolition by the Congress of the Civilian Conservation Corps. This was recommended by the committee, and it marks the first complete dismantling of a major depression agency. The Civilian Conservation Corps had spent \$2,278,000,000 in 8½ years. This indicates a step toward a more prudent fiscal policy suitable to a nation at war.

The committee believes that there is a great field for more efficient operation and probably great economy among Government corporations.

Likewise, the committee intends to examine further, practices and conditions in purchasing, classification, salaries, transportation, publicity and other overhead items of the various departments and agencies of the Government.

The committee believes that there is need for more efficient administration and more effective controls among many, if not all, of the so-called permanent agencies of the Government.

EXAMINATION OF WAR AGENCIES

The committee realizes that there is a growing need to examine closely the activities, practices, and expenditures of the so-called defense and war agencies. It is to be hoped that these agencies are approaching, at least, a leveling-off stage where efficiency and vigilance over practices properly may be demanded without interference with the maximum war effort. Heretofore, the committee has hesitated to call up these so-called war and defense agencies for minute examination because they were in the course of organization and because of the imperative nature of the business of most of them. However, it seems to be more and more evident that the time is approaching for the committee to change this policy.

UTMOST ECONOMY URGENT IN VIEW OF FISCAL FUTURE

With the national debt standing today at approximately \$80,000,000,000, with it increasing every day at a tremendous rate necessitated by the war and augmented still further by other expenditures, and with unexpended war balances totaling \$160,000,000,000 there is in prospect a national debt of at least \$200,000,000,000 by conservative estimates. This, of course, takes into consideration revenue which is meeting not more than 30 percent of expenditures this year.

With such a fiscal future in view, the need for every possible economy in nonessentials is urgent. Therefore, the committee contemplates a vigorous continuation of all phases of its work for reduction of nonessential Federal expenditures.

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Regraded Unclassified

AUG 4 1942

My dear Mr. Tyler:

I have your letter of July 9, 1942, with regard to certain funds being transferred to Brown Brothers, Harriman and Company of New York for the account of the Duchess of Bar.

The information contained in your letter is appreciated and your recommendation will be given careful consideration in connection with the application which will no doubt be filed for a license to effect this transaction.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Royall Tyler,
Hotel Richemond,
Geneva, Switzerland.

copy of incoming & cc of reply to
Mr. Pehle 8/5/42

Transmitted via Diplomatic Pouch
to For. Mails Section State Dept

by Mess. 5:32 8/4/42 to State Dept
Simmons

File in Diary

JWPehle:haj 8/1/42

Morse

Hotel Richemont
Geneva
9 July 1942

My dear Mr. Secretary,
A Swiss bank, the
Mobiliare Verkehr A.G., Zurich, has
transferred, or is shortly transferring,
about \$20,000,000 to Messrs. Brown Brothers,
Harriman & Co., New York, for the account
of the Duchess of Bar, who is the former
Empress - Queen Zita of Austria and Hungary,
the mother of Otto of Austria.

The money comes from
the Royal Family's property in Hungary,
and is being transferred by the good
offices of the National Bank of Hungary.

I am satisfied that the
above statement is correct.
If it can properly be done,
I should like to recommend for your
sympathetic consideration the proposal
that it would be consistent with

Respectfully,
Henry Morgenthau, Jr.

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the United Nations, was aimed to
authorize the unfreezing of this
sum, and its payment to the

Duchess (who I believe is in Canada)

for her living expenses & those of
her family now in the USA - Otto
his brothers & sisters.

With kindest personal regards

Very sincerely,
Yours

Royall Tyler

File in Diary

August 4, 1942

MEMORANDUM FOR THE SECRETARY'S FILES

Re: Polish Relief Commission v. National
Bank of Rumania

On July 29, 1942, the Court of Appeals of the State of New York handed down a decision in the above-entitled action. The case involved an attachment action by the plaintiff, as assignee of the Polish Central Bank. More than \$3,000,000 of assets held in this country for the account of the Rumanian Central Bank was attached because of the refusal of the Rumanian Bank to account for gold delivered to it by the Poles when Germany invaded Poland. The Government, at the instigation of the Treasury, appeared as Amicus Curiae in the Court of Appeals.

The Court's decision sustains the Treasury's contention and follows the argument which the Treasury presented to the Court.

The Court held that the freezing control order prohibited the unlicensed transfer of title or any other interest in blocked property. The Court also held, in accordance with the Treasury recommendation, that the attachment was valid for the purpose of giving jurisdiction to the Court but that the judgment could create no interest in the attached property unless a license was obtained from the Treasury Department.

The case is of great importance since a defeat for the Treasury would have greatly undermined the whole freezing control program. The case has also received close attention by the New York Bar.

R.P.A.

AUG 4 1942

Dear Mr. Perkins:

I have received your letter of July 28 transmitting a copy of the memorandum of July 24, which you sent to American Subcommittee members of the Joint War Production Committee, along with a copy of the statistical report for that Committee, which Mr. Lorrie Farahis prepared.

I appreciate the prompt action you have taken to see that the Treasury is informed of all large contracts which the Army, the Navy and the Maritime Commission contemplate placing in Canada.

In addition to information on the value of contracts, the Treasury would find it extremely useful to receive estimates, by quarters, of aggregate payments to be made in Canada by the above three agencies. I do not know whether your Committee has sufficient information to draw up such schedules of payments. I am merely throwing out the suggestion to you to indicate one important deficiency, so far as concerns the Treasury, in the data you have been kind enough to send to me.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Milo Perkins, Chairman,
Joint War Production Committee,
American Section,
Cessores Building,
Washington, D.C.

cc to Dv White

FILE COPY

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9.40 18/8/42. Crit. stamp

File in Diary

Mar 1 7/30/42

JOINT WAR PRODUCTION COMMITTEE
 CANADA AND UNITED STATES
 UNITED STATES SECTION
 COMMERCE BUILDING
 WASHINGTON, D. C.

JUL 28 1942

The Honorable
 The Secretary of the Treasury

Dear Mr. Secretary:

As a result of your conference on the Canadian dollar position, I have requested all of our Sub-committees to keep us informed of any large pending orders in order that we may transmit the information to the Treasury. Assuming good compliance on the part of our Sub-committees, this should furnish you with advance information of negotiations looking to purchase in Canada on the part of the Army, the Navy or the Maritime Commission. Our Sub-committees are made up of representatives from these Departments and from W.P.B.

We have compiled figures on all past orders for munitions and merchant ships which have gone through War Supplies Ltd. and we keep this up to date on a monthly basis. This compilation and a good deal of other pertinent data concerning the Canadian munitions program is contained in the secret report which I am attaching. I have also sent a copy to Harry White. Supplements to this report will be sent you monthly.

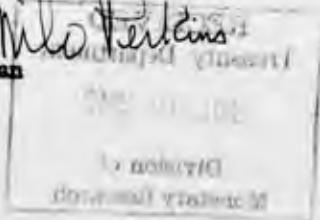
As you will notice from the attached memorandum to our Sub-Committees, I have reminded them that it is not the job of the procurement officers to worry about Canada's dollar position and that according to our Statement of Policy they are directed to place orders in Canada where joint production will thereby be aided.

I hope that this action will be helpful to you.

Sincerely yours,

W. L. Harrison
 Chairman

Attachments - 2



COPY

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JOINT WAR PRODUCTION COMMITTEE
CANADA AND UNITED STATES
UNITED STATES SECTION
T Building
Washington, D. C.

July 24, 1942

To: Members of the Committee
Sub-Committee Members

From: Milo Perkins
Chairman

The Secretary of the Treasury has recently requested that we inform him of any proposals to place substantial orders in Canada. The Treasury has responsibilities for Canada's dollar position and is interested in knowing about these orders because they are an important determinant of the Canadian dollar position.

It is therefore requested that U.S. members of the Sub-Committees keep the Executive Secretary of this Committee informed of any large orders which are likely to be placed in Canada. For this purpose, orders in excess of \$1 million may be regarded as large. The Secretary will transmit the information to the Treasury.

In this connection, it may be well to point out that the Committee and its Sub-Committees are not interested in placing orders in Canada for financial reasons. On our side, that is the business of the Treasury Department. The Statement of Policy approved by the President on December 23, 1941, and the accompanying directives of the Departments, including the Army Directive of December 27, 1941, and the Navy Directive of December 31, 1941, indicate the correct procurement policy. This is that the United States procurement agencies should place orders in Canada on roughly the same principles as in the United States, to the end that the war production in both countries may be increased and improved and that procurement may be as speedy as possible.

STATISTICAL REPORTS

For The

JOINT WAR PRODUCTION

COMMITTEE

STATISTICAL REPORTS FOR THE JOINT WAR PRODUCTION COMMITTEEIntroduction:

The following reports have been prepared for the use of the members and their alternates of the United States Section of the Joint War Production Committee of Canada and the United States.

Various aspects of the Canadian munitions program are analyzed: for example, its size, its composition, the degree to which it is financed by the United States, etc.

Supplementary information will be issued as soon as possible in order that these reports may be kept up to date.

The titles of these reports are:

1. Contracts with War Supplies Limited by Months.
2. War Supplies Limited Contracts classified by type of munitions ordered and by date.
3. The Value of Canadian Munitions Production.
4. Analysis of Canadian Program by type of Munition.
5. Record of Deliveries: War Supplies Limited Contracts.
6. Current Munitions Production in Canada Compared with Forecast.
7. Recent Changes in Canadian Munitions Production Program.
8. Classification of Canadian Munitions Production by Country of Purchase.

All figures used in these reports are given in terms of United States dollars.

The Economics and Statistics Branch of the Canadian Department of Munitions and Supply, and War Supplies Limited are the sources of all the data relating to Canada. The information regarding the United States employed in Reports Nos. 3 and 4 was supplied by the Statistics Division of the War Production Board.

Lorie Tarshis
Economist
Joint War Production Committee

Secret

REPORT NO. 1.

Secret

CONTRACTS WITH WAR SUPPLIES LIMITED BY MONTHS

Introduction:

The value of contracts awarded to War Supplies Limited by the United States Government for the purchase of Canadian munitions is set out in Report No. 1 and supplements to Report No. 1. The more important contracts are listed separately and are allocated to the month in which the contract was negotiated. Certain problems in dating had to be faced in distributing the contracts by months. The procedure used in this report was, so far as possible, to place the contract in the month in which, in substance if not in form, the order was given. Occasionally rather long periods of time elapsed between the date at which notice of intent to purchase was given and that on which the contract was actually signed. In these cases the earlier date was used.

In the case of merchant ships, however, this practice was not followed. Up to the middle of June at any rate, negotiations for the purchase of merchant vessels were not begun until the ship was near completion. The contract was signed as the finished ship was delivered. For that reason a contract for one ship was listed in February, one in March, etc. However, in June a contract to cover approximately eighty-nine additional merchant ships was signed. This whole contract is placed in the month of June and henceforth there will be no further entry for merchant ships on their delivery.

Difficulties also arose in connection with changes in terms of orders, cancellations of contracts, or supplementary orders. Generally speaking, if the terms of the contract were altered at a date following that at which the original award was made the revised figure is used in place of the unadjusted figure.

The very high rate at which contracts have been running over the past five or six months is deserving of special attention.

This report will be kept up to date by means of a monthly supplementary report on contracts awarded during the preceding month.

JOINT WAR PRODUCTION
COMMITTEE

Report No. 1, Supplement 1.

CONTRACTS WITH WAR SUPPLIES LIMITED IN JUNE, 1942

Item	Quantity Ordered	Value
Range Finders	494	\$247,000.00
Anti-Gas Capes	68,000	285,600.00
40-MM Gun Tube Assemblies	8,090	3,640,500.00
25-Pounder Complete Equipments	360	9,000,000.00
Marginal and Sub-Marginal Mines	--	10,000,000.00
Boys Anti-Tank Rifles, Mk I, Bipod & Spares	6,000	1,200,000.00
Indicators, Thermometers	20,000)	1,096,000.00
Bulbs, Thermometers, Spare Parts & Data	40,000)	
Engines, Propellers, Spare Parts	Various	291,692.20
.303 Ammunition (a) Tracer	37,560,000)	4,462,572.00
(b) Armor Piercing	37,620,000)	
.303 Ball Cartridges	175,000,000	6,562,500.00
Ammonium Nitrate (Unit - Ton)	63,700	4,013,100.00
Field Glasses, 6 x 30	50,000	3,375,000.00
6-Pounder, 7 Cwt. Guns, Complete Equipments	360	2,160,000.00
.55 Boys Armor Piercing Cartridges	18,000,000	4,500,000.00
Radar SW2C Equipments and Spares	30	166,906.05
Airplanes, PT-23	600	4,153,662.00
Airplanes and Spares, PT-26	800	7,829,952.00
6-Pounder, 7 Cwt. Guns, Mk III	286	715,000.00
6-Inch B/L Gun Cartridges (complete)	20,000	275,520.00
9-MM Parabellum Cartridges	175,000,000	4,681,250.00
Cargo Vessels	89	139,575,465.88
Radio Sets SCR-588	100	3,780,000.00
Radar ASVC Equipments	300	697,750.50
Propeller Assemblies, Spares, etc.	1,620	2,489,808.00
Miscellaneous Items and Revisions in Value		- 7,378,728.44
<u>Total June Contracts</u>		<u>\$207,820,550.37</u>
.....		
Contracts awarded to May 31, 1942		\$545,817,317.53
Contracts awarded during June, 1942		<u>207,820,550.37</u>
TOTAL CONTRACTS AWARDED TO JUNE 30, 1942		<u>\$753,637,867.90</u>

JOINT WAR PRODUCTION
COMMITTEE

Secret

REPORT NO. I

Secret

CONTRACTS WITH WAR SUPPLIES LIMITED BY MONTHS

Month	Item	Quantity Ordered	Value	Total Value
Up to June				\$1,760,504.00
(1941)				
June:	Radar ASVC Equipment	300	\$637,275.00	
	G. L. Sets and Spares	400	24,000,000.00	
	Other		1,607,389.55	
	Total			\$26,244,664.55
July:	3.7" A. A. Gun Complete	600	\$30,000,000.00	
	Other		1,508,048.67	
	Total			\$31,508,048.67
August:	Universal Carriers	3,400	\$13,885,600.00	
	40-MM A. A. Gun Barrels	7,472	3,736,000.00	
	Harvard Trainer Airplanes	800	17,687,206.09	
	3.7" A. A. H.E. Shell	500,000	13,625,000.00	
	75-MM Smoke Shells	700,000	5,950,000.00	
	.55 A. P. Cartridges	30,000,000	7,500,000.00	
	2" Bomb Thrower	7,771	2,914,125.00	
	3.7" A. A. Gun Spare Barrels	1,900	4,750,000.00	
	4.5" A. A. Gun Spare Barrels	1,000	3,000,000.00	
	Lee Enfield Rifles	100,000	6,000,000.00	
	6-Pounder 7 Cwt Gun Mk II	1,000	3,500,000.00	
	Other		244,830.90	
	Total			\$82,792,761.99
September:	40-MM A.A. Ammunition	2,000,000	\$10,000,000.00	
	Link Trainers	290	2,132,250.00	
	Radio Sets #19	2,000	2,100,000.00	
	Carriages 6-Pounder 7 Cwt Q.F. Mk II	500	1,750,000.00	
	Other		769,949.25	
	Total			\$16,752,199.25
October:	6-Pounder A. P. Shot	3,000,000	\$36,000,000.00	
	Tiger Moth Trainer Planes	200	1,234,570.00	
	A. S. V. Radio Sets	6,114	18,114,996.18	
	Other		2,643,552.78	
	Total			\$57,993,118.96
November:	Boys Anti-Tank Rifle	28,000	\$5,600,000.00	
	Norseman Planes	7	313,587.85	
	Other		515,469.14	
	Total			\$6,429,056.99

JOINT War PRODUCTION
COMMITTEE

Report No. 1, Contracts with War Supplies Limited by Months, Page 2

Month	Item	Quantity Ordered	Value	Total Value
December:	Bren Guns and Ammunition		\$ 1,489,442.13	
	Propeller Assemblies	650	687,700.00	
	3.7" A.A. Gun Spare Barrels	500	1,250,000.00	
	Other		<u>1,801,846.49</u>	
	Total			\$ 5,228,988.62
(1942)				
January:	2" Smoke Bombs	1,000,000	\$ 2,050,000.00	
	37-MM S.A.P. Shot	500,000	650,000.00	
	Bren Gun Ammunition	132,500,000	4,968,750.00	
	2-Pounder Anti-Tank Guns	50	250,000.00	
	4.5" H.E. Shells	666,400	6,464,080.00	
	5.5" Cartridges	3,000	507,000.00	
	40-MM Q.F. H.E. Shells	500,000	385,000.00	
	Hexachlorethane		1,251,603.00	
	Ammonium Nitrate		3,654,000.00	
	Other		<u>2,110,284.17</u>	
	Total			\$22,290,717.17
February:	Spares for Universal Carriers	36	\$ 5,307,660.72	
	Bren Guns		5,712,000.00	
	.55 A.P. Cartridges	9,000,000	2,250,000.00	
	Universal Bomb Carriers	10,152	725,175.00	
	2-Pounder A.P. Shot	1,000,000	4,770,000.00	
	G. C. I. Equipment		4,368,000.00	
	Cargo Vessel	1	1,688,000.00	
	Other		<u>1,822,513.31</u>	
	Total			\$26,643,349.03
March:	75-MM S.A.P. Shot	700,000	\$ 5,845,000.00	
	Scout Cars and Spares	3,000	21,821,250.00	
	Cargo Vessel	1	1,688,000.00	
	40-MM A.A. Gun Barrels	2,376	1,188,000.00	
	Airplanes (SB2C-1)	1,000	96,271,452.00	
	Radio Sets #19	9,950	12,268,735.00	
	6-Pounder Guns, Spares, etc.	1,166	2,915,000.00	
	Propeller Assemblies	1,620	1,453,500.00	
	Other		<u>1,387,736.77</u>	
	Total			\$144,838,673.77
April:	2-Pounder Q.F. A.P. Shot	465,000	\$ 2,218,050.00	
	90-MM A.A. Gun Tubes	2,208	5,520,000.00	
	2" Bomb Throwers	22,300	8,362,500.00	
	57-MM A.P. Shot	1,000,000	10,150,000.00	
	75-MM H. E. Shells	1,000,000	3,150,000.00	
	Airplanes-C64-(Norseman)	300	8,718,150.00	
	40-MM Q.F. H.E. Shell	1,000,000	5,000,000.00	

JOINT WAR PRODUCTION
COMMITTEE

Month	Item	Quantity Ordered	Value	Total Value
April: (cont'd)	.303 Bren Gun Cartridges	80,000,000	\$ 3,000,000.00	
	2-Pounder Anti-Tank Guns	310	1,550,000.00	
	Cargo Vessels	3	5,064,000.00	
	4.5" H.E. Shells	185,600	1,800,320.00	
	Other		<u>945,615.24</u>	
	Total			\$55,478,635.24
May:	3.7" A.A. Q.F. H.E. Shells	700,000	\$17,500,000.00	
	75-MM Q.F. H.E. Shells	1,000,000	8,500,000.00	
	Airplanes-PBY Flying Boats	200	30,975,000.00	
	Cargo Vessels	6	10,128,000.00	
	Other (And Revisions)		<u>753,599.29</u>	
	Total			\$67,856,599.29
<u>GRAND TOTAL To May 31, 1942</u>				<u>\$545,817,317.53</u>

SUMMARY OF REPORT NO. 1

Up to June 1941:		\$ 1,760,504.00
1941:	June	26,244,664.55
	July	31,508,048.67
	August	82,792,761.99
	September	16,752,199.25
	October	57,993,118.96
	November	6,429,056.99
	December	5,228,988.62
1942:	January	22,290,717.17
	February	26,643,349.03
	March	144,838,673.77
	April	55,478,635.24
	May	67,856,599.29
	June	<u>207,820,550.37</u>
<u>GRAND TOTAL TO JUNE 30, 1942</u>		<u>\$753,637,867.90</u>

JOINT WAR PRODUCTION
COMMITTEE

Secret

REPORT NO. 2

Secret

WAR SUPPLIES LIMITED CONTRACTS CLASSIFIED BY TYPE
OF MUNITIONS ORDERED AND BY DATE.

Introduction:

Total contracts in effect with War Supplies Limited (on May 31, 1942) amounted to \$546 million. In Report No. 2 and in supplements to this report, these and additional contracts are classified and grouped together under the title of the subcommittee which is responsible for the item ordered.

Sponsorship of contracts is not necessarily the most important function of the subcommittee but these figures, in one respect at any rate, measure the degree to which subcommittee action has been successful in coordinating the Canadian and the United States production programs.

It is not possible to classify certain contracts for non-munitions items -- for example: tires and tubes, telephone cable, etc. However, the total of these contracts is not yet very great.

JOINT WAR PRODUCTION
COMMITTEE

Secret

Report No. 2, Supplement 1.

Secret

WAR SUPPLIES LIMITED CONTRACTS DURING JUNE CLASSIFIED
BY TYPE OF MUNITIONS ORDERED.(Summary)

<u>Subcommittee</u>	<u>Total to June 30, 1942</u>
Mechanization & Mechanical Transport	\$ 41,038,716.72
Tank	527,500.00
Guns	100,618,666.56
Shell	135,802,007.80
Small Arms Ammunition	37,951,499.00
Chemicals and Explosives	10,518,003.50
Merchant Shipbuilding	158,143,465.88
Naval Shipbuilding . . . . .	.00
Airplane	171,003,275.44
Communication and Fire Control	67,225,585.24
Unclassified	<u>31,009,147.76</u>
<u>GRAND TOTAL TO DATE:</u>	<u>\$753,637,867.90</u>

(Detailed Table)

<u>Item Ordered in June, 1942</u>	<u>Value</u>
<u>MECHANIZATION AND MECHANICAL TRANSPORT:</u>	
No Contracts in June.	
.....	
<u>GUN:</u>	
40-MM Gun Tube Assemblies	\$ 3,640,500.00
25-Pounder Complete Equipments	9,000,000.00
Boys Anti-Tank Rifles, Mk I	
Bipod and Spares	1,200,000.00
6-Pounder, 7-Cwt. Guns, Complete	
Equipment	2,160,000.00
6-Pounder, 7-Cwt. Guns, Mk III	<u>715,000.00</u>
Total in June:	16,715,500.00
Deduct Revaluation on earlier contracts:	
2" Bomb Throwers, Mk II	-1,554,200.00
2" Bomb Throwers, Mk II	<u>-4,460,000.00</u>
<u>Total Deductions</u>	<u>-6,014,200.00</u>
<u>Net June Total</u>	<u>\$10,701,300.00</u>

JOINT WAR PRODUCTION
COMMITTEE

Report No. 2, Supplement 1, War Supplies Limited Contracts during June
Classified by Type of Munitions Ordered, Page 2.

(Detailed Table)

Item Ordered in June, 1942	Value
<u>SHELL:</u> 6-Inch B/L Gun Cartridges (complete)	<u>\$ 275,520.00</u>

SMALL ARMS AMMUNITION:

.303 Ball Cartridges	\$6,562,500.00
.303 Ammunition, Tracer and Armor Piercing	4,462,572.00
.55 Boys Armor Piercing Cartridges	4,500,000.00
9-MM Parabellum Cartridges	<u>4,681,250.00</u>

Total in June \$20,206,322.00

CHEMICALS AND EXPLOSIVES:

Ammonium Nitrate	\$4,013,100.00
Miscellaneous	<u>67,257.00</u>

Total in June: \$4,080,357.00

MERCHANT SHIPBUILDING:

Cargo Vessels

\$139,575,465.88

NAVAL SHIPBUILDING:

No Contracts in June

.00

TANK:

No Contracts in June.

WAR PRODUCTION
COMMITTEE

Report No. 2, Supplement 1, War Supplies Limited Contracts during June
Classified by Type of Munitions Ordered, Page 3.

(Detailed Table)

<u>Item Ordered in June, 1942</u>	<u>Value</u>
<u>AIRPLANE:</u>	
Engines, Propellers, Spare Parts	\$291,692.20
Airplanes, PT-23	4,153,662.00
Airplanes and Spares, PT-26	7,829,952.00
Propeller Assemblies, Spares, etc	<u>2,489,808.00</u>
Total in June:	\$14,965,114.20
Deduct Revaluation on Earlier Contracts:	
SB2C-1 Airplane	<u>-1,863,852.00</u>
Net June Total	<u>\$13,101,262.20</u>

COMMUNICATION AND FIRE CONTROL:

Radar SW2C Equipments and Spares	166,906.05
Radio Sets SCR 588	3,780,000.00
Radar ASVC Equipments	697,750.50
Miscellaneous Items and Deductions	<u>50,422.18</u>
Net June Total	<u>\$4,695,078.73</u>

UNCLASSIFIED:

Range Finders	247,000.00
Anti-Gas Capes	285,600.00
Marginal and Sub-Marginal Mines	10,000,000.00
Indicators, Thermometers, Bulbs, Spare Parts & Data	1,096,000.00
Field Glasses, 6 x 30	3,375,000.00
Miscellaneous Items	<u>381,644.56</u>
Total in June:	<u>\$15,385,244.56</u>

GRAND TOTAL -- JUNE, 1942

\$207,820,550.

JOINT WAR PRODUCTION
COMMITTEE

Secret

REPORT NO. 2

Secret

WAR SUPPLIES LIMITED CONTRACTS CLASSIFIED BY TYPE
OF MUNITIONS ORDERED AND BY DATE

SUMMARY

<u>Subcommittee</u>	<u>Total on May 31, 1942</u>
Mechanization and Mechanical Transport . . .	\$ 41,038,716.72
Tanks	527,500.00
Guns	89,917,366.56
Shells	135,526,487.80
Small Arms Ammunition	17,745,177.00
Chemicals and Explosives	6,437,646.50
Merchant Shipbuilding	18,568,000.00
Naval Shipbuilding	1,000,000.00
Airplane	157,902,013.24
Communication and Fire Control	62,530,506.51
Unclassified	15,623,903.20
<u>GRAND TOTAL</u>	<u>\$545,817,317.53</u>

DETAILED TABLE

<u>Month</u>	<u>Item Ordered</u>	<u>Value</u>
<u>MECHANIZATION AND MECHANICAL TRANSPORT:</u>		
July: (1941)	Miscellaneous	\$ 16,056.00
August (1941)	Universal Carriers, Mk. I	13,885,600.00
	Miscellaneous	8,150.00
February (1942)	Spares for Universal Carriers	5,307,660.72
March (1942)	Scout Cars and Spares	21,821,250.00
<u>TOTAL Mechanization and Mechanical Transport</u>		<u>\$41,038,716.72</u>

JOINT WAR PRODUCTION
COMMITTEE

Report No. 2, War Supplies Limited Contracts Classified by Type of
Munitions Ordered and by Date, Page 2

Month	Item Ordered	Value
TANK:		
May (1942)	Steering Lever Assemblies and Control Assemblies for Infantry Tank	\$ 527,500.00
TOTAL For Tanks to Date		\$ 527,500.00

GUN:

July (1941)	3.7" Anti-Aircraft Com- plete Equipments	30,000,000.00
August	40 mm. Barrel Assemblies	3,736,000.00
	2" Bomb Thrower, Mk II	2,914,125.00
	3.7" Anti-Aircraft Guns, Spare Barrels	4,750,000.00
	4.5" Anti-Aircraft Guns, Spare Barrels	3,000,000.00
	Lee Enfield Rifles, #4	6,000,000.00
	6 pdr., 7 Cwt. Guns, Mk II	3,500,000.00
September	6 pdr., 7 Cwt. Carriages, Q.F., Mk II	1,750,000.00
November	Boys Anti-Tank Rifles, Mk I	5,600,000.00
December	Bron Machine Guns and Ammunition	1,489,442.13
	3.7" Anti-Aircraft Spare Barrels	1,250,000.00
	Miscellaneous	299.43
January (1942)	Miscellaneous	430,000.00
February	Bron Machine Gun & Ammu- nition	5,712,000.00
March	40 mm. Gun Barrel Assom- blios	1,188,000.00
	6 pdr. Guns (Anti-Tank)	2,915,000.00
April	2" Bomb Thrower, Mk II, British	8,362,500.00
	90 mm. Gun Tubes, Mk. I	5,520,000.00
	2 pdr. Anti-Tank Complete Equipments	1,550,000.00

Joint WAR PRODUCTION
COMMITTEE

Report No. 2, War Supplies Limited Contracts Classified by Type of
Munitions Ordered and by Date. Page 3

Month	Item Ordered	Value
April	40 mm. Sparo Barrels	250,000.00
<u>TOTAL For Gun to Date</u>		<u>\$89,917,366.56</u>

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SHELLS:

July (1941)	Miscellaneous	\$ 76,043.00
August	3.7" Anti-Aircraft Gun, Q.F., H. E.	13,625,000.00
	75 mm. Smoke Shells	5,950,000.00
September	40 mm. Bofors Shells	10,000,000.00
October	6 pdr. Shot, A.P., C/R	36,000,000.00
December	2 pdr. Shot, A.P.Q.F., C/R	307,500.00
January (1942)	2" Smoke Bombs, C/R	2,050,000.00
	37 mm. Shot, S.A.P., M74	650,000.00
	4.5" Shell, H.E., M65	6,464,080.00
	5.5" Cartridges, H.E. for machined Shells	507,000.00
	40 mm. Shells, Q.F. H.E.	385,000.00
	Fuzo, Percussion, D.A. -#251	440,000.00
	Miscellaneous	80,000.00
February	2 pdr. C/R Shot, A.P.Q.F.	4,770,000.00
	Miscellaneous	49,797.80
March	75 mm. S.A.P., C/R	5,845,000.00
April	40 mm. Shell, Q.F., C/R	5,000,000.00
	75 mm. Shell, H.E., C48	3,150,000.00
	57 mm. Shot, A.P., C/R	10,150,000.00
	2 pdr. Shot, A.P., Q.F., C/R Mk. VI/T	2,218,050.00
	4.5" Shell, H.E., M65	1,800,320.00
	Miscellaneous	8,697.00
May	75 mm. Smoke Shell, Q.F.	8,500,000.00
	3.7" Anti-Aircraft Shell Q.F. H.E., C/R, Plugged	17,500,000.00
<u>TOTAL for Shell to Date</u>		<u>\$135,526,487.80</u>

JOINT WAR PRODUCTION
COMMITTEE

Report No. 2, War Supplies Limited Contracts Classified by Type of
Munitions Ordered and by Date, Page 4

Month	Item Ordered	Value
SMALL ARMS AMMUNITION *		
August (1941)	.55 Calibre Cartridge Armor Piercing	\$ 7,500,000.00
January (1942)	Bren. .303 Ammunition	4,968,750.00
February	.55 Calibre Cartridges, W.A.P.	2,250,000.00
April	.303 Cartridges, Bren Gun Miscellaneous	3,000,000.00 15,552.00
May	Miscellaneous	7,875.00
TOTAL For Small Arms Ammunition to Date		\$17,745,177.00

* Some .303 Bren Gun Ammunition under Gun Subcommittee in December and February. Guns and Ammunition not separated.

.....

CHEMICALS AND EXPLOSIVES:

June (1941)	Miscellaneous	40,000.00
September	Miscellaneous	123,200.00
October	Miscellaneous	112,383.50
November	Miscellaneous	77,000.00
December	Anhydrous Ammonia	1,031,800.00
January (1942)	Ammonium Nitrate	3,654,000.00
	Hexachlorethane	1,151,100.00
	Miscellaneous	103,533.00
March	Miscellaneous	71,442.00
April	Miscellaneous	73,188.00
TOTAL Chemicals & Explosives to Date		\$6,437,646.50

JOINT WAR PRODUCTION
COMMITTEE

Report No. 2, War Supplies Limited Contracts Classified by Type of
Munitions Ordered and by Date. Page 5

Month	Item Ordered	Value
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MERCHANT SHIPBUILDING:

February (1942)	Merchant Vessels	\$ 1,688,000.00
March	Merchant Vessels	1,688,000.00
April	Merchant Vessels	5,064,000.00
May	Merchant Vessels	10,128,000.00
<u>TOTAL Merchant Shipbuilding to Date</u>		<u>\$18,568,000.00</u>

NAVAL SHIPBUILDING:

--	--	--	.00
<u>TOTAL Naval Shipbuilding to Date</u>			.00

AIRPLANE:

August (1941)	Harvard Advanced Trainers	\$17,687,206.09
October	Propeller Blades	518,040.49
	Tiger Moth, Primary Trainers	1,234,570.00
November	Norseman, YC-64	313,587.85
	Miscellaneous	39,870.44
December	Propeller Assemblies, Spare Parts	687,700.00
March (1942)	Propeller Assemblies	1,453,500.00
	Curtiss Dive Bombers	96,271,452.00
April	Norseman, C-64a	8,718,150.00
May	PBY-5 Flying Boats	30,975,000.00
	Miscellaneous	2,936.37
<u>TOTAL Airplane to Date</u>		<u>\$157,902,013.24</u>

WAR PRODUCTION
COMMITTEE

Report No. 2, War Supplies Limited Contracts Classified by Type of
Munitions Ordered and by Date. Page 6

Month	Item Ordered	Value
COMMUNICATIONS AND FIRE CONTROL:		
June (1941)	Radar A.S.V.C., Equip- ment, Spares, etc.	\$ 637,275.00
	G. L. Sets and Spares	24,000,000.00
	Miscellaneous	5,085.72
August	Miscellaneous	164,545.46
September	Radio Set #19	2,100,000.00
October	A. S. V. Radio Set	18,114,996.18
	Miscellaneous	30,016.44
December	Miscellaneous	5,578.54
January (1942)	Miscellaneous	105,997.57
February	G. C. I. Equipment	4,368,000.00
	Spare for #19 Radio	419,850.00
	Miscellaneous	409.50
March	Radio Set #19	12,268,735.00
	Miscellaneous	207,246.89
May	Miscellaneous	102,770.21
<u>TOTAL Communications & Fire Control to Date</u>		<u>\$62,530,506.51</u>
.....		
<u>UNCLASSIFIED:</u>		<u>\$15,623,903.20</u>
.....		
<u>GRAND TOTAL</u>		<u>\$545,817,317.53</u>

JOINT WAR PRODUCTION
COMMITTEE

THE VALUE OF CANADIAN MUNITIONS PRODUCTIONIntroduction:

The size of the Canadian munitions program as measured in value terms (U.S. dollars) is presented in Report No. 3. For purposes of comparison figures for the value of munitions production in the United States, past and forecast, are also provided.

The terms are not exactly comparable but it is believed that they are reasonably so. In the case of the Canadian program the values for periods in the future relate to the production forecasts as of April 1, 1942. It is quite possible that these schedules will be increased and that the figures presented in this table will be exceeded.

The fact that Canada secures a fairly large proportion (estimated at about twelve to fifteen per cent of the total program) of its supplies and components from the United States, must be kept in mind.

The figures cover only the production of munitions in Canada. They do not include (this is also applicable to the United States data): (1) pay and allowances for the armed forces; (2) direct purchases of munitions from the United States or the United Kingdom; (3) purchase of food and raw materials for the United Kingdom except for small orders placed through the Department of Munitions and Supply; (4) freight (inland and ocean) from the point of final assembly to the ultimate destination; (5) the value of production of aluminum, lead, zinc, nickel, copper, etc., sent to the United States or the United Kingdom.

JOINT WAR PRODUCTION
COMMITTEE

REPORT NO. 3.

Secret

Secret

THE VALUE OF CANADIAN MUNITIONS PRODUCTIONTotal Munitions Program (Unit - Thousand Dollars)

<u>Date</u>	<u>UNITED STATES</u>	<u>CANADA</u>
<u>Actual Schedule:</u>		
1941:		
First Quarter	1,200,000.	121,214.7
Second Quarter	1,530,000.	161,560.8
Third Quarter	1,910,000.	190,573.2
Fourth Quarter	2,740,000.	234,766.8
<u>Total 1941</u>	<u>\$ 7,380,000</u>	<u>\$ 708,115.5</u>
1942:		
First Quarter	4,195,000.	338,482.8
<u>Forecast Schedule:</u>		
Second Quarter	6,670,000.	477,283.5
Third Quarter	9,750,000.	551,510.1
Fourth Quarter	12,504,000.	604,021.5
<u>Total 1942</u>	<u>\$33,119,000.</u>	<u>\$1,971,297.9</u>
1943:		
First Quarter	14,148,000.	655,071.3
Second Quarter	15,914,000	689,130.
Third Quarter	17,079,000.	715,044.6
<u>Annual Rate for</u>		
<u>First Three Quarters</u>	<u>\$65,125,000.</u> *	<u>\$2,745,661.2</u>

* United States total includes fourth quarter figure of 17,984,000.

JOINT WAR PRODUCTION
COMMITTEE

Secret

REPORT NO. 4.

Secret

ANALYSIS OF CANADIAN PROGRAM BY TYPE OF MUNITIONIntroduction:

Report No. 4 is designed to indicate the importance as measured in value terms of the various munitions items in the Canadian war production program. The figures that are set out for the second quarter of 1942 and for later dates represent the value of scheduled production.

In the supplementary table the items are grouped so as to make possible a comparison between the composition of the Canadian and United States munitions programs. Except for the case of aircraft production there is no great difference between the two programs in respect to composition. There is no reason, of course, for the two programs to be similar in broad outline; especially if proper regard is paid to the advantages of specialization in munitions production.

The Canadian program which is described in this report is dated May 1, 1942. Since that date there have been some revisions in the program. For information concerning these and future revisions refer to report No. 7 and supplements to it which will be issued each month.

JOINT WAR PRODUCTION
COMMITTEE

Secret

REPORT NO. 4.

Secret

ANALYSIS OF CANADIAN PROGRAM BY TYPE OF MUNITION

Table A.

(Percentage of Total)

Item	1941	1942		1943	
		First Quarter	Total 1942	First Three Quarters	Third Quarter
Merchant Vessels	3.8	6.8	8.4	7.6	7.4
Naval Vessels	6.6	3.5	3.9	2.7	2.7
Aircraft Production and Overhaul	13.2	14.0	12.5	17.3	19.6
Automotive Vehicles	26.1	20.3	17.2	13.9	13.1
Armored Fighting Vehicles	3.7	10.5	13.1	11.6	11.2
Guns (Field A.A. & Naval)	1.5	2.9	6.9	11.2	11.0
Machine Guns and Small Arms	1.2	1.8	2.8	3.3	3.2
Small Arms Ammunition	2.	2.2	2.5	4.5	4.9
Shells, Cartridge Cases, Primers, Fuzes, Bombs	10.9	10.1	10.3	8.9	8.5
Chemicals, Explosives, and Filling	7.0	6.4	4.9	3.9	3.8
Miscellaneous	24.	21.5	17.5	15.1	14.6
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%
	(\$786.3)	(\$375.6)	(\$2190.3)	(\$2287.3)	(\$794.2)

Table B.

(Percentage of Total)

Item	Canada		United States	
	1942	3rd Quarter 1943	1942	3rd Quarter 1943
Armored Fighting Vehicles	13.1	11.2	6.5	9.9
Aircraft	12.5	19.7	22.6	32.8
Merchant Ships	8.4	7.4	5.3	4.4
Naval Ships	3.7	2.7	12.1	8.3
Guns and Ammunition	22.5	27.6	30.2	29.3
Other	39.8	31.4	23.3	15.3

JOINT WAR PRODUCTION
COMMITTEE

REPORT NO. 5RECORD OF DELIVERIES: WAR SUPPLIES LIMITED ORDERSIntroduction:

The total value of munitions delivered under War Supplies Limited contracts was approximately \$45 million up to the end of April, 1942. In May deliveries amounting to an additional \$25 million were made.

Contracts for approximately \$550 million had been awarded by the end of May. However, since many of these contracts had been signed after January 1, 1942, a volume of deliveries much in excess of that actually realized could hardly be expected.

In report No. 5, the delivery record for selected munitions items cumulative to April and through May is presented. This report will be kept up to date by supplements to be issued each month.

JOINT WAR PRODUCTION
COMMITTEE

July 18, 1943

Secret

Report No. 5, Supplement 1.

Secret

RECORD OF DELIVERIES DURING JUNE: WAR SUPPLIES LIMITED CONTRACTS

The value of deliveries on War Supplies Limited contracts for the month of June, 1942 is approximately \$34.3 million. This compares with a figure of roughly \$25 million in May, 1942.

Delivery of Selected Items During June

Item	Deliveries In June	Cumulative Deliveries to June 30.	Percent of Order Delivered to June 30.
Universal Carriers	272	2,260	66%
40-MM Anti-Aircraft Barrels	400	3,548	45%
40-MM Anti-Aircraft Shells	1,174,179	1,823,162	91%
Link Trainers	30	133	53%
Hexachlorethane (Unit - Lb.)	720,000	4,847,040	53%
3.7" Anti-Aircraft Shells	270,968	497,891	99% +
75-MM Smoke Shells	139,507	178,007	25%
No. 19 Radio Sets	250	1,053	53%
2" Bomb Throwers	1,565	2,260	29%
3.7" Anti-Aircraft Barrels	245	1,770	74%
Lee Enfield Rifle	152	16,152	16% +
Boy's Anti-Tank Rifles	690	690	2%
6-Pounder 7 Cwt. Gun	0	351	35%
37-MM Semi-Armor Piercing Shot	23,504	65,334	13%
2" Smoke Bombs, C/R	116,010	116,010	12%
Bren Machine Guns and Barrels	1,508	4,404	29%
.303 Ammunition	40,000,448	61,342,210	46%
2-Pounder Anti-Tank Equipments	60	240	67%
4.5" High Explosive Shell	75,562	169,463	25%
2-Pounder Armor Piercing QF Shot C/R	184,206	214,061	21%
5.5" Cartridges for Machined Shells, High Explosive (sets)	500	1,000	33%
Universal Bomb Carriers	2,150	2,612	26%

- Joint War Production Committee -

Secret

REPORT NO. 6

Secret

RECORD OF DELIVERIES: WAR SUPPLIES LIMITED, CONTRACTS

Item	Date of Contract	Deliveries to April 30	Deliveries in May	Value of Deliveries Through May	Percentage of Order Delivered
Universal Carriers	July and August, 1941	1,608	376	8,118,712.	58%
40-MM A.A. Barrels	August, 1941 & January, 1942	2,843	305	1,574,000.	40%
40-MM A.A. Shells	September, 1941	0	648,983	3,244,915	32%
Tiger Moth Trainer Planes	October, 1941	200	0	1,234,570	Complete
Link Trainers	September, 1941	83	20	878,487	41%
3.7" AA Shells	August, 1941	142,851	84,072	6,183,651.75	45%
75 mm. Smoke Shells	August, 1941	0	38,500	327,250	5.5%
No. 19 Radio Sets	September, 1941	253	550	843,150	40%
2" Bomb Throwers	August, 1941	0	695	260,625	9%
Lee Enfield Rifle	August, 1941	6,000	10,000	960,000	16%
3.7" AA Barrels	August and December, 1941	1,350	175	3,812,500	66%
6 Pounder A.T. Gun	August, 1941	0	351	1,228,500	35%
37 mm. S.A.P. Shot	January, 1942	0	41,830	54,379	8%
Norseman Planes	November, 1941	7	0	313,587.85	Complete
Bren Guns and Barrels	December, 1941 and February, 1942	1,750	1,146	1,263,669.60	19%
.303 Ammunition	January, 1942	9,801,506	11,540,256	853,670.48	17%
Hexachlorethane	October, 1941 and January, 1942	3,407,040 (Lbs.)	720,000	619,056	46%
2 Pounder A. T. Equipments	January, April, 1942	60	120	900,000	50%
4.5" H. E. Shell	January, 1942	25,362	68,539	910,839.70	14%
A. T. Mines Contact	February, 1942	9	19,971	101,000	100%
G/R Shot AP QF	February, 1942	0	29,855	142,408.35	3%
2 Pounder					
6 Pounder Cartridge Cases and Primers	February, 1942	0	Complete	49,797.88	100%

JOINT WAR PRODUCTION
COMMITTEE

Secret

REPORT NO. 5

Secret

RECORD OF DELIVERIES: WAR SUPPLIES LIMITED, CONTRACTS

Item	Date of Contract	Deliveries to April 30	Deliveries in May	Value of Deliveries Through May	Percentage of Order Delivered
Universal Carriers	July and August, 1941	1,608	376	8,118,712.	58%
40-MM A.A. Barrels	August, 1941 & January, 1942	2,843	305	1,574,000.	40%
40-MM A.A. Shells	September, 1941	0	648,983	3,244,915	32%
Tiger Moth Trainer Planes	October, 1941	200	0	1,234,570	Complete
Link Trainers	September, 1941	83	20	878,487	41%
3.7" AA Shells	August, 1941	142,851	84,072	6,183,651.75	45%
75 mm. Smoke Shells	August, 1941	0	38,500	327,250	5.5%
No. 19 Radio Sets	September, 1941	253	550	843,150	40%
2" Bomb Throwers	August, 1941	0	695	260,625	9%
Lee Enfield Rifle	August, 1941	6,000	10,000	960,000	16%
3.7" AA Barrels	August and December, 1941	1,350	175	3,812,500	64%
6 Pounder A.T. Gun	August, 1941	0	351	1,228,500	35%
37 mm. S.A.P. Shot	January, 1942	0	41,830	54,379	8%
Norseman Planes	November, 1941	7	0	313,587.85	Complete
Bren Guns and Barrels	December, 1941 and February, 1942	1,750	1,146	1,263,669.60	19%
.303 Ammunition	January, 1942	9,801,506 and parts	11,540,256 and parts	853,670.48	17%
Hexachlorethane	October, 1941 and January, 1942	3,407,040 (Lbs.)	720,000	619,056	46%
2 Pounder A. T. Equipments	January, April, 1942	60	120	900,000	50%
4.5" H. E. Shell	January, 1942	25,362	68,539	910,839.70	14%
A. T. Mines Contact	February, 1942	9	19,971	101,000	100%
C/R Shot AP QF	February, 1942	0	29,855	142,408.35	3%
2 Pounder					
6 Pounder Cartridge Cases and Primers	February, 1942	0	Complete	49,797.88	100%

JOINT WAR PRODUCTION
COMMITTEE

REPORT NO. 6.CURRENT MUNITIONS PRODUCTION IN CANADA COMPARED WITH FORECASTIntroduction:

In the accompanying tables, marked discrepancies between the actual monthly production figure and the production forecast for that month are recorded.

In cases in which production falls below schedule there need not necessarily have been any real failure in production; such cases may rather have been due to an unrealistic forecast. In other cases, production may be temporarily held up by shortages of components from Canadian facilities or from the United States.

In the future, monthly supplements to the report will be provided at the earliest possible date.

JOINT WAR PRODUCTION
COMMITTEE

Secret

Report No. 6, Supplement 1
(July 18, 1942)

Secret

Canada's Munitions Production in June Compared with Forecasts.

Item	June Production	
	Actual	Scheduled
<u>Selected Items for which June Production Exceeds Schedule</u>		
Bolingbroke Medium Bomber	24	17
Anson Advanced Trainer	170	157
Harvard Advanced Trainer	51	40
2-Pounder Anti-Tank Equipment	56	29
25-Pounder High Explosive Ammunition (In Thousands)	422	382
75-MM High Explosive Ammunition (In Thousands)	189	100
3.7" Anti-Tank Gun, Complete	32	24
40-MM Bofors Anti-Aircraft Gun, Complete	137	120
.303 Calibre Ball Cartridge, Mk VII (In Millions)	85.4	38
.303 Calibre Armor Piercing Shot (In Millions)	7.1	6.0
Fairmiles Mosquito Boat	10	1
Merchant Vessels (10,000 Tons)	8	6

Selected Items for Which June Production is below Scheduled Figure

Total Military Planes	370	396
Total Combat Type Planes	68	98
Hurricane Pursuit Planes	44	80
Norseman Communication Planes	1	8
Moth Primary Trainer	38	70
Valentine Tank	70	75
Ram Medium Tank	46	125
Armored Cars	0	25
Scout Cars	0	150
6-Pounder Tank Guns and Spares	238	348
2-Pounder Tank Guns	112	271
6-Pounder Anti-Tank Guns	0	52
75-MM Semi-Armor Piercing Shot (In Thousands)	0	70
2-Pounder Armor Piercing Shot (In Thousands)	218	250
Bren Machine Guns	2,632	3,500
Sten Submachine Gun	74	1,200
Boys Anti-Tank Rifle	1,000	1,500
.303 Calibre Lee-Enfield Rifle	11,654	18,000
2" Mortar, Mk II	0	100
2" Bomb Thrower, Mark I/L	1,150	1,400
.55 Calibre Armor Piercing Shot (In Thousands)	0	250
Anti-Tank Mines, Mk II and IV (In Thousands)	103	180

- Joint War Production Committee -

CURRENT MUNITIONS PRODUCTION IN CANADA COMPARED WITH FORECASTS

Item	May Production	
	Actual	Scheduled
<u>Selected Items for Which May Production is above Scheduled Figure</u>		
Hurricane Pursuit Plane	74	67
Hampden Medium Bomber (Scheduled to go out of production in June)	7	4
Fleet 60 Trainer Plane (Scheduled to go out of Production)	7	0
25-Pounder Gun	82	65
2-Pounder Tank Gun	224	150
Browning Aircraft Machine Gun	2,359	2,000
Lee-Enfield Rifle	14,000	13,000
30/06 Ammunition	1,098	800)
75-MM H. E. Ammunition	152	100) In
75-MM Smoke Shell	169	100) Units
25-Pounder H. E. Ammunition	509	382) of one
4½" B/L H. E. Ammunition	83.7	75) thou-
		sand.

Selected Items for which May Production is Below Scheduled Figure

Corvettes	2	4
Minesweepers	3	16
Motor Torpedo Boats	3	13
Merchant Vessels	5	11
Certain Trainer Type Planes (Lysander, Harvard, Norseman, Tiger Moth)	100	140
40-MM Anti-Aircraft Gun	90	125
3.7" Anti-Aircraft Gun	11	17
2-Pounder Anti-Tank Gun	34	150
6-Pounder Anti-Tank Gun	0	25
Bren Machine Gun	2,992	3,500
Valentine Tank	60	90
Ram Tank	38	120
Scout Cars	0	275
.303 Ammunition	73,433	90,725) In Units
.55 Calibre Boys Anti-Tank Ammunition	0	250) of one
75-MM S. A. P. Shot	0	60) thousand
6-Pounder A. P. Shot	110	175)

REPORT NO. 7RECENT CHANGES IN CANADIAN MUNITIONS PRODUCTION PROGRAMIntroduction:

The Canadian munitions program is subject to constant revision. Many of the changes in the program are the results of actions of the Joint War Production Committee and its technical subcommittees. The first number of Report 7 records the striking alterations that have taken place between January and June, 1942. Henceforth a report will be issued each month which will contain information about important subsequent changes in the program.

JOINT WAR PRODUCTION
COMMITTEE

Secret

Report 7, Supplement 1.

Secret

Changes between June 1st and July 1st in the Canadian
Munitions Production Program.

A change in the Canadian tank program is the most important revision reported in the July 1st schedule. The production of the Valentine Tank (16 tons) is to be brought to an end more rapidly than was anticipated, and the 1943 production schedule for the Ram Tank (28 tons) has been reduced. To offset this, production of the M-4 Tank (U.S. model) has been announced and it is to begin in the third quarter of 1943. These and other important changes are classified below.

(Table A) Items which appear in the Canadian Program for the First Time.

M-4 Tank (450 in 1943)
Armoured Personnel Carrier (1500 in 1943)
4" Naval Gun, M-23 and Mtg.

(Table B) Selected Items for which schedules have been increased
Between June 1st and July 1st.

Item	Production Schedule for First Three Quarters of 1943.	
	June 1st	July 1st
Bolingbroke Bomber	209	267
Harvard Trainer	457	710
Tiger Moth Trainer	539 (1942)	804(1942)
Cornell Freshman Trainer	206 (1942)	306(1942)
Bren Gun Carrier	6,528	11,450
Browning .300 Machine Gun	18,000	26,400
3" Trench Mortar	0	540
2" Trench Mortar	3,150	3,600
Anti-Tank Mine Mk V.	1,800	3,600
.55 Armor Piercing Shot (Unit -Thousand)	27,900	49,000
6-Pounder Armor Piercing Shot (Unit - Thousand)	4,050	5,850
.303 Armor Piercing Shot(Unit - Thousand)	140,850	180,000
.303 Ball Cartridge (Unit - Thousand)	756,000	1,016,000

(Table C) Selected Items for which Schedules have been decreased
Between June 1st and July 1st.

Item	Production Schedule for First Three Quarters of 1943	
	June 1st	July 1st
40-MM Anti-Aircraft Gun Equipment	3,600	2,500
Ram Tank	2,650	2,250
Valentine Tank	690	356
12-Pounder "A" Mk V Naval Gun	1,170	0

(This excludes items for which program has been retarded with a consequent reduction in the total expected output.)

JOINT WAR PRODUCTION
COMMITTEE

RECENT CHANGES IN CANADIAN MUNITIONS PRODUCTION PROGRAM

(Table A) Items which appeared in the Canadian Program in January which no longer appear

Anti-Tank Grenade #68
Anti-Tank Grenade #73
Stranraer Airplanes

(Table B) Items which did not appear in the Canadian Program for January which are now Scheduled for Production

90-MM Anti-Aircraft Gun Barrels
2" U.P. Naval Gun Mounting, Mk II
2" U.P. Naval Gun Mounting, Mk III
4" Smoke Discharger #2, Mk IV
Anti-Tank Grenade #75 (Filled)
75-MM Semi-Armor Piercing Shot
SB20-1 Light Bomber

(Table C) Items for which Production Schedules have been increased between January and June, 1942.

Item	1942 Output Schedule		Scheduled Output for first two Quarters 1943	
	January	June	January	June
	Corvette - Single Screw	17	21	6	10
Fairmile Motor Boats	20	46	0	N.S.
Merchant Vessels - 10,000 Tons	75	71	43	53
PBY Flying Boat	86	74	72	215
Hurricane Pursuit Plane	613	864	0	0
Twin-Engine Fighter Bomber	0	35	0	322
Anson Trainer Plane	1,059	1,526	672	615
Norseman Trainer Plane	40	70	24	114
Ram Tank I & II	1,260	1,457	750	1,750
Reconnaissance Armored Cars	1,047	1,568	520	1,050
40-MM Bofors Anti-Aircraft Gun Barrel	7,320	9,441	4,080	5,000
4.5" Anti-Aircraft Gun Carriage	N.S.*	86	N.S.*	150
6-Pounder Tank and Anti-Tank Gun	4,125	5,194	3,000	4,800
25-Pounder Gun (complete)	600	839	300	600
Bren Machine Guns	39,950	42,759	21,000	27,000
Boys Anti-Tank Rifles	28,850	36,341	30,000	45,000
2" Bomb Thrower 1/2	16,900	18,000	10,800	18,000
3" Trench Mortar II	87	216	N.S.*	0
40-MM H. E. Shells (Thousands)	3,635	4,838	1,950	1,950
20-MM Hispano-Suiza (Aircraft) Ball & H.E.I. (thousands)	N.S.*	1,900	N.S.*	16,000
20-MM Oerlikon (Anti-Aircraft) H.E.I. & H.E.I.T. (thousands)	N.S.*	600	N.S.*	5,100
40-MM Quick Firing H.E. Shells (thousands)	3,550	4,404	1,800	2,580
25-Pounder Smoke Shell (thousands)	400	888	180	570

* No Statement.

ARMY WAR PRODUCTION
COMMITTEE

Report No. 7. Recent Changes in Canadian Munitions Production Program, Page 2

(Table D) Items for which Production Schedules have been Decreased between January and June, 1942.

Item	1942 Output Schedule		Scheduled Output for first two Quarters, 1943	
	January	June	January	June
Corvettes - Twin Screw	5	0	11	9
Fleet 60 - Trainer Planes	230	62	120	0
Tiger Moths - Trainer Planes	840	555	420	480
Valentine Tanks - VI & VII	1,188	1,060	750	460
Scout Cars	4,280	2,810	2,300	2,250
Armored Cars	1,943	1,132	1,080	900
3.7" Anti-Aircraft Gun, Mk II (Less Barrel)	616*	504	720	660
4.5" Anti-Aircraft Gun Barrel	500	60	300	0**
2-Pounder Naval Anti-Aircraft Gun, Mk VIII (Less Barrel)	252	98	216	216
2-Pounder Armor Piercing Shot (thousands)	3,350	1,880	1,800	0
.303" Armor Piercing Shot, Mk I (thousands)	105	91	120	94
37-MM Armor Piercing Shot (thousands)	580	475	300	25
4.5" High Explosive, Quick Firing Shell (thousands)	260	136	120	N.S.*
3" Tank Mortar Smoke Bomb (thousands)	115	50	60	30

*Figures for April, May and June missing.

**Diverts to 90-MM

***No Statement.

JOINT WAR PRODUCTION
COMMITTEE

CLASSIFICATION OF CANADIAN MUNITIONS PRODUCTION
BY COUNTRY OF PURCHASE.

Introduction:

Report No. 8 provides a measure of the degree to which Canadian munitions are produced to fill orders from the Canadian Government, the United Kingdom and other Empire countries, and the United States. In the early stages of the war about three-fifths of the Canadian output of munitions was for the United Kingdom. Recently the relative importance of that part of Canada's munitions production has decreased while there has been an increase in production for the United States. The United States is now giving orders for Canadian munitions at a rate equal to about 40% of the peak (as currently estimated) of Canadian war production. If this rate continues, the percentage of Canada's war production for the United States will eventually be much higher than any present estimate.

Table "A" is based on W. S. L. orders in effect on May 1st, 1942. In the last two months more than \$250 million in additional orders have been given of which \$140 million is for merchant vessels. These ships are to be delivered during 1942 and the first few months of 1943 and, consequently, it was possible to correct the figures in Table "A" for this one large order. Other large upward revisions in the percentage for the United States are also indicated for 1942 and particularly for 1943, but it is not possible at this moment to estimate the size of this increase accurately.

In Table "B" the effects of the merchant ship contract are allowed for but no provision has been made for the effects of other recent large contracts.

It should perhaps be emphasized that these figures can not be used to measure Canada's own financial contribution toward the war effort. Canada has agreed to provide munitions to a value of one billion dollars to the United Kingdom. These goods are being ordered by the United Kingdom but their production is financed by Canada.

JOINT WAR PRODUCTION
COMMITTEE

Secret

REPORT NO. 8

Secret

CLASSIFICATION OF CANADIAN MUNITIONS PRODUCTION BY COUNTRY OF PURCHASETable A Sources of Orders for Canadian Munitions

Country	1941	1942		1943	
		First Quarter	Total 1942	First, Second and Third Quarters	Third Quarter
Canada	38.1%	33.5%	37.1%	36.3%	33.9%
U. K. & Other Empire	60.2%	60.2%	51.9%	48.1%	45.6%
United States	1.7%	6.3%	11.0%	15.6%	20.5%

Table B Sources of Orders for Canadian Munitions in 1942, after allowance for Merchant Ship Contract.

Canada	30.6%
United Kingdom and British Empire	51.1%
United States	18.3%



 COMMITTEE

3208 O St N.W.
 269 Washington D.C.
 August 4 - 1942

O
 My dear Mr. Morgenthau,
 Permit me to thank
 you for your letter of consolation
 which brought me deep comfort
 following the shocking news
 of my husband's death in
 Chungking.

My children and I appreciated
 your generous tribute and
 will always treasure your
 letter.

Very sincerely yours
 Dora C. Fox
 Mrs. A. Manuel Fox.

Hon. Henry Morgenthau Jr.
 Washington
 D.C.

O



DEPARTMENT OF STATE
WASHINGTON

*Copy to
270
Mr. White 8/5/42*

In reply refer to
FA 393.113 Fox, A. Manuel

August 4. 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and, with reference to previous correspondence concerning the death of Dr. A. Manuel Fox, encloses a copy of a despatch, together with its enclosure, concerning the resolution adopted by the Stabilization Board of China in regard to the late Dr. Fox, which the chairman of the Board desires to have communicated to the Secretary of the Treasury.

Enclosure:

From Embassy at Chungking,
no. 481, June 23, 1942 with
enclosure.

RECEIVED
U.S. DEPT. OF STATE
AUG 11 1942
COMMUNICATIONS SECTION



MST

EMBASSY OF THE
UNITED STATES OF AMERICA

271

No. 481. Chungking, June 23, 1942

Subject: Death of Dr. A. Manuel Fox, American member of the Stabilization Board of China; resolution of the Board.

The Honorable
The Secretary of State,
Washington, D. C.

Sir:

I have the honor to enclose copy of a letter addressed to me by Mr. K. P. Chen, Chairman of the Stabilization Board of China, communicating a resolution adopted by the Board at a meeting on June 22d, expressing profound regret at the death of Dr. A. Manuel Fox, the American member of the Board.

Mr. Chen has requested that this resolution be communicated to the Secretary of the Treasury.

Respectfully yours,

C. E. Gauss

Enclosure:

1. From Mr. K. P. Chen,
June 22, 1942.

Original and one copy to the Department

130/851 True copy
CNS/mal of signed original

Enclosure no. 1 to despatch no. 481 dated June 23,
1942 from American Embassy at Chungking.

(C O P Y)

STABILIZATION BOARD OF CHINA
Central Bank Building
Taomenkou, Chungking

June 22, 1942

His Excellency Mr. C.H. Gauss,
United States Ambassador to China,
Chungking.

Dear Mr. Gauss,

I have the honour to convey to you the following resolution which has been adopted by the Stabilization Board of China, and I will appreciate it if you will transmit it to Secretary Morgenthau of the United States Treasury:

"It is resolved that the Stabilization Board of China, in assembly at 2.30 p.m. on June 22 in the Board's Office at the Central Bank Building, Chungking, expresses its profound regret at the passing away of Mr. A. Manuel Fox, the American member of the Board, on June 21, 1942;


"that it desires to express its deep appreciation of his devotion to China and of his untiring activities on behalf of the Board from its inception;

"that it wishes especially to emphasize his successful efforts to facilitate China's control over its foreign exchange resources during and after his Manila trip and his outstanding services in the course of his recent arduous trip to the United States in promoting Sino-American economic cooperation in which he made substantial contributions to the strengthening of the struggle of the United Nations against aggression."

Yours very truly,
For THE STABILIZATION BOARD OF CHINA,

(Signed) K. P. CHEN

K. P. Chen,
Chairman.

(True copy:
(Compared: )

Treasury Department **273**
Division of Monetary Research

8/7/42

Date.....19

To: Mrs. McHugh

I spoke to the Secretary
orally about this.

See Group 8/7/42-

MR. WHITE
Branch 2058 - Room 214½

White



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
TA 893.24/1394

August 4. 1942

My dear Mr. Secretary:

Enclosed is a copy of a letter of July 20, 1942 which the Department has received from China Defense Supplies, Incorporated, indicating changes in the directors and officers of that Corporation, and the persons authorized to sign requisitions under the Lend-Lease Act.

Sincerely yours,

For the Secretary of State:

Dean Acheson
Dean Acheson
Assistant Secretary

Enclosure:

Copy of letter from
China Defense Supplies, Inc.,
July 20, 1942.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS
AND STOCKS

RECEIVED
TREASURY DEPARTMENT
AUG 2 1942
DIVISION OF
MONETARY RESEARCH

RECEIVED
Treasury Department
AUG 2 1942
Division of
Monetary Research

CHINA DEFENSE SUPPLIES, INC.
1601 V Street NW.,
Washington, D.C.

-2-

July 20, 1942

The Honorable Secretary of State
Washington, D. C.

C. S. Liu

Chairman of the Board
and Director

2871 Woodland Dr. NW.,
Washington, D.C.,
Woodley Pk. Tower,
Washington, D.C.

Attention of Division of Controls

Donald F. Harding

Title and address given above

Dear Sir:

Ernest S. Hollimon, Jr.

1027 19th St. S.,
Arlington, Va.

Reference is made to our letter of May 27, 1941 advising you, among other things, of the names and addresses of the Directors and Officers of China Defense Supplies, Inc., and the authorized agents of that Corporation who had been nominated as signing officers of requisitions for defense articles under the Lend-Lease Act of March 11, 1941. ~~It is noted that the following names are no longer authorized signing officers of the Corporation.~~

At the annual meetings of the Stockholders and the Board of Directors held on July 14, 1942 the following changes were made in the Officers and Directors of the Corporation as listed in the letter of May 27, 1941:

CHINA DEFENSE SUPPLIES, INC.

<u>Name</u>	<u>Title</u>	<u>Address</u>
	WM. S. YOUNGMAN, JR. President	
William S. Youngman, Jr.	President and Director	1726 Hoban Rd., NW., Washington, D.C.
ATTEST: Donald F. Harding	Assistant Treasurer	Washington House, Washington, D.C.
WHITTING WILLAUER	Assistant Treasurer	Maryland Ct. Apts., 518 Ninth St. NE., Washington, D.C.
Elsa Gullander	Secretary	401 Elm St., Chevy Chase, Md.
Whiting Willauer	Director	Hotel 2400, Washington, D.C.
Sao-Ke Alfred Sze	Director	2101 New Hampshire Ave. Washington, D.C.
P. H. Ho	Director	

Messrs. David M. Corcoran, Lawrence Morris, James J. Cook and Richard W. Bonneville, formerly Director and President, Director and Vice-President and General Counsel, Assistant Treasurer, and Secretary, respectively, are no longer associated with the Corporation as Officers or Directors; the other officers remain as listed in the letter of May 27, 1941.

At the July 14th meeting the list of those authorized as signing officers of requisitions for defense articles under the Lend-Lease Act of March 11, 1941 was revised as follows:

Treasury Department
Division of
T. V. Soong

-2-

T. V. Soong	Chairman of the Board and Director	2871 Woodland Dr. NW., Washington, D.C.
C. S. Liu		Woodley Pk. Tower, Washington, D.C.
Donald F. Harding Blaine S. Hollimon, Jr.	Title and address given above	1027 19th St. S., Arlington, Va.
Whiting Willauer William S. Youngman, Jr.)	Titles and addresses given above	

Messrs. Lawrence Morris, David M. Corcoran, James J. Cook and Richard W. Bonneville are no longer authorized signing officers of the Corporation.

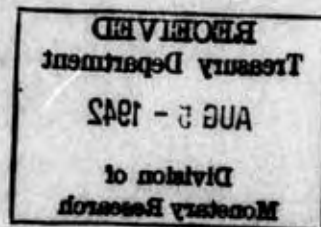
Very truly yours,

CHINA DEFENSE SUPPLIES, INC.

By WM. S. YOUNGMAN, JR.
President

ATTEST:

WHITING WILLAUER
Secretary



August 4, 1948

Mr. Lantry

Mr. White

Will you please send the attached cable to the American Embassy, Santiago,

Chile.

"For Aides from Secretary of the Treasury."

1010/4/48

August 4, 1942

To: Adlar, Chungking, China.
From: Secretary of the Treasury.

Mr. Curvis in cable dated July 21, 1942 has informed us that he has indicated informally to Mr. Deng the growing resentment of United States diplomatic, military and charitable organizations over the declining purchasing power of the U. S. dollar in China. Mr. Curvis says that he has raised the question of leaving the official rate as is but giving special rates for special purposes.

Please send all information available regarding the following matters: (a) What rate of exchange in your opinion would approximate purchasing power of the U. S. dollar in China to that of one year or two years ago; (b) Are there significant differences between the purchasing power of the U. S. dollar in Chungking and its purchasing power in other areas in Free China where Americans reside; and (c) What, if anything, is being considered to meet the situation outlined by Mr. Curvis.

We also would like to have your views on Mr. Curvis's proposal and as to whether you feel this matter should be raised with the Chinese Government at this time.

ISF/eds
8/4/42

C
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P
Y

279

EM

AIRGRAM

Lima

Dated August 4, 1942

Rec'd 2:45 p.m. 10th

Secretary of State

Washington

A-26, August 4, 4:30 p.m.

Reference Department's airgram No. A-12 of July 18, 1:35 p.m., inquiring if there are any developments with reference to outstanding and defaulted Peruvian bonds.

The Embassy has been unable to obtain any definite information with reference to the Department's telegram No. 499 of June 9, 2 p.m., until today, when the Director of the Budget stated that Finance Minister Dasse had instructed him to include \$5,000,000 in the 1943 budget to be applied to interest on the defaulted bonds and \$4,000,000 to be used for amortizing the same. This of course is for guarded dissemination, since the approval of Congress is necessary. The Director is of the opinion the two items will be approved.

The subject of purchases of defaulted bonds by the Peruvian government has been discussed with three persons who are well informed in banking circles as well as with one of the higher officers of the Finance Ministry.

The consensus of opinion among those consulted is that any development which may have taken place is so closely guarded that it would not be known to more than one or two of the highest officials in the country. The informants considered it reasonable to accept the view that a certain amount of purchasing may have taken place recently as well as in past months and even years; but that such operations most likely would not be conducted by the government or any agency thereof, but rather through some representative.

The only recent information available concerning purchasing operations is contained in a copy of an intercept of the National Censorship of America, giving an extract of a communication dated May 26 from Sire Fusi, 38 Wall Street, New York, to Banco de Credite del Peru, Lima, Peru, which is quoted as follows:

"The writer, an international banker, is an Italian born American citizen, whose wife Christina is a Pro-Nazi Suspect.

"Addressee was formerly the Banco Italiano, is now a Peruvian Institution and has been given an O.K. rating.

"LARGE PURCHASES OF REPUBLIC OF PERU BY AN INDIVIDUAL FOR PERUVIAN BANK

"Writer confirms sale to addressee of \$85000. par value Republic of Peru 6% Bonds at 14.125 net which he will deliver to Chase National Bank as usual.

"Also advises delivery to said Bank of \$78000. 6's of 1960 and \$157000 6's of 1961 against their check for \$30366.75.

"Enclosed copy of his letter to Chase National Bank to which is attached letter of Glere, Fergan & Co., 38 Wall St., addressed to Sire Figi, Office, which reads as follows: 'We deliver to you herewith for the account of Mrs. Christine Fusi the following securities:' Then follows the numbers of the Bonds delivered."

The Embassy has considered it useless to directly approach any employee of the government or of the bank for the purpose of obtaining further details on this operation, but efforts are being made to learn more about these transactions by indirect methods which possibly will give some results within the near future.

In connection with the foregoing, it may be mentioned that Mr. Dasse, the Finance Minister, in December and succeeding months requested the Department's opinion with reference to obtaining the services of Mr. Fusi as manager of the Banco de Credite del Peru, then known as the Banco Italiano. Mr. Dasse was uncertain with reference to Mr. Fusi's present political inclinations, and it was for this reason that he desired to know the Department's opinion on the subject. As will be remembered, the Department later suggested that this person would probably not be suitable for the purpose mentioned.

NOV 28

COPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTTEL No.266

Information received up to 7 A.M., 4th August, 1942.

1. NAVAL

Five motor gunboats on patrol in the Channel yesterday engaged 4 small enemy vessels. Hits were obtained, but the enemy escaped into BOULOGNE. Last night a Channel West-bound convoy was attacked by enemy aircraft and E-boats. One merchant vessel was damaged.

2. MILITARY

RUSSIA. Heavy fighting continues in the DON bend. The Germans have advanced further in the SALSK sector, but their claim to have captured the town itself is still unconfirmed.

3. AIR OPERATIONS

WESTERN FRONT. 3rd. 16 Spitfires attacked railway targets in HOLLAND, one of them is missing. About 30 enemy aircraft operating singly with cloud cover flew over this country, one was destroyed and 8 damaged. 34d/4th. 8 Lancasters laid mines in KIEL HARBOUR and in the WEST BALTIC. All returned safely.

EGYPT. 1st/2nd. Heavy and medium bombers attacked TOBRUK HARBOUR claiming near misses on shipping and starting fires at the petrol installations. BARDIA HARBOUR and FUKA Landing Ground were also bombed.

2nd. Our fighter bombers effectively attacked an enemy reconnaissance unit near the Western edge of the QATTARA Depression and destroyed a petrol dump and several vehicles.

4. HOME SECURITY

3rd. During daylight some bombs were dropped at widely separated places in YORKSHIRE, LEICESTERSHIRE, LINCOLNSHIRE and DEVONSHIRE, at MIDDLESBROUGH a train was hit and the railway station damaged. At TORQUAY 7 persons were killed.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 4, 1942

TO Secretary Morgenthau
FROM Mr. Hoflich

Subject: Summary of Intelligence Reports

Supply routes to China through Russia

China cannot be adequately supplied by way of the various routes through Russian-controlled territory. The reasons run in terms of insufficient capacity, inadequate fuel, military vulnerability and political complications (Russian fear of provoking Japanese attack). For the regular delivery of substantial supplies, there are no satisfactory substitutes for the shorter land and air routes from India to China. To restore these fully, it is necessary to drive the Japanese from northern Burma. This is according to an analysis by the Far Eastern Section of the Office of Strategic Services.

German-Japanese Blockade-Running

Blockade-running between Germany and Japan is on the increase, according to data compiled largely from British sources by the Office of Strategic Services. If present traffic continues, it may be adequate to meet the deficiency in Germany's rubber requirements, and may substantially ease her position in tin, tungsten and hemp. Also, Japanese machinery imports may increase her productive capacity. While actual tonnage figures are relatively small, private reports to the British Ministry of Economic Warfare stress the strategic value of the cargoes involved.

The German-Japanese trade uses two routes: (1) via the Dutch East Indies and the Cape of Good Hope to Dakar (10,000 miles), and (2) via the Pacific and Cape Horn to Dakar (14,000 miles). French shipping and French ports have been helpful to the Axis.

(O.S.S., "The War This Week", July 23 - 30, 1942)