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August 5, 1942
9:10 a.m.

LEND-LEASE IN REVERSE - *currency, relief, etc. -*

Present: Mr. Bell
Mr. White
Mr. Paul
Mr. Cairns

H.M.JR: Have you all had a chance to study this?

MR. BELL: We read it over last night in my office.

MR. PAUL: We have been over it.

MR. WHITE: We have been over it carefully.

MR. CAIRNS: I read it last night.

H.M.JR: Is there anything I should say?

MR. PAUL: There is nothing terribly important. There is one suggestion. I think Huntington has talked to Dean Acheson about it.

MR. CAIRNS: That is stated in the memo.

H.M.JR: What is that "except for the wages and salaries"? What does that mean?

MR. CAIRNS: The British agree to supply materials, services, and supplies. The question arose, would they pay for local labor in - say each American barrack is being put up with supplies from England, then who pays for the local labor? That was not covered. I asked Dean, and Dean said that we would pay for it. If that is so, then he needs this clause because the preceding clause in the agreement has the same language, "materials, services, and supplies, except the wages and salaries

of American workmen," and if they put it in the preceding clause, they must put it in the subsequent clause.

MR. PAUL: By implication it would be the other way around.

H.M.JR: What you tell me, "except for the wages and salaries of United States citizens and local labor other than British subjects" - in Egypt - I mean the Egyptians - who would pay the Egyptians?

MR. CAIRNS: We would, but if a British subject in Egypt worked on the barracks, the British would pay him.

H.M.JR: I see, and that is not clear?

MR. CAIRNS: As it is written, it is the other way around.

H.M.JR: Did you tell him?

MR. CAIRNS: No, this I discovered about nine o'clock last night. I asked the question about six o'clock. We don't want to urge it if he wants to let it go.

MR. BELL: It is a rotten agreement.

H.M.JR: Why?

MR. BELL: There are sentences in it that you don't know what they mean.

MR. PAUL: It looks like the kind of agreement you get when people have disagreed and tried to compromise through words and general items.

H.M.JR: Should I say I think it is a poorly-drawn agreement?

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MR. CAIRNS: I think we are in default, Mr. Secretary, for not having said it before.

H.M.JR: Why haven't we said it before?

MR. WHITE: We never were asked before.

H.M.JR: Well, you have had the copy here. Go ahead, talk up. Why are we in default?

MR. CAIRNS: How long have we had it?

MR. WHITE: They have kept us informed; they haven't asked us about it. I should have imagined that what was going to happen was that at one period or another there was going to be a meeting. They kept giving us these subsequent drafts, not asking us or getting us in on the negotiations, and now is the time when they ask your approval. Now is the time to comment on the draft. At least that would be my interpretation.

But I don't feel quite the way they do. There are a couple of sentences in there that are a little difficult to understand, but I think, in the main, why the lawyers are apt to feel it is a poorly-drawn agreement, is because it is a loosely-drawn agreement, in which essentially the interpretation of many things are left to joint agreement later on.

H.M.JR: But you had - you told me you wanted to go out and get an agreement, that you had the agreement in your shop.

MR. WHITE: Not this one, but we had the earlier one, and the still earlier one. The still earlier one came to you and was considered in detail by your large committee. After he went back, he renegotiated an agreement and he sent us a copy, which was the one before this, and I sent the memorandum to you, explaining what the difference between that agreement and the other one was. This is the final agreement.

H.M.JR: But you didn't send it to the General Counsel's office?

MR. WHITE: One should have gone. I mean, I had ordered it to go. We had an earlier copy, and I tried to find out yesterday why it didn't go.

H.M.JR: But it didn't go?

MR. WHITE: I don't know. He says it didn't.

H.M.JR: Well --

MR. BELL: I think Harry is right. We did have a right to assume after your meeting here that day, to which you objected in particular to the three hundred million dollars, that there would be another meeting, and there has been none.

H.M.JR: I will tell you exactly what happened on that. They asked White, as I remember, to come to the meeting in Acheson's office, and White and I talked it over. We agreed that White shouldn't go. Is that right?

MR. WHITE: I wasn't able to get you until a little afterwards, and you said it was all right.

H.M.JR: Because I said the meeting should have taken place here, but I thought that we were talking about the thing with Australia at the time.

MR. WHITE: They were both in the offing. The Australian agreement hasn't been agreed to. We started with the Australian agreement.

H.M.JR: Then we decided that Acheson couldn't go ahead without consulting me; then the first thing I knew was when he called me yesterday.

MR. BELL: Well, I suppose it is something --

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MR. CAIRNS: I don't think we should raise any point about its being ambiguous.

MR. WHITE: The Australian - we got the last copy on June 26, and they still are having difficulties now.

H.M.JR: Has the General Counsel's office gotten a copy?

MR. WHITE: He automatically should have gotten a copy. Photostats are made, a copy for me, and a copy for them. That hasn't happened. There is some slip somewhere, but they usually get them.

H.M.JR: Let's see that they get the Australian one.

MR. WHITE: Yes. It was just a question of some slip in the office.

MR. CAIRNS: I get most of them. There is a standing order from Harry that I get them.

MR. WHITE: I think we are not at fault for not calling their attention to these details before this, because the only time we consider a legal document, it appears to me, is when you get a document which they say is the final document.

The same thing is occurring with this relief document. They are undertaking these relief negotiations. They have had a number of preliminary drafts, and I have asked them at what time they expect the Treasury approval. They say some time before they make the final draft, and the final draft is just coming in.

MR. PAUL: About three hours before.

H.M.JR: I am going to tell them that as far as we are concerned our people here think it is a poorly-drawn draft.

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MR. WHITE: I think you have to specify where, because that is the first question he is going to ask.

H.M.JR: You could do it, couldn't you?

MR. CAIRNS: Yes.

MR. WHITE: I would like to see a memo.

H.M.JR: Now just a second, would there be three faulty places you could point to?

MR. CAIRNS: Yes. I can read them right now. I don't know what the sentences mean. He will tell me that he knows what they mean, but I don't know.

MR. PAUL: Of course, the question will arise five years from now and somebody else will be over there.

MR. BELL: Unless you have a very good file of the whole background you won't be able to interpret it.

MR. WHITE: That is right. I mean, after all, there is some background to this, and either your criticisms are quite warranted or there may have been some explanation in the past. All I am suggesting is that he is going to ask what is wrong if you tell him it is a poorly-drawn document, and there may be some things that we may agree are not poorly-drawn, merely the exigencies of the occasion. We could iron those out before we tell him that.

MR. PAUL: You could say "ambiguous" instead of "poorly-drawn."

MR. BELL: I think that is a good suggestion. There seem to be parts of it that are ambiguous.

MR. PAUL: Instead of saying "poorly-drawn"--

H.M.JR: All right.

MR. PAUL: It may be deliberate. I don't know what that sentence meant that we discussed last night.

(The Secretary held a telephone conversation with Dean Acheson, as follows:)

August 5, 1942.
9:20 a.m.

HMJr: Hello.

Operator: Mr. Acheson.

HMJr: Hello, Dean.

Dean
Acheson: Yes, Henry.

HMJr: Good morning.

A: Good morning, sir.

HMJr: Our people have been over this draft and, of course, it's a most difficult way to work and if you really want the benefit of the Treasury's advice, it's impossible to get it on this way, but the State Department has done this thing so often I can't help but think it's deliberate, that they never give us any time. Now there is one thing definitely that Huntington Cairns will tell you, that he - he thinks there should be a change - and also, of course, there are things here which our men don't understand. They say it's ambiguous. Possibly that's the way you want it. But we can't get something at four o'clock in the afternoon and make any real contribution. Hello?

A: Yes, Henry.

HMJr: And I'll let Cairns tell you this one sentence. (Talks aside) You can go on the other phone - and - I mean, as to the - other than this one thing, as to the monetary aspects of it, I - I have no objections....

A: Yeah.

HMJr:but I - you can't expect the Treasury to make any contribution on the - on the - working under those - under such high pressure. It's impossible. Well, I'll let Cairns talk to you.

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Huntington
Cairns:

Dean?

A: Yeah.

C: Good morning.

A: Good morning, Huntington.

C: Paragraph 3c - do you have in front of you?

A: I - I will get it. Now wait just one minute.
Three....

C: On page four.

A: "Supplies, materials, and services."

C: Yes, you'll notice at the end you have an
exception for the wages and salaries.

A: Of United States citizens.

C: Yes, now 3d begins with the same words,
"Supplies, materials, and services." And
last night you stated it was the intention
to have us pay for local labor. If that is
so, there ought to be a similar exception
at the end of 3d. Otherwise, it would be
the implication that wages and salaries will
be paid by the British.

A: Well, now wait a minute. Let me go over that.
The "c" had to do with - with "Supplies,
materials, and services needed in the con-
struction of military projects in the United
Kingdom or in the British Colonial Empire."

C: Yes.

A: Now that's contemplated as the sort of thing
that they're doing in North Africa - I mean,
North Ireland and Scotland, and there the idea
was that whatever, including labor, could be
furnished locally, they were going to furnish.

C: Yes.

- A: But our own people who were sent over from here to work on those projects would be paid by us. Now "d" refers to bases or whatever we may be working on in territory outside the United Kingdom and the British Colonial Empire, and there it's - the idea was that supplies, materials, and services needed for that sort of work - "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." In the case of "d" we are - for instance, suppose we were doing something in Basra, then the question is could - is it more practicable to get something that you need or a service that you need from Great Britain or the Colonial Empire than from the United States. I don't think the question of local labor enters in there, because that's a responsibility of ours anyway.
- C: Well....
- A: Yes.
- C:last - last night we agreed that local labor would be paid for by us.
- A: Yes.
- C: But now, you see you except from services in 3c wages. Will not the implication arise in "d", if it is not excepted, that it includes wages?
- A: Well, I think that the exception or - or the thing that you have in mind is in those last words anyway, "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." I don't think there's anything in "d" anyway which would suggest that the British have to pay for local labor in a place outside of the United Kingdom of - or the Empire.
- C: All right.

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- A: Now if - if in doing something in Basra it was desirable to get some labor from some place which was in the Colonial Empire and we asked them for it and they sent it, then they would pay for it. But if you're getting some Arabs around there to work, then there's nothing in "d" which says that they would have to pay for it anyway. So I don't think you need that exception.
- C: Well, I was just suggesting - calling your attention to the apparent discrepancy between "3" "c" and "d". I'm not....
- A: Yeah, well, I....
- C:urging you. I just wanted to tell you....
- A:I - I was just trying to explain that I don't think there is this discrepancy, because I think that "to the extent that"....
- C: Yeah.
- A:takes care of the thing anyway.
- C: All right, just checking.
- A: Yeah.
- HMJr: Well, you can tell Mr. Hull that as far as the money arrangements are concerned, as we understand them, it's all right.
- A: Yeah. All right, thank you very much. Now, Henry, on the point that you raised of our giving it - it to you at the last minute....
- HMJr: Yeah.
- A:this thing is something which the British have - have been putting on us at the last minute.
- HMJr: Yeah.
- A: We went over a draft with you, I think the last time was in May.

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HMJr: Yeah.

A: We gave that draft to the British.

HMJr: Yeah.

A: They have been fooling around with the thing until yesterday, when they suddenly decide that Parliament is going to adjourn tomorrow and they want to do something in a terrible rush which they've taken ever since the twenty-fourth of March to - to think over. So - I mean, we - we haven't been delaying this on you. We're - we're just pushed ourselves.

HMJr: Well, I mean, if they've taken three months or whatever it is, I don't think it's asking too much - they could hold Parliament one day extra if necessary. After all, they've been fooling around with this thing so long. Well, anyway....

A: Yeah.

HMJr:it's - it's a very - it's - as far as I'm concerned - I mean, we don't feel here - I mean, that all I can say is the money arrangements are all right.

A: Fine.

HMJr: What the draft means, I take it you know. There are lots - there are places in there we don't. But that's your responsibility so that's that.
(Laughs)

A: (Laughs) All right.

HMJr: After all, it's - when - when the misunderstandings begin to crop up, I hope you'll be around to explain them.

A: (Laughs) Well, I hope - I hope I'll follow Ed Foley (laughs)....

HMJr: I see.

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A:and be a sergeant off somewhere by that time.

HMJr: Well, if you follow Ed Foley you'll be a general.

A: (Laughs) Well, I then follow a long way behind Ed.

HMJr: All right.

A: Thank you, Henry, very much.

HMJr: Goodbye.

A: Goodbye.

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MR. PAUL: I don't agree with him at all. I don't know as he got the point, but what do we care.

H.M.JR: Well, I made the record; the record is there. Harry has gotten to be a regular diplomat on me. "Get these things off my chest," I say.

MR. WHITE: Well, as I say, I was merely - we might have difficulty showing that it is a poorly-drawn document, unless - from a legal point of view, I wouldn't know. I wouldn't regard it as a poorly-drawn document.

MR. CAIRNS: If you can't understand it, it is poorly drawn. I don't think we ought to raise that issue with the State Department.

MR. BELL: It is a diplomatic document.

MR. WHITE: We have an identical document on the lower level - let's decide how to handle it - with regard to the relief proposal which they are making. There have been a number of plans. I think they are approaching the final plan. Now, either you can go over an earlier plan - the latest plan that we have - and make suggestions to them, or you can wait for the final plan.

H.M.JR: No. In view of what has happened here, I think, if it is agreeable to Paul - I think that you and Paul, if he wants to, and Huntington, and Bell, should have a trial run over the thing, the four of you, and then come in and see me.

MR. BELL: What are the relief plans, relief for what?

H.M.JR: This week.

MR. WHITE: It is a proposal which the British and the Americans have been considering, to establish

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an organization for relief in Europe. The President doesn't apparently--

H.M.JR: Now, we are going over on an interview on this thing, and on the legal view of this thing, I think we had better have an attorney present. Bell, White, and I are going over to see Mr. Hull on this question, this extra-confidential question of what kind of money we are going to use if we have a second front in the country in which they operate. Now, he has appointed on that Berle, your (Cairns') pal, Feis, and Pasvolsky.

MR. PAUL: I think Cairns ought to go from here.

H.M.JR: I tell you what you ought to do. There are three or four documents on it which you ought to read up on between now and eleven o'clock. You can get them from White if you can find them.

MR. WHITE: I will see that you get one. I will deliver it personally.

H.M.JR: On this thing, very briefly, just to give you a little history of it, this triple-confidential cable came in from General Eisenhower, in which he said that the British had printed up several million pounds of overprinted money that they expected to use in their Army and expected us to use. We here said, "No. If we use any kind of money, we are going to use our own money." There are two reasons. In the first place, we think the population would like dollars better, and second, the whole implication of what kind of money you begin to use when you move into a country is reparations, settlement, and so forth.

Well, I had lunch yesterday with the Minister of Foreign Affairs of Holland, who is an unusually clever and able gentleman, and I, in confidence, put this proposal to him. We have been taking the position we wanted the U.S. to put on the money, "U.S. Army" or

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the word "military." Stimson didn't like it; Feis didn't like it. I don't know where Hull sat. You never know. But Stimson very definitely didn't like it.

After talking with this man, Von Kleffens, he immediately said, "Well, people, the peasants of Europe, know money; they have been stung so often with all kinds of money. They know it, no matter how small you print it. They will consider it class B dollars."

MR. BELL: To overprint it?

H.M.JR: Yes, and they will shrink from it. Of course, the argument which is advanced by the Treasury is, well, supposing we get pushed out and then leave all these millions of dollars there, which the Germans get, and so forth, and so on. Well, that approach - the Germans are clever. They can also say, "You are using overprinted money; you don't expect to stay there. You expect to get pushed out." It would be a swell argument for them. So after thinking about it very carefully, I decided not to recommend overprinted money.

MR. BELL: Do you want me to make a suggestion?

H.M.JR: Could you hold it a minute? Now, I am going to suggest - I don't know whether I will suggest it over there, but to the President, anyway, that we at least try to strike a bargain with the English on this, because Von Kleffens said, "There is no question, the French and Belgians don't like the English money; they like the American money," and this all has to do with the matter of morale in getting civilian population cooperation. The English will immediately say, "All right, you use your kind of dollars; we will use ours."

My suggestion is that we use for both Armies U.S. dollars and that this would be the first foot in the door that the United States, when this war is over, is going to settle - the U.S. is going to settle what kind of Europe it is going to be afterwards.

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Now, going back, Harry raised the question on this matter of relief in Europe with this Englishman, an economist over here - what is his name, Frederick Leith-Ross. Leith-Ross comes in here and says, "Now we are all sitting around talking about relief in Europe when this is over, how to feed, clothe, and house this population." He says, "Everybody overlooks the very minor little matter of who is going to pay for it."

He said, "How do you feel about it, Mr. Secretary?" So I said, "Well, we have got so many other things which come first."

But you might as well be realistic about it. Who is going to pay for it? We are going to pay for it. The English are going to be busted; they are not going to pay for it. And I am just going to advance the theory, because you start one place, and the President might go a quarter of the way - we might just as well say it, because we are going to do it anyway. "All right, if these armies go in, we are going to pay for these armies; we are going to pay for the stuff we buy." And we are now going to say, "We recognize the fact that the United States is going to have to take the relief over in Europe, and in return for that we do not want - we will set up once and for all the kind of Europe that we expect."

Now, Von Kleffens, who was on the Dawes Commission, was telling me - I had not been a student - I suppose I ought to begin to read up on it. Harry, you might get out some of the literature on it for all of us. He said to me, for instance, "When the Germans withdrew, you know" - I was very hazy, most of this was new - he said, "When the Germans went into Belgium, the first thing the Belgium Government said was, 'What are we going to do with all this German money?'"

"The Belgians," he said, "gradually took it in, naturally at a depreciated value."

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But then he said, "Just as soon as the Belgians went up against the Germans about getting the Germans to pay for reparations in Belgium, the Germans said to the French, 'Look, after all, the Belgians haven't priority on all reparations. Why not let us help you?' The French said, 'That is right,' and they went ahead and helped the French and left the Belgians in the hole for a while."

The point he is making is, "After all, take Holland, we have lost all our bridges; we don't say we want the Germans to rebuild them, but we want them to furnish the steel."

And the first question that is going to come up is this whole question of reparations. If we are going to go through this whole thing all over again of reparations and grinding the German people down again through malnutrition, through inflation, and through another Versailles Treaty and go all through this stuff again, in another twenty-five years we will have another war; and leave the French to themselves with the same boundaries, the Belgians the same boundaries, and the Dutch the same boundaries, and the Norwegians. We will go through exactly the same thing all over again, I mean, because these people are what they are, and they won't change.

Now, the only thing that can change is they won't have a League of Nations, each one having a vote. You can't do it. The only way that this thing can be changed so that Europe might live at peace for a hundred years is if the United States will say, "All right, we will take this white man's burden, and we are going to set up the United Nations peace, tariff walls, and so forth, and so on, try to set up an ideal state that might be good for a hundred years. If we do, we are going to have to pay for it."

Then, going a step further, I have heard the President say "Winston and I will write the peace treaty." I think it had better be Franklin Roosevelt without

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Winston, and also I think it had better be the United States that does the international policing without Winston. I think it had better be the United States that decides that all of these munitions factories will be leveled to the ground and destroyed, and the munitions machinery, airplanes that can't fly more than two or three hundred miles, all the rest of that stuff.

Now, we might - but if we start going into these countries and the English are going to take the attitude right from the beginning, "We are going to dictate the peace of Europe," the whole thing is going to be repeated.

That is a long speech for me. What happened last time? We did most of it - certainly we did most of the feeding and the clothing of Europe and got nothing. Wilson got nothing. He got two--

MR. CAIRNS: He got the Island of Yap.

H.M.JR: I don't even know where that is.

MR. BELL: He got a lot of obligations.

H.M.JR: What is the Island of Yap?

MR. CAIRNS: That was an island in the Pacific.

H.M.JR: Now, maybe this is very Wilsonian, maybe this is very - going back to the Biblical times - maybe it is purely daydreaming, but lacking something like that, gentlemen, if you don't misunderstand me, it is the kind of thing that Christ spoke of and taught, and not the kind of Christ which is interpreted now, but the kind of teachings which he actually taught. And lacking something like that, my sons' children will be doing the same thing that my sons are doing.

That is a long speech for me, but that is the way I feel.

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MR. PAUL: There is a lot of deep truth in what you say.

MR. CAIRNS: Something of that sort will have to be done.

MR. WHITE: Neither Russia nor England will lend themselves to that kind of solution. That is one of the difficulties.

What is your thought, Mr. Secretary, of providing the dollars? Would you get sterling in return?

H.M.JR: Harry, excuse me, may I do a little more philosophizing?

MR. WHITE: It is very interesting. I thought you were through.

H.M.JR: You say that the English won't - we are talking very much in the room - at the rate it is going, in three months England won't have a thing to say whether she will or won't; neither will Russia.

MR. WHITE: If they don't, that is, of course, a different story.

H.M.JR: I mean, they won't, and if - I mean, up to now I have yet to see any speech that has been made addressed to the depressed people of Europe which gives them any real hope. Certainly Hull's speech didn't do it. Wallace's or Welles' didn't. We didn't get down to brass tacks on this thing.

MR. CAIRNS: Wilson did do it. He got the oppressed peoples of Europe on his side.

H.M.JR: Right.

MR. CAIRNS: Through a speech.

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MR. BELL: Fourteen points really did a lot of good.

MR. CAIRNS: That is what we need in this war.

H.M.JR: I am talking about this war. I say, who in this war has said anything like what I have said - who has said anything like what I have said?

MR. WHITE: No one dares say what you say, Mr. Secretary, because what you say is what the United States is going to do, which immediately excludes the United Nations, the whole Atlantic Charter, and the whole milieu of thought that is surrounding the present war effort is to build up the idea of the United Nations in cooperative effort. So I say, I don't think anyone at this stage would dare say that the United States is going to shoulder the burden.

H.M.JR: Harry, it is like a lot of these things. You have got to begin to say that months in advance before you do it, and, as I say, at the rate this thing is going, Mr. Roosevelt may have to say something like this in three months. All I am saying - I can say this to the President when I am closeted with him alone. I wouldn't say it before the others, but I wanted you people here in the Treasury, where we are supposed to be conservative and financial minded, not to think that I had lost my mind when I am willing to propose that we pay all the expenses of going into Europe. I wanted you to know what is behind it. I mean, I am one of those people who believe as years go on that Wilson is going to grow in stature and that his stature will continue to grow - his ideals. The man being human he had the human frailties we all have, but as to his thoughts and ideals, I think the man is going to grow and grow.

What were you going to say?

MR. BELL: I was going to say that if we mark this money, nobody would ever catch it. The seal is a

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green-blue on all bills. That could be made sort of a golden color like we did in the Hawaiian case, and you catch all bills that come back if they have difficulty; but they would never catch it at that end of it, and the counters would get it as it came from the Federal Reserve Banks.

H.M.JR: I think you are wrong.

MR. BELL: Nobody would know that, except people in the Treasury.

MR. WHITE: It is like making a different series, except that you could see it quickly.

MR. BELL: The counters would see it. Nobody would see it, looking at it. The counters would see it.

MR. PAUL: If there is anything a European understands, it is a fine distinction about money.

MR. WHITE: I question that very much.

MRS. KLOTZ: Not to that detail.

MR. BELL: You see, it wouldn't be returned - you wouldn't care about its return so long as our counters would catch it.

MR. WHITE: You could maintain its purchasing power as long as you wanted to.

H.M.JR: Well--

MR. WHITE: In your suggestion that you are going to make to Secretary Hull as to providing the dollar currency for the British Army - and I think there might be good reasons for that - and assuming that the British Government would accept that, is it your thought that you would take sterling in exchange or that there would merely be a lend-lease operation of supplying them the sterling?

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H.M.JR: I would make it a part of the lend-lease operation.

MR. WHITE: There was some question which Lend-Lease had. I don't know whether it is pertinent, but they seemed to think that they couldn't give money. Now, they could probably find some way out.

H.M.JR: That all gets down to the details - the President tells - I have heard him say to the Attorney General Biddle and I have heard him say to each Attorney General, Homer Cummings and Bob Jackson, "If you are a good Attorney General, tell me how I can do it. I want to do this." They always give him a silly laugh and go out and tell him how to do it. I have heard him tell each successive Attorney General, "You go home and find out, and give me an opinion on how I can do it."

MR. PAUL: He must have done that with Bob about that destroyer opinion.

H.M.JR: He did. Bob Jackson sweat over that for three months. He finally told him - I was up there when the thing finally happened - he told him - yes, he did. How did you happen to think of that?

MR. PAUL: I thought it was somewhat within the four corners of the opinion. You could almost see the opinion sweating.

H.M.JR: He finally told him that is what he wanted to do, and to give him an opinion. It took Jackson just about three months. Arthur Purvis and I started that conversation with the President. It took him about two months and twenty-nine days too long.

MR. WHITE: In raising this with Hull or Stimson, I think one might examine what to expect of the British Government's attitude and the British Government may

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say, "For our soldiers in Europe to use American money would be a very serious blow at our prestige. It would seem as though Americans were fighting the war, as though our money isn't good enough." You can expect those arguments.

H.M.JR: I know. I expect all of that, Harry. It just gets back - there is nobody, from Hull down, that can handle this thing except the President. This takes tough, hard trading. Our planes are good enough for them, our food is good enough for them, our guns are good enough for them, and our men are good enough for them, and by God, our last, and what should be the least important of all, is our money.

MR. WHITE: And that is good enough.

H.M.JR: But I mean, just - I don't want to get personal, Harry, but I mean in what I said here, where am I wrong as to the next twenty-five years, on the assumption that we are going to win the war?

I mean, if you had Russia and England and France and Belgium and Holland dictate this peace, where are we going to be any better off?

MR. WHITE: I think that we certainly ought to - we are more likely to determine the kind of conditions which would make for the kind of peace that you would wish to see. I think it is a very different story, however, to assume that the United States can dominate the world. If Russia and England are going to be out of it, then the United States is never going to be in it. It will be a negotiated peace and so long as they continue fighting, and the United States, even though the United States plays, as I assume it will, an increasing and possibly dominant role, any discussion around the peace table will have to remain a United Nations arrangement, and I think even in line with the proposals, with the ideals that you are speaking of, the Wilsonian ideal was not an attempt to superimpose on those countries American supervision, but rather to operate through his concept of a League of Nations.

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But it would have to be a United Nations' approach.

H.M.JR: You need a little idealism. There certainly are men - and our Army hasn't got it and there is no reason why they should have it, because nobody has put it to them - and the reason that this country is so dull about this whole thing, I mean in such a kind of a coma, is that no one has set up any ideals on this thing.

MR. WHITE: I think there is a good deal in that.

H.M.JR: They are just in a coma over this thing because we haven't set up any ideals.

Now, to answer you, if we are not going to have anything to do with the settlement of Europe, then the only conclusion you can draw from that is that we are going to be fighting this war on our own shores; if we are not going to liberate Europe, then the war is going to be on this continent.

MR. WHITE: If Europe is going to be liberated I think it is common thought it is going to be liberated by joint action of the Allies. And if the Allies have, by their joint action, liberated Europe, I think that the Allies, by their joint action, will attempt to write the kind of post-war conditions you would like to see. But on this I agree with you wholly, and I think, as far as I am concerned, you can't go too far out on it, and that is that America must be tough from the beginning to the end, and the tougher the better, because I agree with you thoroughly that once the peace is assumed, then there will be all kinds of individual bickerings.

H.M.JR: I got a taste of it yesterday. That man is way above the average, and he starts talking about the Germans are going to have to furnish the steel to rebuild the bridges of Holland. I mean, he hates the Belgians; he knows all about Belgium's

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weaknesses and its crookedness; the Belgians have no morals, the French are this - I just got a flavor. I might have been sitting in Geneva, and I got a flavor of it yesterday. This fellow - I have met a lot of them, and I put him amongst the tops.

But I think that we have got to do a little realistic thinking, as Frank Knox told me here a couple of weeks ago. We have got to begin thinking between now and the first of September, if everything goes sour on us, then what?

So far as I am concerned, I sit around and I hear these college students and these young people, soldiers and sailors, and there is nothing inspirational being raised for them. Granted, it is too early, and they won't get anything inspirational out of the State Department because Wallace tried to do a good job and went part way and then Mr. Hull goes and undermines and knocks down everything that Wallace said.

MR. WHITE: Only the President can give--

H.M.JR: He only, can. But anyway, I wanted to explain.

Now, as to a minor detail, what do you think of making this seal yellow - what do you think of that?

MR. WHITE: I personally don't think that the Europeans will notice the difference, or that it will play the slightest role in the acceptance or non-acceptance of the money. I think it is a good suggestion, because the chances are you may never want to do anything about it, but should somebody in the future, if it is a long war, want to do something about it, then I think they will look back and say, "It is unfortunate that there wasn't some distinguishing characteristics between that money and the other." The gold seal - after all, I don't think I would have noticed if he hadn't told me about it. I don't know enough about it to know it.

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H.M.JR: Have you got some Hawaiian money?

MR. BELL: I can get some at the Bureau.

H.M.JR: Could you get it between now and eleven?

MR. BELL: Yes.

MR. WHITE: If there were no other change than just the color of the seal, you would never raise the question about it unless you got pushed out of some country. Then you say to your customs agent, "Seize all currency with the yellow seals," or your Federal Reserve Banks.

H.M.JR: Well, what I have said here is - I have been doing a little daydreaming.

MR. BELL: I think it is good. I don't see why the President couldn't make a speech along the lines of giving out some ideals. We are not going to do reparations in this war.

H.M.JR: Supposing I charge Huntington and Harry to take a crack at what I have been saying. Supposing each one do your own collaborating any way that you want - supposing you do a little drafting, and also both of you might get out the history of the Reparations Committee, and all the rest of that stuff, and take a look at it.

MR. BELL: We have got a pretty complete file.

MR. WHITE: There are volumes - a library. It can be boiled down to significant points as you become interested in touching on them.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 5, 1942

TO Mr. Paul
FROM Mr. Cairns

Dean Acheson advised me that under the provisions of 3(d) of the Draft Note from the British Ambassador on the subject of Lend-Lease the United States would pay local labor charges. Accordingly, I suggest that there be added at the end of 3(d) the following:

"except for the wages and salaries of United States citizens and local labor other than British subjects."

I think this phrase is necessary because a similar phrase appears in 3(c).

There are ambiguities in the Note, but I do not believe it is within the province of the Treasury to raise any question with respect thereto.

Dean Acheson also advised me that it is the understanding of the British Government and this Government that the phrase "United Kingdom", wherever employed in the Draft Note, includes Northern Ireland.

NC

August 5, 1942.
10:08 a.m.

HMJr: Hello.

Operator: Mr. Rouse.

HMJr: Hello.

Robert Rouse: Good morning.

HMJr: Good morning, Bob. What do you think we should do on the certificates?

R: Well, I haven't changed my idea. I think a one-year seven-eighths.

HMJr: You're satisfied.

R: I'm satisfied with that.

HMJr: You think it will go all right.

R: Yes, I think it will go.

HMJr: Well....

R: I think the answer will be satisfactory. I don't believe we'll get the subscription, of course, that we got before.

HMJr: Yeah.

R: The combination of the two - of the two issues in one week....

HMJr: Yeah.

R: ...has complicated things somewhat, and we haven't as good an atmosphere as I'd like to have.

HMJr: Yeah.

R: But we're doing something about it, and I think it will improve today.

HMJr: What are you doing?

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R: Well, having in mind that - there's an effort on the part of some of the insurance companies to, in effect, exchange securities....

HMJr: Yes.

R:that is, to sell in the market and buy - subscribe for the tap issue.

HMJr: I see.

R: And there's been an excess of bonds in the market, and some of them have been pressed, and we're trying to correct that. We'll have to take some bonds today. There's no change in the - in the reserve situation here. It's a little more comfortable, if anything.

HMJr: How much did you buy yesterday?

R: Gross, about a hundred million.

HMJr: Really?

R: It was mostly in the - a case of putting funds into the market.

HMJr: I see.

R: For example, the - as you know, the Metropolitan subscribed for a hundred and twenty-five million....

HMJr: Yeah.

R:and in so doing, they transferred funds out of the Chase into other banks....

HMJr: Yeah.

R:so that it left the Chase pretty short, and then the Chase is one of the underwriters of the regular bill issues....

HMJr: Yeah.

R:and they had an award of nearly eighty million bills to be paid for today, and so they were a little short.

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HMJr: Yeah.

R: Well, we're trying - we're relieving those situations as they develop.

HMJr: I see.

R: But the....

HMJr: But you....

R:headache is not in the money market or in the C. I. or bill market at the moment. It's in these securities that are being offered by some of the institutions to....

HMJr: What - what....

R:provide funds to take up two and a halves.

HMJr: What did you do for the Chase?

R: We bought thirty-six million of certificates from them at three-eighths.

HMJr: I see.

R: And we'll probably take another twenty million of bills from them today.

HMJr: I see. Well, I think we'll go ahead on the seven-eighths.

R: Good. And you're going to keep it open two days or what?

HMJr: That's right. We'll announce it's open two days.

R: Have you any ideas as to how long you're going to keep the two and a halves open?

HMJr: Just as long as the money rolls in in any size.

R: I see.

HMJr: If it - if it dries up, we'll close it.

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R: Right.

HMJr: That's - that's sense, isn't it?

R: I think so, definitely.

HMJr: Okay.

R: Okay.

HMJr: Goodbye.

R: Thanks.

Conference in Secretary Hull's Office
 Wednesday, August 5, 1942
 11:00 A. M.

Present: Secretary Hull:
 Mr. Acheson : State Department
 Mr. Feis :
 Mr. Livsey :

Under Secretary Patterson, War Department.

Secretary Morgenthau:
 Mr. Bell : Treasury Department
 Mr. Cairns :
 Mr. White :

Secretary Hull opened the meeting by stating that the matter of appropriate currency to be used in invaded territories seemed primarily a Treasury matter and he asked Secretary Morgenthau if he wouldn't describe the problem before them for consideration.

Secretary Morgenthau stated that some representatives of the War Department, including General Carter, had come to the Treasury to obtain Treasury opinion as to the response the Army should make to a telegram received from General Eisenhower on a currency matter. General Eisenhower had stated in the telegram that the British had prepared some specially marked sterling currency and it had been suggested that the American Army obtain that currency from the British for use in invaded territories.

Secretary Morgenthau said that there appeared to be general agreement that we ought not use British currency because of the preference in those communities for American currency and for other reasons, and that the American forces should use U. S. currency. The Treasury thought that the currency used should be marked dollar currency because of the potential advantages of being able to distinguish between the currency so used and the regular currency. The Secretary said he appreciated the use of specially marked currency might have some disadvantages and that the advantages of specially marked currency were not very great, and therefore the Treasury was not inclined to press the matter if Army and State felt strongly that regular currency should be used.

The Secretary felt that there would be little doubt about acceptability if the marking were not too obvious and he suggested using simply a changed color in the seal. He mentioned that some Hawaiian over-marked currency with a distinct marking had passed

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through the hands of banks into the United States apparently without the banks noticing the difference. Mr. Patterson said that their sole concern was the Army should be able to use money which would be accepted freely and they felt that probably regular United States currency might be preferable. He asked whether General Carter had stated any definite preference and Mr. Bell replied that he believed General Carter had indicated earlier that the Army would probably prefer regular currency but that he would have to consider the matter more carefully and submit it to the attention of the higher officials.

Secretary Hull stated that he was inclined to leave the decision on such matters to the Treasury Department. Mr. Feis, in response to Secretary Morgenthau's direct question as to his decision, if he had to make it, replied that he felt that neither the advantages nor the disadvantages of the newly suggested type were great but that on balance he felt there was a little less risk to use the regular currency. He felt that the matter was not very important either way, but he would prefer to have the regular currency used.

Secretary Hull and Judge Patterson were willing to leave the matter to the Secretary's decision and the Secretary said on the balance he would prefer some slight designation which would enable the Treasury in the future if they wished to distinguish between the two currencies.

The Secretary then went on to comment on the role the United States would have to play in financing the war needs in Europe and in preparing for peace table discussions as to repatriation, etc., and suggested it might be desirable to begin now by recommending for discussion that all the invading forces, including the British, might be called upon to use American currency which the United States would supply under some lend-lease arrangement. He said that that was a matter which, of course, would have to be carefully examined by the State Department and War Department and formal decision made by the President and that it would have to be decided only after consultation with the British. He went on to say he recognized the British might have some objections but thought the matter was worth considering.

Secretary Hull asked if the President made a decision of that character whether Secretary Morgenthau thought public announcement to that effect should be made before the second front was opened, and Secretary Morgenthau replied, "No, of course not, if we assume any statement would be a matter for Secretary Hull or the President, and that the timing would doubtless have to be after invasion started".

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Secretary Hull asked whether this was a matter which the British had already been discussing with the State Department on post-war problems. Mr. Feis replied that it was his opinion that these matters which were being discussed at this meeting as well as the suggestion raised by Secretary Morgenthau, were quite a different range of problems than were being discussed by State Department Committees on post-war problems. Mr. White added that there was a second range of problems that lay between the currency problem discussed above and the post-war economic problems; namely, problems dealing with the re-establishment of monetary, banking and economic order in the occupied territories after the forces have gone forward and before the peace settlement. He thought that was the range of problems referred to in Winant's cable which had been forwarded to the Treasury by Mr. Welles yesterday.

Secretary Morgenthau went on to say that there are a large number of problems relating to the monetary banking and exchange problems during the occupation period and that he felt that the matter required preparatory study and planning. He remarked to Judge Patterson that he (Secretary Morgenthau) felt that the military authorities should be completely in charge but he asked whether the Army planned to administer these monetary and banking problems in invaded territory with Army officials in uniform or whether they would want to use Treasury people under the authority, of course, of the Army. Judge Patterson replied that he didn't think the Army wanted to do it and that they would want assistance. The Secretary said it was a matter that he would like to have carefully considered by the War Department and if they wanted the Treasury to help he would be very glad to do so.

The Secretary went on to say that it was his thought that there should be a committee composed of the Army, State and Treasury who would continue to examine these problems and be prepared to make recommendations and comments to the President when any questions requiring decision arose. He said it was his thought that if they could have continuing meetings from the representatives of both agencies and then, if there was any matter that needed decision, that he would like to come to Secretary Hull's office and discuss the matter with him. He asked whether that would be satisfactory to Secretary Hull and Secretary Hull said that it would be entirely satisfactory to him. Judge Patterson also indicated that he would be glad to participate in any such meetings. The meeting adjourned about 12 o'clock and on the way out Mr. White suggested to Judge Patterson that many banking and exchange problems that would be involved in restoration of economic life in an occupied territory were quite complex and that it would take specially trained men to handle them properly. He added that he thought there were a number of such men in Army uniform who could be used. Judge Patterson replied that if possible they didn't want to use Army men but as many civilians as possible.

Treasury Department - 36
Division of Monetary Research

Date August 5, 1942 19

To: Secretary Morgenthau

From: Mr. White

I telephoned McCabe to find out what was the delay in consideration of this cable. He replied that he was taking the matter up with the State Department and that there was a delay apparently due to a difference of opinion in the State Department and when he received the State Department's view he intended to suggest a meeting between the Army, Navy and Treasury at which a final decision would be reached.

MR. WHITE
Branch 2058 - Room 214½

DEPARTMENT OF STATE
 DIVISION OF RESEARCH
 TREASURY DEPARTMENT

PARAPHRASE
 JUL 29 1942

RECEIVED
EXCHANGE
STABILIZATION SECTION
CONFIDENTIAL

Telegram no.

Dated: July 29, 1942 midnight

From: LONDON

Rec'd: July 29, 1942 11:26 p.m.

FROM HARRIMAN AND STETTINIUS FOR ACHESON AND MORGENTHAU.

The question of requiring dollar values to be placed on reciprocal aid received from the British by us has been studied by us. The conclusion has been reached by us that it would be unwise for OLLA to require valuation and it would present major practical difficulties. Stettinius' cable of July 29, no. 4245 to McCabe gives our reasons for this conclusion. In this cable Stettinius has asked McCabe to discuss this matter with you immediately.

After much consideration this conclusion was reached by us. In order that he can put the policy of not requiring dollar values into effect as soon as possible, we hope you agree and will advise McCabe accordingly. Since reciprocal aid is being received in increasing volume daily, prompt action is desired.

WINANT.

DCA:MBJ
7/30/42.

Copies to: Mr. Hopkins (2)
Mr. Stettinius (1)
Mr. McCabe (1) via Stettinius
Mr. Morgenthau (1) ~~via Stettinius~~ direct

AUG 5 1942

Dear Mr. Nelson:

Recently, the Internal Revenue Bureau made a hasty survey to determine how much additional business machinery and office equipment might be required by industry and Government to handle the collection of part of the regular income tax at the source under the plan contained in H. R. 7378. The estimates given below for Government agencies were obtained directly from the agencies involved. The estimates for industry are based on a sample survey in which employers and payors of interest and dividends were asked to say what they thought their requirements would be. The results for the sample were expanded to cover all employers and payors of dividends and interest. For certain categories of machines the estimate was increased substantially at the suggestion of representatives of the War Production Board, who were kind enough to give us their opinions about the estimates. The following table summarizes the estimates:

<u>Type of Machine</u>	<u>Government</u>	<u>Industry</u>	<u>Total</u>
1. Adding machine	360	9,300	9,660
2. Addressing machines	64	760	824
3. Billing-Accounting type		355	355
4. Components of a punch-card system		6,566	6,566
5. Form burster and sorting devices	64	16	80
6. Accounting and bookkeeping machines	128	5,514	5,642
7. Calculating machines	64	21,143	21,207
8. Change machines		31	31
9. Check signer		3	3
10. Check endorser	64	0	64
11. Check writer		588	588
12. Cancelling machines		1,200	1,200
13. Duplicating machines	64	798	862
14. Fan-fold typing machine		2,256	2,256
15. Standard register		284	284
16. Typewriter	2,111	2,702	4,813
17. Not stated		300	300
Total pieces of machines of all types	2,919	51,816	54,735

✓ Bureau of Internal Revenue, Bureau of Public Debt and the Treasury Department, Federal Reserve Banks.

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The Revenue Act of 1942 which contains the provision for a withholding tax has already passed the House, and is now in Hearings before the Senate Finance Committee. Will you please advise me whether, in the event that Congress enacts this plan into law, you can guarantee that the above equipment will be made available to industry and to the Government in time so that the plan can go into operation on January 1, 1943.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Donald M. Nelson,
Chairman,
War Production Board,
Washington, D. C.

JLS:kb

*Sent out by Sullivan's office
by Spec. Mess.*

File in Diary - extra copies retained by Sullivan's office

AUG 5 - 1942

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, subject of course to your approval, in regard to your future work in the Treasury. Possibly I have come to this decision because due to your absence, I have missed the assistance from you which I have come to depend upon.

I want to take this opportunity to thank you for all that you have done, together with Graves and Odegard, 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 contact 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.

- 2 -

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 in the past.

Sincerely yours,
Henry Morgenthau, Jr.

Mr. Ferdinand Kuhn, Jr.,
Assistant to the Secretary,
Treasury Department,
Washington, D.C.

homer 42 *Homer*
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 5, 1942

TO Secretary Morgenthau
FROM Mr. Odegard

Attached is a biography of Mr. Homer W. Anderson, Superintendent of Schools in St. Louis, whom we are considering for the position as Associate Field Director in charge of Educational Activities. In addition to what is set forth here, you might be interested to know that Mr. Anderson is now President of the American Association of School Administrators and thus has entree to every school system in the country. I have discussed Mr. Anderson with Willard Givens, Chairman of the Educational Policies Commission of the National Education Association and with Mr. Tom Smith of St. Louis, both of whom speak of him in the highest terms.

HOMER WILLARD ANDERSON

Born Chaseburg, Wisconsin on October 6, 1886; son of Benjamin Nathan and Emma (Engh) Anderson; B. A., Highland Park (Ia.) College, 1910; M. A., 1915, Ph. D., 1925, Univ. Iowa, 1925; married Mabel Fretz on February 19, 1918; children - Stuart Paul, Carol Engh. Teacher high school, 1910; teacher, superintendent of schools, Morning Sun, Iowa, 1910-13; director of educational research, Dubuque, Iowa, 1916-17; assistant superintendent schools, Omaha, Nebraska, 1917-19; assistant director educational research, Detroit, Michigan, 1919-23; assistant and deputy superintendent of schools, Denver, Colorado, 1923-33; superintendent of schools, Omaha, Nebraska, 1933-40; superintendent instruction, St. Louis, Missouri, Board of Education since 1940. Served as 1st Lt. statistics branch General Staff, U. S. Army, 1918-19. Member of National Education Association, American Association School Administrators (executive committee), National Society for Study of Education, Missouri State Teachers Association, Phi Delta Kappa. Republican. Unitarian. Mason. Clubs: Rotary, Missouri; Athletic (St. Louis); Algonquin Country (Webster Groves, Missouri). Has contributed educational articles to magazines. Home: 3515 Longfellow Boulevard. Office: 911 Locust Street, St. Louis, Missouri.

August 5, 1942

Dear Rudolph:

Regarding my telephone conversation with you yesterday about the standing of the White House in the Pay Roll Savings Plan, Admiral Conard has furnished me the following figures showing results which are being obtained in some of the independent establishments on their first pay roll covering the period from July 1 to 15.

Agency	No. of Employees	Percentage of Pay Roll Saved
Federal Power Commission	568	10.7
Bituminous Coal Consumers Counsel	46	9.23
Office of Defense Transportation	500	9.04
Office for Emergency Management	2,407	9.1
Export-Import Bank of Washington	41	9.
Electric Home and Farm Authority	25	8.39
U. S. Tariff Commission	239	8.23
Federal Reserve System	447	8.06
Reconstruction Finance Corporation	3,538	8.
The White House Office	48	3.51

All of the organizations named above except the White House have just started their programs, while the White House began in June. All except the White House expect to pass the 10% mark very soon. It certainly will be a bad situation and difficult to explain unless something is done to bring the White House in line with the other Government organizations. I hope you will all take notice and do something to improve this condition.

Yours,

(Signed) H. Morgenthau, Jr.

Mr. Rudolph Forster

The White House

P. S. Remember I count on you as my "Life Saver."

Sent by SS Agent 8/6/42 4:45

August 5, 1942

Dear Jesse:

I am delighted to learn from you that the officers and employees of the National Bank of Commerce at Houston have done so extremely well on War Bonds.

I wish you would extend to Mr. A. D. Simpson, President of the bank, my hearty congratulations.

Sincerely yours,

(Signed) Henry

Honorable Jesse H. Jones,
Secretary of Commerce,
Washington, D.C.



THE SECRETARY OF COMMERCE
WASHINGTON

August 3, 1942

Dear Henry!

In fairness to the officers
and employees of the National Bank of
Commerce at Houston, with which I have
the honor to be associated, I enclose
a letter from the President, which I
thought you would be interested to see.

Sincerely yours,

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



THE NATIONAL BANK OF COMMERCE

CAPITAL AND SURPLUS \$5,000,000.00

HOUSTON, TEXAS

30 July 1942

A. D. SIMPSON,
PRESIDENT

VIA AIR MAIL

My dear Chief:

I told you when you were here that we wanted to put The National Bank of Commerce on the "Honor Roll" for employee purchase of War Bonds and Stamps through the payroll deduction plan. I enclose a copy of the letter I wrote the officers and employees on July 11, and we have now completed the 100% Club.

We have 125 employees, including officers, and the monthly payroll is \$26,860.00. The deduction each month for War Bonds and Stamps is \$2856.00, or 10.6%, and every employee participates in the plan -- making us 100% of employees participating to the extent of 10.6% of our monthly payroll for the purchase of War Bonds. I thought you would be glad to have this information.

I notice from a large advertisement of the Pennsylvania Company, of Philadelphia, which is being sent out, that 86% of their employees have subscribed to War Savings Bonds.

Faithfully,

A. D. Simpson
President.

ADS/C
Enc.

Hon. Jesse H. Jones,
Secretary of Commerce,
Washington, D. C.



*Given to Hing by
Dr. Meyers -
8/5/42*

MAJOR POINTS OF AGRICULTURAL WAR BOND PROGRAM
TO BE CARRIED ON BY THE WASHINGTON OFFICE

1. Additional help and facilities to supervise and carry on
 - a. Stenographer
 - b. Office space
 - c. At least 2 or 3 men at once for work with States and National Cooperatives.
 - d. 1 or 2 information men familiar with Agriculture.
2. Letters to State Administrators to develop Agricultural War Bond Program and in important Agricultural States to get a man to carry on the work.
3. Regional conferences of State Agricultural Deputy Administrators to develop enthusiasm and to plan general approach.
4. Visit each important Agricultural State as soon as possible, to follow through on Agricultural program — 2 days per State. Also visit FCA district office, State Bankers Associations and statewide Cooperatives.
5. Visit each National and large regional Cooperative to stimulate them to develop an Agricultural War Bond Program.
6. Obtain agreement of Treasury and Agriculture on War Program for Farmers.
7. Prepare educational material for Agricultural Program.
 - a. Circulars directed at farm people: (1) Uses of financial reserve for farmers, (2) Home and Farm improvements.
 - b. Lesson material for Vocational Agricultural teachers.
 - c. Lesson material for grange lecturers.
 - d. Discussion material for Community Leaders.
8. Arrange to put work order and circular in envelopes with AAA checks.

CONFIDENTIAL PRELIMINARY REPORT ON ORGANIZATION
OF WAR BOND PROGRAM AMONG FARMERS

W. I. Myers

States and organizations visited
by Lloyd E. Partain and W. I. Myers
July 6-25, 1942

New York
Wisconsin
Iowa
Nebraska
Wyoming
Colorado
Kansas
Texas
Georgia
Kentucky

District offices of Farm Credit Administration
at Omaha, Wichita, Houston and New Orleans

GENERAL CONCLUSIONS

1. In general, little special attention has been given to the War Bond program among farmers in the States visited. Iowa is an outstanding exception and has done an excellent job. In other States the major reason for the lack of attention to the farm program has been the pressure for payroll deduction and other plans on staffs of inadequate size. It is also due in part to the lack of a qualified man on the State Administrator's staff who is familiar with farm problems, farm organizations and farm people. As a result, the farm program has been left to the State and County War Boards with little or no follow-up and assistance.

2. The dollar totals of the farm pledge campaign were generally disappointing but Bond sales have greatly exceeded the amount pledged. In most cases the Administrator does not favor a repetition of the pledge campaign but believes it had great educational value. As a rule, the farm pledge canvas was more successful than in towns and cities. The difficulties with the farm pledge campaign were:

- a. Bad timing. Serious interference with farm work made worse by labor shortage. Farmers were unable to estimate future income with reasonable accuracy and were unwilling to promise more than they were sure they could do.
- b. Inadequate training of canvassers. Since canvassers were not trained in how to sell and were not given strong arguments for the purchase of Bonds, the results were extremely variable.

3. The major part of the total income of most States west of the Mississippi River and in the South is from agriculture. Farm income is an important total in many other States even where it is greatly exceeded by other income. Since farm income in 1942 will be equal to or higher than any previous year, there is a great opportunity to increase the sales of War Bonds to farm people.

4. While general advertising and promotion are important, the emphasis in the Agricultural Bond Program should now be placed on education and individual follow-up. The only way in which satisfactory coverage of farmers can be obtained is through personal contact with every individual farmer. Good organizations are already available in every State and county and the help of these voluntary workers can be obtained through the cooperation of the Agricultural Extension Service and the A.A.A. Organized publicity is important but it should be supplemented by personal contact by a respected neighborhood farm leader who is a War Bond owner.

5. In order to obtain satisfactory results, active cooperation and coordination must be accomplished at all levels of government -- National, State, and county. This can be done only by an adequate staff of competent men who are trained and experienced in Extension work among farm people.

SUGGESTED OUTLINE OF AGRICULTURAL WAR BOND PROGRAM
TO BE CARRIED OUT BY AGRICULTURAL STAFF MEMBERS
OF THE FIELD DIVISION, WAR SAVINGS STAFF,
WASHINGTON, D. C.

1. Give State Administrators necessary qualified men and full responsibility. Freedom of action is essential because of the wide variation in conditions among states.
2. Obtain agreement between the Treasury and Agriculture on a general program of farmer participation in the nation's war effort. This is necessary in order to avoid conflict between advice given to farmers by different government agencies. The general outline of such an agreement is -- (a) maximum production of essential food; (b) reduce excessive debts to a safe basis; (c) buy Bonds to help finance the war and to provide a financial reserve.
3. An agricultural man from the Washington office should contact each State Administrator as soon as possible to assist in the organization of an Agricultural War Bond program and to stimulate more aggressive action where necessary. Prompt action is requisite since the year's farm income in most regions is received between August and December. After getting the program established, occasional follow-up work will be necessary to insure its continued operation. These agricultural men should work in close cooperation with regional field directors.
4. An agricultural man from the Washington office should contact all large national and regional cooperatives as soon as possible in order to obtain their complete support of the Agricultural War Bond program. Each cooperative should set up a committee to plan aggressive action by the organization in this program.

5. An agricultural man from the Washington office should contact the twelve district offices of the Farm Credit Administration as soon as possible to enlist their active and aggressive cooperation in the Agricultural War Bond program. The district F.O.A. Advisory Committee should be requested to work out the ways in which these credit units can participate and see that these plans are carried out.
6. One or two qualified agricultural information men should be obtained to assist in the Agricultural War Bond program. A few simple circulars are necessary. They should be directed at farm people and should point out the advantages of War Bonds as financial reserves. These information men should also contact national farm publications to stimulate more active participation in the program and should handle correspondence.
7. Prepare lessons on the War Bond program adapted to the use of the large number of Vocational Agricultural teachers throughout the United States. These lessons will reach not only farm boys, but their parents as well. They should emphasize the importance of building financial reserves in good times and the use of War Bonds as the most desirable form of reserve.
8. Arrange to put Bond order and circular in each envelope which carries an A.A.A. check and C.C.C. check to farmer.
9. Prepare material on the Agricultural War Bond program adapted to the specific use of the lecturers in local Granges throughout the United States. The cooperation of the National Master and the National Lecturer would be desirable.

SUGGESTED OUTLINE OF AGRICULTURAL WAR BOND PROGRAM
TO BE CARRIED OUT BY STATE WAR BOND STAFFS

1. Select a small group of strong agricultural leaders, part of whom are real farmers, to serve as the State Agricultural Bond Subcommittee. These men could be members of the State Bond Committee or they could act in an informal advisory capacity if the State Committee is inactive. The group should usually include the State Director of Extension, the State A.A.A. chairman, and heads of important farm organizations.
2. This State Agricultural War Bond Subcommittee should assist the Administrator in planning a detailed program for the sale of War Bonds to farmers. It should also obtain the active cooperation of all agricultural organizations and groups and fix responsibility for carrying out each part of the state-wide program.
3. All agricultural organizations, state-wide cooperatives and other farm groups should cooperate in a general educational program to promote the purchase of War Bonds by farmers. Some of the groups to be included are general farm organizations, state-wide cooperatives, the Extension Service, the State War Board, the State AAA organization, farm journals, and the State Supervisor of Vocational Agriculture.
4. If desired, the State Agricultural Subcommittee should advise the Administrator on the allocation of ^{county}quotas to counties, and on the distribution of annual quotas on a monthly basis adjusted to the receipt of income by farmers. The assistance of the State Agricultural Statistician will usually be helpful.

5. An able man trained and experienced in agriculture should be employed on a full-time basis to assist the State Administrator in carrying through the Agricultural War Bond program. This man should be a resident of the State, he should know the farm organizations in detail, and should be acceptable to all important agricultural groups. Experience in Extension work among farmers is desirable training.
6. Obtain the active cooperation of all private and public credit agencies dealing with farmers in urging them to invest the maximum in War Bonds that is possible in consideration of their personal debt and business situation. These agencies include the state bankers associations, all credit units of the Farm Credit Administration, the Farm Security Administration, private mortgage companies, and any other credit agencies doing business with farmers. Although the Extension Service can be depended upon for the educational program, the advice of lenders on the financial problems of farmers is vital to the success of the program.
7. Other duties of the Agricultural Deputy Administrator:
 - a. Contact all County Agricultural War Bond Committees, County War Boards, County Agents, and County Extension organizations in order to help them organize for effective contact with individual farmers. While letters from state officers of the respective organizations are desirable as a starting point, personal contact in the counties is essential in order to obtain the active support and cooperation of all groups. Follow up these activities and stimulate when necessary.

- He should also see that community leaders and canvassers are thoroughly trained in the advantages of War Bonds as an investment for farmers. Frequent follow-up and encouragement of voluntary workers is necessary. To be effective, a voluntary canvasser should be a respected farmer, a War Bond owner, and should be informed as to the advantages of War Bonds as a financial reserve for farmers.
- b. If desired, help County Bond Committees work out a fair division of the county quota between cities or towns and farms. Where practicable, this division of financial responsibility leads to healthy rivalry and stimulates each group to do its full share.
 - c. Contact and work with all larger state-wide cooperatives and obtain their cooperation in the program. This would usually involve the purchase of Bonds as financial reserves for the cooperative, the use of Bonds for patronage dividends, prizes, etc.
 - d. Develop ideas for local publicity on the Agricultural War Bond program for all types of publications -- dailies, county weeklies, farm journals, farm organization house organs, cooperative association house organs, etc. This will help to get farm people interested in the success of their program and in exceeding the quotas that have been assigned.

APPROXIMATE PERSONNEL REQUIREMENTS TO CARRY OUT
SUGGESTED NATIONAL AGRICULTURAL WAR BOND PROGRAM

1. Agricultural Section in Field Division - W. S. S. (like women).

At least 4 men to work on farm program with 12 states each.

1 - 2 information men - correspondence - statistics of income - circulars and publicity.

1 man to work with large national and regional cooperatives.

2. 30 - 40 men @\$6,000 each (salary and expenses) to work as Deputy

Administrators on farm program in the several states. 1 man for each important agricultural state, 2 for Texas and 1 for 2 mountain states.

New England	1	Kansas	1
New York	1	Iowa	1
Md., N.J., Del.	1	Missouri	1
Pennsylvania	1	Texas	2
Va. & W. Va.	1	Michigan	1
N. Carolina	1	Oklahoma	1
S. Carolina	1	Montana, Idaho	1
Georgia	1	Wyoming &	
Florida	1	Colorado	1
Alabama	1	Nevada & Utah	1
Mississippi	1	Arizona, N.M.	1
Louisiana	1	California	1
Tennessee	1	Washington &	
Arkansas	1	Oregon	1
Kentucky	1		<u>35</u>
Ohio	1		
Indiana	1		
Illinois	1		
Wisconsin	1		
Minnesota	1		
N. & S. Dakota	1		
Nebraska	1		

1 = 1 man for year or 2 men for 6 months each.

CRITICISMS OF THE OPERATION OF THE WAR BOND PROGRAM

1. Overemphasis on payroll savings in States where it is a minor factor. Farm program neglected in general plans.
2. Too much general publicity adapted to cities but not to western farm States or farm regions of other States - radio - press - booklets.
3. Inadequate staff - men and clerks. Outstanding example Texas.
4. Monthly quotas meaningless in most farming areas where income is seasonal - now permission to adjust O. K.
5. Treasury form for Bond pledge does not fit farmers. Planned for wage earners - time - place - amount.
6. Many postmasters are not doing a good job on War Bond Program.
7. Lack of simple circulars describing soundness of War Bonds and their advantages to the nation and to farmers. Many favorable comments on "4 for 3".
8. Agreement to use U. S. D. A. War Boards as sole agency to handle pledge campaign for War Bonds among farmers.
9. More or less friction in practically all States between County War Boards and County Extension organization. War Boards get headlines but farmers of Extension organization do all work. Complicated by split between A. A. A. and Extension in some States.
10. F. C. A. has pressed campaign to get farmers to put money in advance payment fund of Federal Land Bank at 3-1/2 per cent interest. Thus the Federal Land Banks are competing with the United States Treasury and paying an excessive rate for short time deposits which can be used only to pay on F. L. B. loan. It is better for farmers, for the Land Banks, and the United States to build a general reserve in War Bonds. See letter from the President.

- 2 -

11. Lack of limited funds to be used to defray costs of occasional lunches for State Committee (Iowa) and of meals for voluntary canvassers in pledge campaigns. All successful campaigns require meetings to train canvassers and to develop enthusiasm during campaign. In order to get voluntary workers to attend meetings, free lunches are necessary. In Community Chest campaigns these lunches are paid for by local people and are an important factor in the successful outcome.
12. State staffs have been requested to jump into a new job before the last one undertaken has been satisfactorily completed. This is probably due to lack of realization of the time necessary to carry through a successful job in a large State.
13. Required materials not available when needed, as for example pledge books during canvas. In planning campaigns, time necessary to get materials to distant offices should be considered.
14. Too much use of movie stars. In most cases results were not thought to be worth the cost and effort but there were important exceptions. Trouble with promotion men was a factor.
15. Agreeing with complaints about State operation sent to Washington before investigation. Before replying should let State Administrator investigate and report.
16. Bad general publicity from Washington that discourages local effort. Overemphasis on voluntary part. Pay debts first. Emphasis on 10 per cent payroll deduction. Talk about compulsory purchase of Bonds.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 5, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Number of days it takes to receive a war savings bond issued by a Federal Reserve Bank or a corporation issuing agent.

For the past 3 months the Federal Reserve Banks have made a sample study on each Friday to determine the number of days it takes a person to receive a war savings bond (1) issued by a Federal Reserve Bank, or (2) issued by a corporation which is qualified as an issuing agent. The results of the first part of this survey on the last Fridays in May, June and July are shown in Table I attached to this memorandum. The results of the second part of this survey are shown for the same Fridays in Table II attached. The major items noted are the following:

1. A person buying a war savings bond by sending a check to the Federal Reserve Bank through the mails normally waits a week to 10 days before he receives his bond. Two or 3 days are consumed by the movement of the mails, 3 more of these days are required by the Federal Reserve Bank to collect the check and 1 of these days is a Sunday on which no business is transacted.
2. At peak periods, when a large volume of applications are on hand for companies whose employees are purchasing under the payroll savings plan, it takes a person 10 to 15 days to obtain his bond after the application has been submitted to the Federal Reserve Bank. Inasmuch as some companies send applications to the Federal Reserve Banks only once or twice a month, delivery of the bond may not occur until 4 or 5 weeks after the deduction completing its payment had been made.

Secretary Morgenthau - 2

3. A few corporation issuing agents are taking 3 to 4 weeks to deliver bonds purchased by employees participating in the payroll savings plan (Table II). Most corporations are able to deliver bonds purchased by such employees within 10 days or so after payment has been completed, however, and a few corporations are able to deliver the bonds the very same day the payments are completed.

From time to time during the past 3 months several of the Federal Reserve Banks have told us that, as far as they have been able to determine, employees generally are satisfied to receive their savings bonds from 4 to 6 weeks after the last payment has been completed under the payroll savings plan. They have stated further that the public realizes that the mechanics of issuance take considerable time, especially when there is a large volume of bonds to be handled.

A number of instances of dissatisfaction with the delivery of savings bonds purchased under payroll savings plans were uncovered, however, by Dr. Likert's staff of interviewers conducting the survey in Buffalo. Some employees of the Bell Aircraft Company and American Car & Foundry who were interviewed complained that the period it took them to receive their bonds was altogether too long. They expressed the fear that they might never obtain bonds for funds deducted from their pay if any labor difficulties should arise between them and their employers.

Attachments

Table I.

Approximate Number of Days it Takes a Person
to Receive a War Savings Bond Issued by a
Federal Reserve Bank 1/

Federal Reserve Bank	Survey made		
	May 29, 1942	June 26, 1942	July 31, 1942
Kansas City.....	17	6	5
Boston.....	10	7	10
New York.....	9	8	6
Philadelphia.....	8	10	9
San Francisco.....	8	5	7
Chicago.....	8	8	10
Atlanta.....	8	5	4
Richmond.....	6	9	8
Dallas.....	5	5	3
Cleveland.....	5	7	6
St. Louis.....	5	5	6
Minneapolis.....	4	9	4

Office of the Secretary of the Treasury,
Division of Research and Statistics. August 4, 1942

1/ Allows 2 days for period in the mails.

Table II.

Longest Period of Time it Took an Employee of a Selected Group of Corporations to Receive His War Savings Bond Purchased Under the Payroll Savings Plan and Issued by His Employer.

(On the basis of the survey made by the Federal Reserve Banks)

Report of May 29		Report of June 26		Report of July 31	
Name of company and location	:Maximum: : number : : of days : : to re- : ceive : : bond :	Name of company and location	:Maximum: : number : : of days : : to re- : ceive : : bond :	Name of company and location	:Maximum: : number : : of days : : to re- : ceive : : bond :
1. Armour & Co., Chicago, Illinois.....	47	Southwestern Bell Telephone Co., St. Louis, Mo.....	28	Southwestern Bell Telephone Co., St. Louis, Mo.....	31
2. Southwestern Bell Telephone Co., St. Louis, Mo.....	29	Central Maine Power Co., Augusta, Maine.....	21	Florence Pipe Foundry Machine Co., Florence, N. J.....	28
3. Standard Oil Co. of Indiana, Chicago, Ill.....	28	A corporation selected by the San Francisco FRB.....	11	Sears, Roebuck & Co., Minneapolis, Minn.....	13
4. Stewart-Warner Corp., Chicago, Ill.....	20	Saco-Lowell Shops, Biddeford, Maine.....	10	Lit Brothers, Philadelphia, Pa.....	10
5. John Wood Manufacturing Co., Conshohocken, Pa.....	14	Brown & Bigelow, St. Paul, Minn.....	8	Richmond Piece Dye Works, Inc., Richmond, Va.....	9
6. A corporation selected by the New York FRB.....	11	A corporation selected by the New York FRB.....	7	A corporation selected by the New York FRB.....	7
7. Public Service Co. of New Hampshire, Manchester, N. H.....	7	Feed Fair Stores, Inc., Philadelphia, Pa.....	7	Lorraine Manufacturing Co., Saylesville, R. I.....	6
8. Colonial Beacon Oil Co., Boston, Mass.....	5	John B. Stetson Co., Philadelphia, Pa.....	7	Barre Wool Combing Co., Boston, Mass.....	4
9. Penn Mutual Life Insurance Co., Philadelphia, Pa.....	4	Theo. Hamm Brewing Co., St. Paul, Minn.....	3	Brown & Bigelow, St. Paul, Minn.....	2
10. Guiberson - Diesel Engine Co., Dallas, Texas.....	3	Sears, Roebuck & Co., Minneapolis, Minn.....	2	Guiberson - Diesel Engine Co., Dallas, Texas.....	2
11. Magnolia Petroleum Co., Dallas, Texas.....	2	A corporation selected by the New York FRB.....	1	Sun Oil Co., Dallas, Texas.....	2
12. Sun Oil Company, Dallas, Texas.....	2	A corporation selected by the New York FRB.....	1	Magnolia Petroleum Co., Dallas, Texas.....	1
13. Paterson Parchment Paper Co., Bristol, Pa.....	1	Ames Worsted Co., Lowell, Mass.....	0	Androscoggin Mills, Lewiston, Maine.....	0
14. Theo. Hamm Brewing Co., St. Paul, Minn.....	1	Electric Hose & Rubber Co., Wilmington, Del.....	0	Penn Steel Castings, Chester, Pa.....	0
15. A corporation selected by the New York FRB.....	0	Miller & Rhoads, Inc., Richmond, Va.....	0	General Electric Supply Corp., Richmond, Va.....	0

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
4	27,023	92,055	79,964	67,046	115.1

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

August 5, 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 1942					
1	\$ 14,044	\$ 14,044	\$ 15,821	\$ 19,834	88.8%
3	22,178	36,222	30,701	27,841	118.0
4	14,575	50,797	47,523	40,811	106.9

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

August 5, 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	
4	12,448	41,258	32,441	26,235	127.2	

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

August 5, 1942.

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

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

Sales of United States savings bonds
 August 1 through August 4, 1942 **67**
 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	22.2	36.2	47.3	76.5	16.6	28.8	21.5	134.0	38.8	65.0	68.8	94.5
4	14.6	50.8	61.0	83.3	12.4	41.3	29.6	139.5	27.0	92.1	90.6	101.7
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 5, 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 5, 1942

TO Secretary Morgenthau

FROM H. D. White

Subject: Preliminary Report on Expenditure Rationing

The appended draft is being distributed to the following persons for their criticism and suggestions.

- | | |
|------------|--------------|
| Mr. Bell | Mr. Haas |
| Mr. Blough | Mr. Paul |
| Mr. Cairns | Mr. Stewart |
| Mr. Gaston | Mr. Sullivan |
| Mr. Graves | Dr. Viner |

It is hoped that their comments and suggestions will be received soon so that they would be incorporated in a later draft. It is understood, of course, that none of the persons receiving the draft would have either the opportunity or the desire to make comments and suggestions suitable to a final draft, but will bear in mind that this is merely an attempt to prepare a preliminary report which will be as sound as the time of preparation permits.

The later task of preparing a complete report will doubtless be allocated to some other agency.

The task of drafting all details for an efficient and comprehensive system of Expenditure Rationing is enormous. It could occupy the full time of a large staff for many weeks. Even then there would of necessity be many adjustments and modifications that would have to be made from time to time in the light of actual experience.

This draft is merely an attempt to indicate the more obvious problems -- some important, some unimportant -- and to present some suggestions as to the possible methods of their solution. It resembles an artist's drawing rather than an architect's plan.

The time allocated to the preparation has been very short and hence the product is to be regarded wholly as a very preliminary document, designed for correction, alteration, supplementation and discussion within the Treasury.

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PRELIMINARY SURVEY OF EXPENDITURE RATIONING

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PRELIMINARY SURVEY OF EXPENDITURE RATIONING

Section I

Summary Description

I. What is Expenditure Rationing?

Expenditure Rationing is the limitation of total consumer expenditures by fixing the maximum amount that every family or single individual is allowed to spend on rationed goods. In principle, rationed goods should include all consumers' goods that have any current cost in labor, materials, or facilities. However, the following classes of consumption goods and services might well be excluded from Expenditure Rationing, each for separate reasons: rents, tuition, and possibly medical care and several other classes. Under the Expenditure Rationing plan consumers' goods other than these could be bought only with one's ration allowance, but the consumer would be free to spend his ration allowance on any commodities or services that he pleased. Furthermore, no limitation would be imposed on the use of income in non-consumption transactions, i.e., all business transactions other than sales to consumers, and special consumers' transactions as making gifts, paying taxes, paying insurance, buying real estate or securities, or saving in other ways.

II. Why is Expenditure Rationing Desirable?

1. How does Expenditure Rationing solve the problem of inflation?

Under Expenditure Rationing, the total amount allowed to be spent on rationed goods for the whole economy during any period is set at a level equal to the value of the supply of rationed goods expected to be available during that period. In making this computation, supplies would

be valued at the price level which it is desired to maintain. Changes in the total expenditure ration would be made as the supply position changes. Since total purchasing power would be fixed at a level equal to the value of supplies available for purchase, average prices would remain relatively stable.

2. What contribution would expenditure Rationing make to the problem of getting the money needed to pay for the war?

Expenditure Rationing yields no revenue. However, by preventing consumers from spending their incomes on rationed commodities, it forces them to save — in one form or another. Individuals will be most likely to buy larger amounts of Government securities directly or to place their savings with institutions who will in turn buy larger amounts of Government securities. In any event, the Government will be free to borrow from individuals or banks without fear that its actions may be inflationary.

3. Can Expenditure Rationing make an equitable distribution of scarce supplies?

The equity of any Expenditure Rationing program would depend upon the schedule. The plan attacks the problem of excessive consumer purchases directly, and determines the ration allowances from an item (current income) that is in most cases readily determinable, for both of which reasons it is possible to expect greater equity. The plan offers the possibility of determining and periodically changing the rations with speed and without detailed Congressional approval. Furthermore, since the alternative to a larger ration for any individual is additional saving rather than taxation, the administrators may be bold for their mistakes would cause only minor inequities.

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It will still be necessary to have specific rationing for any basic necessities that are disproportionately scarce. However, in the measure that people with large incomes will be able to spend less on scarce commodities under Expenditure Rationing than they would otherwise be able to do, the need for specific rationing is reduced.

4. If Expenditure Rationing is a satisfactory solution to the problems of controlling inflation and distributing scarce supplies, why has it not been adopted in other countries?

No comprehensive system of Expenditure Rationing has been adopted in any country, though the British have an expenditure ration for meat. This fact cannot, however, be regarded as a serious reflection on the merits of Expenditure Rationing. In general, rationing as developed in various countries has been not a plan but an expedient — or rather a series of expedients. One commodity after another has been put under a specific scheme as its supply position has aroused particular concern. These schemes range from the specification of physical rations for a single commodity to an elaborate system of point rationing. The point systems do not make an undesired revelation of the degree of inequality sanctioned by the rationing system. In England — where several separate systems of rationing have been improvised — Expenditure Rationing has received strong support from able students of the question.

III. How does Expenditure Rationing Work?

1. What will determine the size of the Expenditure Ration for any individual or family?

The magnitude of the individual or family ration can be determined by a simple schedule which takes account both of income and family

- status. The schedule should be designed:
- (a) to give a larger ration to those with a larger income, although increases in the ration would be much less than in proportion to increases in income,
 - (b) to give a larger ration to large families,
 - (c) to effect no reduction in the total consumption of single individuals and families having incomes below selected levels, and
 - (d) to limit the aggregate of consumers' expenditures on the basis of the available supply of goods.

Once the basic distribution were determined in this manner, the provision of additional consumption in cases of apparent hardship or inequity could be left to the discretion of local boards.

2. What kind of coupons or licenses to purchase will be used for Expenditure Rationing?

An effective rationing system requires the use of some kind of coupon or license to purchase.

It may be possible to solve this problem without the use of both money and a coupon in every purchase. Since almost all cash expenditures are included in the rationed area, small denomination money (all presently existing coins, \$1 and \$2 notes, and perhaps a new issue of \$2.50 notes) may be used both as money and as a license to purchase in the rationed area. Notes of larger denominations could then be used only in the uses, listed above, that lie outside the scope of Expenditure Rationing.

A similar system could easily be devised to permit the use of checks. A depositor could have two accounts: an ordinary account for

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uses outside the rationed area, and a consumption account established through the deposit of small denomination money.

If there should be any legal obstacle to this differentiation among existing types of money, coupons would have to be issued in the form of licenses to purchase rationed commodities. Such coupons would not be a substitute for money but would have to be used together with money in each purchase of a rationed commodity. In this case, convenience would dictate that purchases not exceeding 10 cents be excluded from the expenditure rationing.

3. How will individuals and families receive their Ration?

The distribution of ration money (or of coupons along with ordinary money) could be integrated very closely with the present system of payment of income.

(a) Persons employed for wages or salaries could file a statement with their employers showing their dependency status. On the basis of this return, the employers would distribute to them the correct amount of ration allowances.

(b) Persons receiving non-wage or salary income could report the amount of their income as well as their dependency status to a bank, post office, or local rationing board. The institution to which this information was reported would be authorized to provide the individuals with ration allowance in accordance with the Expenditure Rationing schedule.

(c) Persons with irregular incomes, seasonal incomes, or living by depleting capital, would require special consideration in the determination of their ration allowance. The method of handling such cases is considered fully in Section III.

The distribution of ration allowances could be integrated with the collection of income taxes or the filing of tax returns in order to provide a check of the accuracy of ration allowances paid.

4. How will it be assured that purchases of rationed commodities are made only with Ration allowances?

All business enterprises and individuals selling goods or services directly to consumers for ration allowances would be required to file a quarterly statement of their sales, in conjunction with an income tax return. They would have to establish gross credits to a bank or postal account, in the form of ration money (or coupons), to the extent of their rationed sales. Such a firm would file separately the Expenditure Ration returns for its employees, to justify its payments of ration allowances in salaries and to secure the right to continue to draw ration allowances for its wage and salary bill.

It would be possible to provide a satisfactory check of the accuracy of ration allowances by integrating the payment of ration allowances with the payment of income taxes or the filing of income tax returns. For consumers, such a system would have an internal self-enforcing element, since the exaggeration of income would lead to additional tax liabilities, while the under-statement of income would diminish the size of the ration allowance.

Its external strength, apart from legal enforcement, would be in the sentiment of the public that, in war time especially, scarce goods should be shared equitably. Any evasion of Expenditure Rationing might consequently come to be regarded as an unpatriotic evasion of responsibilities deriving from the war effort. It is possible that inventory control could be used as a supplementary check on evasion.

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5. Should rights to make expenditures on rationed commodities be transferable?

If ration coupons are to be used, they may be made either transferable or non-transferable. It is hardly likely that transfer of such coupons could be prevented without heavy administrative expense which would be quite unwarranted in view of the easy possibility of transfer of the rationed goods subsequent to the original purchase. On the other hand, transferable coupons would tend to acquire a scarcity value and would be sold to some extent by less eager buyers to those with more intense desires or larger incomes.

If rationed money is to be used no means of preventing such money being transferred by first holders to other consumers is readily available. Here again it is quite possible that a premium would appear as the pressure of restriction became more burdensome. The total consumption could still be kept at the desired level, though the shift in consumption might provide a less satisfactory use of the limited national resources for the maintenance of health and efficiency of the population.

In any case those who made such voluntary further restrictions of consumption by sale of coupons or rationed money at a premium would be compensated for their privation by money payments which would enable them to consume more at a later date.

Should rights to make expenditures on national commodities be

restricted?

If ration coupons are to be used, they may be made either transferable or non-transferable. It is hardly likely that transfer of such coupons could be guaranteed without heavy administrative expense which would be quite unnecessary in view of the very possibility of transfer of the rationed goods equivalent to the original purchase. On the other hand, transferable coupons would tend to reduce the accuracy of the rationing system and would be sold to some extent by those who have no need for them.

If rationed money is to be used as a means of rationing such money being transferred by first sale to other consumers is transferable. Here again it is quite possible that a premium would appear as the pressure of restriction becomes more burdensome. The total consumption would still be kept at the desired level, though the shift in consumption might provide a less satisfactory use of the limited national resources for the maintenance of health and efficiency of the population.

In any case those who wish such voluntary further restriction of consumption by sale of coupons or rationed money as a premium would be compensated for their restriction by money payments which would enable them to purchase more of other goods.

Section II

The Magnitude, Scope, and Distribution of Expenditure Rationing

A. Determination of Total Magnitudes

The dynamic nature of the problem. The first task of the Federal Ration Administration is to determine to what extent total consumption expenditures must be curtailed in order to accomplish the objectives of the Expenditure Rationing program. Having determined what total consumption can be allowed for the economy as a whole, the problem becomes one of distributing the restrictions necessary among individuals and families.

The problem of determining how much total consumption will need to be curtailed breaks down into two principal elements:

- (1) What amount of goods and services will be available for consumption over the period being considered; and
- (2) What amount of these goods and services will be demanded over the same period.

The principal difficulty in obtaining answers to these two questions arises from the dynamic nature of the data involved. They are not questions which can be considered on the basis of data that are given and static. On the contrary, the elements of the problem are continually changing and the relations among them never the same at different moments of time.

The amount of goods and services which will be available for consumption will depend upon the following:

- (1) To what extent existing inventories are drawn upon; and
- (2) The rate of flow of consumer goods and services currently being produced, which in turn depends upon the war production program, the efficiency of productive factors, etc,

The amount of goods and services which will be demanded will depend upon:

- (1) The rate of flow of national income, particularly of income payments;
- (2) The personal distribution of the national income by income size.

It is immediately obvious that all these factors involve elements continuously changing in time. Decisions of the Central Expenditure Rationing Board must therefore involve a continuous balancing of present and future consumer requirements and means of satisfying the requirements. This in turn involves judgment as to the length of the war, the course of the production program, etc.

If it were believed, for example, that the war would be over in a year's time, a more liberal use of existing inventories could be allowed than if it were believed that the war will not be over in less than two years. If it were believed that the consumer supply situation would progressively deteriorate as the war continues, it would be necessary to decide whether some part of current production of consumer goods should be reserved for future consumption and thus even out the necessary restrictions in the present and the future.

As the various elements of the picture change, the degree of consumption restrictions will likewise change. It is a prime advantage of the Expenditure Rationing plan that it is flexible and adaptable to continuously changing circumstances in the demand and supply situation.

Even though the problem is inherently a difficult one and involves responsible judgment in balancing the various elements concerned, there already exist Federal government agencies which gather the basic data

necessary to reach reasonably accurate conclusions as to the magnitude of consumption restrictions which may be necessary.

Estimating Supply. There are two methods which can be used to determine the supply of consumer goods and services which will be available for consumption in any given period. The first method is direct measurement, that is, direct estimation of the production of the main categories of consumer goods and services. The Office of Civilian Supply of the W.P.B. has been established to perform precisely this function. The Research Division and other sections of the Office of Price Administration likewise are engaged in making estimates of consumer supplies currently being produced.

The second method that can be used to estimate the production of consumer goods and services is by regarding such goods and services as the residual remaining after government expenditures and increases in capital goods for any given period are deducted from estimates of the gross national product for that period. The data involved in this procedure are available from the researches of the Department of Commerce and other government agencies.

By either of the above methods it is possible to make a rough but satisfactory estimate of the rate of production of consumer goods and services. To the estimate of production for a given period there can be added the inventory of consumer goods available at the beginning of the period and a figure thus obtained for the total supply of consumer goods and services which will be available for consumption and carry-over during that period.

Determining What Demand can be Satisfied

Having estimated the supply of goods and services which will be available for consumption and carryover during any given period, the Federal Retion Administration has the basis for determining the total amount of consumption expenditures which will be allowed during that period. If it is decided to "save" part of the current production of consumer goods for future periods, the amount of consumption allowed during the current period will correspondingly be reduced.

The actual amount of retion allowances which are to be issued during any period will be determined, of course, by the supply of goods and services which fall in the rationed areas, rather than by the total of all consumer goods and services available for consumption.

Illustration of a method

A method which the Federal Retion Administration could follow in determining the total amount of consumption to allow during a given period is illustrated by the following estimate of the amount of consumer goods and services which will become available for consumption during the fiscal year 1943.

National income at factor cost in June, 1942 prices will be approximately \$120 billion in the fiscal year 1943, according to Department of Commerce estimates. This figure measures, however, the net value of current output as the sum of the net returns to the various factors of production in the form of wages, salaries, interest, rents, and net profits earned. In order to convert the national income figure into a measure of the aggregate goods and services entering the market at market prices, it is necessary to add business tax liabilities, for a significant portion of the proceeds realized from the sale of

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privately-produced goods and services accrues directly to the Government in the form of business taxes and never appears in the income of any of the factors of production. It is estimated that for the fiscal year 1943 business tax liabilities will amount to \$24 billion, making national income at market prices equal to \$144 billion. An additional \$13.5 billion of estimated capital charges must be added to the national income at market prices to obtain the gross national product at market prices — namely \$157.5 billion. To obtain the amount of goods and services available for private use, all Government expenditures, including state and local, must be subtracted from the gross national product. This leaves \$76.5 billion. If from this figure there are subtracted the following: gross private outlays on construction and equipment, the increase in inventories, the increase in claims on foreign countries, and the increase in monetary stocks of gold and silver — there remains the amount of consumer goods and services which will be available for purchase. This figure for the fiscal year 1943 is estimated at \$67.5 billion. Adjustments for increases in factor costs might be necessary at the time expenditure rationing is introduced.

Having determined the amount of goods and services which will be available for consumption, the next task of the Federal Ration Administration is to distribute consumption allowances among individuals in an equitable fashion. A suggested schedule of distribution and a discussion of the problems it raises are contained in a later section.

B. The Scope of Expenditure Rationing

In principle, in a fully employed and well organized war economy, Expenditure Rationing should apply to all consumers' goods and services, whether currently produced or withdrawn from inventory. All civilian consumers' output (and all depletion of consumers' inventories) should be regarded as subtracting from possible war production. All civilian supply — even a mere vaudeville performance — requires at least labor, and in a fully employed war economy labor is short. The demarcation of a non-rationed area of goods and services is an invitation to draw labor into that field; if food is rationed, and not personal services, people who can afford to do so will employ labor to grow food in their back yards.

It is not a serious argument against the inclusive formulation of expenditure rationing that some consumer's output is always more elastic than others. If there were, in fact, some goods for which an increment of consumption would require no additional resources directly or indirectly, it might be desirable to exclude such a good from expenditure rationing. But, in fact, there are no such goods. Furthermore, by making expenditure rationing fully inclusive, it is possible to avoid injustices based on the established preferences of the community.

On the other hand, insofar as the economy does in fact — even in wartime — produce many non-necessities, the inclusion of these non-necessities in the Expenditure Ration means that individual rations must be more unequal than they would have to be otherwise — for the more prosperous members of the community must be provided with ration coupons with which to buy these non-necessities. To the extent however that, when

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their total expenditures are limited, the rich shift their consumption pattern towards non-luxury articles and qualities, they will bid increasingly for the kinds of articles and qualities formerly bought primarily by people with smaller incomes. There will still be a case for specific rationing. Indeed we may generalize: the more inclusive the Expenditure Ration, the more need there will be to make it unequal, and the more unequal it is the more need there will be for specific rationing of disproportionately scarce necessities. Some attempt is made to take account of these considerations below.

Despite the strong case, in principle, for making Expenditure Rationing all-inclusive, it appears, on examination of the particular facts, that there are three classes of consumers' expenditures which it would be desirable to exclude from Expenditure Rationing. These are expenditures on rents, medical care, and tuition. The value of these expenditures in 1941 was estimated by the Consumer Division of O.P.A. at about \$17.6 billion, or about 24 percent of total civilian consumption. The value of all rents in 1941 was about \$13.4 billion (including \$3.3 billion of imputed rents for owner-occupied housing); consumers' expenditures on medical care were about \$3.4 billion; expenditures on education were \$.9 billion.

Rents

The case for excluding rents from Expenditure Rationing seems irresistibly strong, for the following reasons:

- (a) The inclusion of rents in the Expenditure Ration would make for a less equal distribution of scarce necessities. The supply of housing has not been reduced. The inclusion of an

allowance for the customary housing expenditures of the rich in the Expenditure Ration would necessarily make the Expenditure Ration very unequal. But as their total consumption expenditures are reduced, the rich will attempt to shift their outlays, to some extent, away from housing. They will then compete with the poor even more for articles whose supply has been reduced.

(b) The inclusion of rents in the Expenditure Ration would discriminate sharply against those who live in rented premises, as opposed to those who own homes. Renters would find that they had to spend 20 percent or more of their ration on housing, while owner-occupied with the same money income would have their ration to spend entirely on other goods.

(c) The inclusion of rents in the Expenditure Ration would discriminate against urban consumers and in favor of rural ones with equal money incomes, because of the much higher level of rents in densely populated areas.

(d) The inclusion of rents in the Expenditure Ration would cause a windfall loss to landlords and would give a windfall profit to tenants. There will be no appreciable reduction in the supply of housing, but Expenditure Rationing will mean a substantial reduction in total demand. There will therefore certainly be some reduction in the total amount spent on rent, giving a windfall profit to tenants and a windfall loss to landlords.

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(e) On the other hand, if rents were excluded from rationing but left uncontrolled, they would rise greatly. Therefore the most equitable solution would seem to be to exclude rents from Expenditure Rationing but to continue the rent freezing regulations now in effect and to extend them to cover the whole country.

(f) The inclusion of rents in the Expenditure Ration would necessitate equivalent treatment for home owners. The rationing administration would be forced to determine in every case, how much of the payment made in buying a house was rent and how much saving, because the one part would be rationed and the other unrationed. This difficulty is avoided by broadening unrationed expenditures to include both paying rent and saving through accumulating an equity in a home.

It is true that the demarcation of rents as unrationed expenditures leaves some administrative problems. These problems center around the demarcation of shelter rents from various services such as light and heat often included in rent but which will have to be distinguished from shelter rents if all consumers of services are to be treated equally. However it seems clear that the balance of advantages is on the side of confronting these relatively minor administrative difficulties, rather than accepting the major administrative problems and major injustices which would result from the inclusion of rents in the Expenditure Ration.

Medical Services

The reasons for making medical services non-rationed items seem also to be strong:

- (a) The need for medical care is very unevenly distributed through time, and requires a large expenditure when urgent need arises. An Expenditure Ration which provided for average needs would miss the extraordinary needs, which are the important ones.
- (b) It would be extremely undesirable to subject the Expenditure Rationing system to the criticism that a person failed to get necessary medical care because he lacked ration allowances, even if his total medical expenditures were merely average and his deficiency of ration allowances due to poverty or improvidence. The inclusion of medical services in Expenditure Rationing would be a particularly great hardship if the Expenditure Ration system were to forbid consumer credit. Doctors might then be confronted with the alternatives of insisting on immediate payment of the ration cost, performing services gratis, or turning away patients who would otherwise have expected to pay later — when able.
- (c) On the other hand, it is important to take account of the fact that medical services will be in short supply. The army will be requiring the services of about one-third of all doctors. "Luxury illness" should not be encouraged as it would tend to be by making medical services an unrationed item. The proper agencies for discouraging the unnecessary use of medical services are the hospitals, doctors, and public health authorities. It should not be the duty of the ration authorities.

(d) If it were considered desirable to make average medical expenditures a rationed item, on account of the considerations mentioned in (c), an extra-schedule allowance might be set up to cover extraordinary medical expenditures. Under this extra-schedule allowance, any individual who could show that he has spent over, say, 5 percent of his income on medical services might be granted an extra ration allowance to the extent of the excess.

It seems that, on balance, frictions and ill-will might be minimized by making medical services entirely unrationed, but a working compromise with the tight supply position might be made by permitting credit for medical services and adopting an extra-schedule medical allowance as suggested in (d) above.

Tuition

The case for excluding tuition expenditures from Expenditure Rationing is the simplest of all.

(a) There is no need to foster a decline in the monetary demand for teaching services. The staffs and facilities of the educational system can be made available for war purposes by other means, to the extent that these resources can be used.

In large part these educational resources cannot be transferred.

(b) A large part of the male student body, particularly of colleges and universities, is being drawn away by the draft. If tuition expenditures were made part of the expenditure ration, a large part of the remaining student body would have to forego further education. Tuition might well be the first item to be dropped in many family budgets. It is doubtful whether it would be

It is desirable to bring about a further contraction in the number of persons receiving higher education at the present time. In any case the question should not be decided on financial grounds.

(c) Tuition fees are not the kind of charges which are likely to rise substantially even if they are left unrationed.

Other Services

These three classes of consumers' expenditures seem to be the only ones in respect to which a strong case can be made for excluding them from Expenditure Rationing. It has been suggested that many recreational facilities, e.g., movies and ball games, should also be excluded from Expenditure Rationing on the ground that their marginal cost of supply is low but that a monopolistic price policy would keep them from lowering their prices and securing full use of their facilities. The arguments against excluding these recreational activities from rationing seem however to be convincing:

(a) It is not true that the marginal costs in transportation, services, etc., in using these facilities is negligible.

On the contrary, they strain the transport system, employ more entertainers and attendants in good times, etc.

(b) It is possible to secure full use of these facilities under Expenditure Rationing, through a fall in admission prices. Such a fall took place during the depression.

(c) To exempt some recreational facilities from rationing would discriminate against other forms of leisure. It would give a bonus to the man who likes to go to ball games over the man who likes to buy books.

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(d) To make, e.g., movies, an unrationed commodity just to secure full use of their facilities would be to give a bonus to monopolistic practices of fixing price above the level of marginal cost.

(e) As a compromise with the idea of making certain consumers' expenditures entirely unrationed, it has been suggested that certain goods and services might be sold for a 50 percent ration requirement. In this way, jewelry, furs, ball parks, etc., which were hard hit by Expenditure Rationing might be assisted. This alternative has, however, severe administrative and political disadvantages. If one business is allowed to sell its stock 50 percent for non-ration money, every other depressed business in the country will be camping on the door of the Rationing Administrator. Applications will be made even for individual local exceptions within a major line of business. The broad simplicity and equity of the scheme will be lost in a host of exceptions. The public will become confused. Administration will become complicated by the fact that stores will be selling some items for one kind of money and some for another. Congress will not like the exercise of this kind of discretion by the Administrator. It seems therefore that this device of "percentage rationing" should be used little if at all and then only under the most careful safeguards. However, it may be possible to adopt a ration premium, say the payment of 150 percent of the price in ration allowances, as a substitute for specific rationing of some goods.

(f) To multiply the number of goods and services outside the rationed area is to make Expenditure Rationing harder to administer. In this respect, specific rationing and Expenditure Rationing are opposites. Specific rationing is easier to administer the more goods are left out; Expenditure Rationing is easiest to handle when the whole flow of consumption must take one form.

Employment of Labor and Personal Services

In general all persons employing labor for personal services will be required to compensate such labor with ration allowances, out of their own personal ration. On the other hand, all persons employing labor in business will receive ration allowances from banks, post offices and other Federal agencies to pay their employees in accordance with the Expenditure Rationing schedule. The line between labor employed for personal service and labor employed in business must be whether the good or service produced is intended to be sold in the market. This rule of thumb will still make it possible for persons employing labor in business, e.g., on farms, to take some part of the product of such labor directly for their own use. However, such evasions of the spirit of the Expenditure Rationing plan can be kept to relatively small dimensions. It is doubtful whether anyone receiving a large income would be in a position to get over 10 percent of the income in kind. The fact that farmers receiving a few hundred dollars of income might get most of it in kind, in a way exempt from Expenditure Rationing controls, should cause no great concern.

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Legal Services

All legal services should be treated as business services and should be exempted from Expenditure Rationing. Such services are not properly classifiable as "consumption" whether in civil or in criminal cases.

Second-hand Transactions

All purchases at second-hand by one individual who is not a dealer from another individual who is not a dealer should be non-rationed. Such exchanges do not affect total consumption and they are not readily susceptible to administrative control.

On the other hand, the second-hand stock of dealers should be treated as part of the inventory of goods available for general consumption. Such second-hand goods should be purchasable only against ration allowances to the same extent as any new goods.

Antiques and Works of Art

Any good whose value is substantially analagous to that of a capital asset, depreciating only very slowly through time, might be exempted from Expenditure Rationing. Antiques and works of art are not bought for the services which they render over any short time. Their purchase might be treated as the purchase of a capital asset, substantially analagous to saving.

However, the exemption of antiques and works of art from Expenditure Rationing raises many difficult problems because of the large number of marginal cases. In all these marginal cases it seems desirable that the solution be made in accord with the more inclusive rather than the less inclusive definition of the scope of Expenditure Rationing. To the extent that such antiques and works of art are genuinely capital assets their

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value will not deteriorate sufficiently even for the duration of the war to cause great capital losses to dealers. Therefore an administrative policy which places articles in the Expenditure Rationing area in marginal cases leaves dealers with the alternative of holding their stocks for sale at a later time.

Housing Construction and Maintenance

All expenditures on the construction or maintenance of housing should be treated as business expenditures exempted from Expenditure Rationing. Such construction and maintenance needs to be limited to essential cases at the present time. However the limitation of building and repair operations to cases of need had better continue to operate through control of building permits rather than form a special facet of Expenditure Rationing.

General Area Exempt from Expenditure Rationing

In principle it is clear that Expenditure Rationing is not concerned with the use of money for the purchase of existing capital assets, for making gifts or for paying taxes. Under Expenditure Rationing, no one can increase his own consumption and so bid resources away from war production. No one can increase his consumption beyond the limit set by his individual ration. The individual must save. The particular form in which he holds his savings is no concern of the Expenditure Rationing scheme. He may hold cash, he may buy securities, he may buy land or buildings or bonds, he may give his money to individuals or churches or hospitals. So far as the smooth functioning of Expenditure Rationing is concerned, these things make no difference.

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C. The Distribution of the Expenditure Ration
among Individuals

Since rationing is ~~sc~~ ~~sc~~ economics, and in a ~~sc~~ it becomes difficult to supply civilians with more than bare necessities, rations tend toward equality. However there are four arguments, of varying weight, in favor of unequal war-time rations. These arguments are: (a) differences in needs, (b) necessity of maintaining incentive, (c) desirability of making full use of existing facilities and (d) differences in money-income. In our judgment the first two of these are very strong arguments in favor of unequal rations. The third has some strength. We are unable to assign any weight to the fourth except as a rough measure of the others.

Differences in need are the simplest and most widely recognized basis for unequal rations. The Germans allow the heaviest laborers more than twice as large food rations (by caloric content) as are allowed the normal consumer. Doctors are given a special position with regard to the rationing of automobiles and gasoline in all countries where such rationing prevails. Special rations are provided for expectant mothers and the sick. A general ration, if it were very low, might have to adjust not only for the number of persons in a family, their age and health, but also for the kind of work they did.

Variations in rations for the purpose of maintaining incentive are a more complicated matter. The basic issue is whether, even with the exceptional stimuli of war-time, the will to work long hours of overtime does not need to be sustained by offering the reward of a high marginal increment of current consumption. Where rations are equal or are so low that they can be bought with a

small fraction of income, the only stimuli to extraordinary effort are patriotism and the desire to accumulate savings for use after the war. If at all possible, these stimuli should be supplemented by that of increased current consumption. Therefore it is desirable to keep the ration value of marginal increments of earned income high. From the point of view of maintaining incentive, the ration value of overtime work or extraordinary piece-work performance should be highest of all.

The argument that rations should be unequal to secure full use of existing facilities, merely contends that there is no net gain to the economy if the expenditure ration is set so low that no one can afford to use the existing inventory of large houses, big cars, and other relatively permanent facilities that cannot readily be adapted to more equal sharing among a larger number of consumers. This argument is based on the assumption that the war-time civilian value of the services rendered by such facilities is greater than the current maintenance costs, and this assumption is certainly correct in a large number of cases. Further there is no point in giving windfalls to users, as opposed to owners, of such capital assets. Even a policy directed towards the permanent elimination of such "luxury" facilities would be unwise (from a strictly economic point of view) if it curtailed consumption so much as to render existing facilities unused; all that is desirable is to guarantee that no new ones are built.

The rationale of the argument that inequality of war-time rations should be -- to some extent -- a function of income, must

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be that income is a rough measure of need, effort and other reasonable claims to larger expenditures. Insofar as the measure is accurate, this argument must be accepted. A further reason, of an entirely different order, is that differences in income are sanctioned by long established custom and should not be extinguished as an adjunct of expenditure rationing so long as inequality in consumption does not necessitate inadequate consumption for the public generally.

The Schedule of Expenditure Rationing

A general schedule can be constructed which takes account of need, incentive and established income differences in broad terms. Such a schedule can weight need particularly heavily by (a) giving a rapidly decreasing ration value to successive increments of income and (b) by taking more account of the number of dependents upon a given income than is done currently. Special needs however are not taken account of in such a general schedule; they must be provided for by extra-schedule allowances both general and specific.

In the calendar year 1941 consumers (including non-profit making institutional consumers) purchased goods and services totalling \$75.3 billion. In the first quarter of 1942 consumers' purchases were at an annual rate of \$80.6 billion; in the second quarter they were at an annual rate of \$78.8 billion. We have estimated that at the beginning of the present fiscal year consumers' expenditures on goods and services were running at an annual rate of about \$77 billion and that it will be necessary to achieve an average reduction at an annual rate of \$10 billion in such expenditures during

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the fiscal year 1943 if the war production program is to be accomplished and prices are to remain stable. This means that consumers can be allowed to expend not more than \$67 billion on goods and services during the fiscal year 1943. This estimate is, of course, very rough and will have to be revised after further study.

Of this \$77 billion of expenditures perhaps \$17 billion would be in the non-rationed area as defined above. Rents would account for about \$12 billion; medical services for about \$4 billion; and tuition for perhaps \$1 billion. Therefore the purchasing power which will remain to be distributed by Expenditure Rationing during the fiscal year 1943 will average about \$50 billion.

An Expenditure Rationing system established in October could afford to be somewhat more generous with consumers initially. By January it will need to reach the \$50 billion level. In June it will be substantially below that level.

Merely for illustrative purposes we have constructed below one Expenditure Rationing schedule compatible with a total consumption of about \$67 billion and a rationed area consumption of about \$50 billion. Of course the total of \$67 billion will be roughly accurate only if, as assumed, the prices of the services in the non-rationed area remain substantially unchanged.

This particular schedule was designed in terms of June 1942 prices; (a) to make the distribution of consumption substantially more equal than it is today, (b) to effect no reduction in the total consumption of single individuals having incomes up to \$600 per year of families of four having incomes up to \$1800, (c) to give

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some ration value to every increment of income, (d) to reduce total consumers' expenditures to about \$67 billion a year.

We estimate that in the fiscal year 1943 income paid out to individuals will total about \$118 billion. Since there will be only about \$67 billion of goods and services available for purchase, on the average, consumers will be able to spend only 57 cents out of each dollar of income which they receive. Since the total of rationed goods and services available for purchase will be only about \$50 billion, the average ration value of a dollar of income cannot exceed 42 cents. The tables presented below, which are only very rough, take account of these considerations.

To give due consideration to the number of dependents on any income, we have allowed the weight assigned to the family group to determine the width of the bracket on which the successive bracket rates of ration value apply. We have assumed that, for Expenditure Rationing purposes, a single individual has a weight of 1.0; a married couple has a weight of 1.8; a child below age six has a weight of .2; a child from six to twelve has a weight of .3; a child from twelve to eighteen has a weight of .4. Any further adult dependent on the same income is given a weight of .5.

In accordance with this formula, a family of four consisting of two adults, one child below age six and one between the ages of twelve and eighteen would have a weight of 2.4 as compared to a single individual. This means that if the first bracket of income (on which, say, an 80 percent ration value might prevail) was \$500 wide for a single individual, it would be \$1,200 wide for

this family of four persons. While the bracket rate of 80 percent would apply only on the first \$500 of income for a single individual it would apply on \$1,200 of income for a family of four. The same formula is used for each of the succeeding brackets.

The schedule given below would reduce expenditures on rationed commodities to approximately the level required in the fiscal year 1943. It would limit the expenditures of all families to under \$40 billion and the expenditures of single consumers to under \$8 billion, thus leaving a small margin for the expenditures of institutional consumers and the expenditures of the armed forces out of supplies normally considered as being available for civilian purchase. The margin left by this schedule, as at present calculated, is still considerably too small, but we have regarded it as unnecessary to attempt further refinement in these rough preliminary calculations.

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Table A

Distribution of population among four consumer groups and aggregate and per capita consumer income of each group in fiscal year 1943, assuming aggregate income payments of \$118 billion

Population group	Persons		Aggregate Consumer income		Per Capita consumer income
	Number (in thousands)	Percent	Amount (in millions)	Percent	
Military personnel	4,500	3.3	5,500	4.7	\$ 1,220
Civilian population					
Family members	119,500	88.6	94,100	79.7	790
Single consumers	9,600	7.1	18,000	15.3	1,880
All families and single consumers	129,100	95.7	112,100	95.0	870
Institutional groups	1,400	1.0	400	0.3	290
All civilian groups	130,500	96.7	112,500	95.3	860
All groups	135,000	100.0	118,000	100.0	870

Table B

Number of families and single consumers and average size and average and aggregate consumer income of each group in fiscal year 1943, assuming aggregate income payments of \$118 billion

	Number of consumer units (in thousands)	Number of persons (in thousands)	Average number of persons per consumer unit	Average income per consumer unit	Aggregate consumer income Amount (in millions)	Per-cent
Families of two or more persons	32,750	119,500	3.65	\$ 2,875	\$ 94,100	84.0
Single consumers	9,600	9,600	1.00	1,880	18,000	16.0
All families and single consumers	42,350	129,100	3.03	\$ 2,650	\$112,100	100.0

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Table C

Distribution of families and of aggregate consumer income received by income level in fiscal year 1943 assuming aggregate income payments of \$118 billion

Consumer income level	Families Number (in thousands)	Average income per family	Aggregate consumer income Amount (in millions)
Under \$500	1,500	\$ 380	\$ 570
\$500 - 750	2,200	655	1,440
750 - 1,000	2,500	910	2,275
1,000 - 1,250	2,950	1,160	3,420
1,250 - 1,500	3,400	1,390	4,725
1,500 - 1,750	2,900	1,635	4,740
1,750 - 2,000	2,500	1,870	4,675
2,000 - 2,500	4,200	2,270	9,435
2,500 - 3,000	3,000	2,730	8,190
3,000 - 4,000	3,200	3,430	10,980
4,000 - 5,000	1,800	4,430	7,975
5,000 - 10,000	1,650	6,950	11,470
10,000 and over	950	25,500	24,325
All levels	32,750	2,855	94,100

Table D

Distribution of single consumers and of aggregate
consumer income received, by income level, in fiscal
year 1943, assuming aggregate income payments of
\$118 billion

Consumer income level	Single consumers Number (in thousands)	Average income per single consumer	Aggregate consumer income Amount (In millions)
Under \$500	1,110	\$ 380	\$ 420
\$500 - 750	1,205	670	805
750 - 1,000	1,255	940	1,180
1,000 - 1,250	1,255	1,200	1,510
1,250 - 1,500	1,160	1,440	1,670
1,500 - 1,750	825	1,700	1,405
1,750 - 2,000	580	1,945	1,130
2,000 - 2,500	825	2,355	1,945
2,500 - 3,000	450	2,845	1,280
3,000 - 4,000	450	3,560	1,600
4,000 - 5,000	225	4,600	1,035
5,000 - 10,000	205	7,200	1,475
10,000 and over	105	25,800	2,710
All levels	9,650	\$ 1,880	\$18,000

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Table E

Estimates of possible consumption by income groups
in fiscal 1943

Income	Single Consumer		Family of two adults, one child under six, one child over twelve	
	Total 1941 consumption	Allowed 1943 rationed area consumption ^{1/}	Total 1941 consumption	Allowed 1943 rationed area consumption
\$ 500	\$ 550	\$ 400	\$ 645	\$ 400
750	720	550	820	600
1,000	920	650	1,025	800
1,250	1,100	725	1,225	990
1,500	1,270	790	1,420	1,140
1,750	1,415	850	1,610	1,290
2,000	1,570	900	1,800	1,400
2,500	1,875	1,000	2,155	1,590
3,000	2,130	1,090	2,455	1,740
4,000	2,590	1,240	3,030	1,990
5,000	2,995	1,375	3,505	2,200
10,000	5,140	1,810	6,275	3,020

^{1/} Consumers will still be free to spend their normal amounts on rent, medical service, and tuition; these items normally total between one-fifth and one-quarter of the consumers' budget.

Schedule of possible ration value of various increments in income

Single Consumer	Standard Family	Percentage of increment in income to be spent in the rationed area
Under \$ 500	Under \$ 1,200	80
\$ 500 - \$ 750	\$ 1,200 - \$ 1,800	60
\$ 750 - \$ 1,000	\$ 1,800 - \$ 2,400	40
\$ 1,000 - \$ 1,250	\$ 2,400 - \$ 3,000	30
\$ 1,250 - \$ 1,750	\$ 3,000 - \$ 4,200	25
\$ 1,750 - \$ 2,750	\$ 4,200 - \$ 6,600	20
\$ 2,750 - \$ 4,750	\$ 6,600 - \$ 11,400	15
\$ 4,750 - \$ 8,750	\$ 11,400 - \$ 21,000	10
\$ 8,750 and over	\$ 21,000 and over	5

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Division of Statistics
Washington

1945

Estimate of service consumption by income groups
in 1945

Single Consumer
All was 1943
Total 1941
Total 1943
Total 1945

Income	1941	1943	1945
1,000	250	250	250
1,250	250	250	250
1,500	250	250	250
1,750	250	250	250
2,000	250	250	250
2,250	250	250	250
2,500	250	250	250
2,750	250	250	250
3,000	250	250	250
3,250	250	250	250
3,500	250	250	250
3,750	250	250	250
4,000	250	250	250
4,250	250	250	250
4,500	250	250	250
4,750	250	250	250
5,000	250	250	250
5,250	250	250	250
5,500	250	250	250
5,750	250	250	250
6,000	250	250	250
6,250	250	250	250
6,500	250	250	250
6,750	250	250	250
7,000	250	250	250
7,250	250	250	250
7,500	250	250	250
7,750	250	250	250
8,000	250	250	250
8,250	250	250	250
8,500	250	250	250
8,750	250	250	250
9,000	250	250	250
9,250	250	250	250
9,500	250	250	250
9,750	250	250	250
10,000	250	250	250

Estimate will still be from 1943 - spend that much more as per 1945
service and total - same thing naturally - but between 1943 and 1945
quarter of the amount, subject

Estimate of possible future value of service consumption in 1945

Single Consumer
Standard Family
Total 1941
Total 1943
Total 1945

Income	1941	1943	1945
1,000	250	250	250
1,250	250	250	250
1,500	250	250	250
1,750	250	250	250
2,000	250	250	250
2,250	250	250	250
2,500	250	250	250
2,750	250	250	250
3,000	250	250	250
3,250	250	250	250
3,500	250	250	250
3,750	250	250	250
4,000	250	250	250
4,250	250	250	250
4,500	250	250	250
4,750	250	250	250
5,000	250	250	250
5,250	250	250	250
5,500	250	250	250
5,750	250	250	250
6,000	250	250	250
6,250	250	250	250
6,500	250	250	250
6,750	250	250	250
7,000	250	250	250
7,250	250	250	250
7,500	250	250	250
7,750	250	250	250
8,000	250	250	250
8,250	250	250	250
8,500	250	250	250
8,750	250	250	250
9,000	250	250	250
9,250	250	250	250
9,500	250	250	250
9,750	250	250	250
10,000	250	250	250

When in 1945

D. Expenditure Rationing, Specific Rationing, and Price Ceilings

If Expenditure Rationing is adopted there will then be in operation three direct inflation controls regulating prices and the distribution of consumer goods: Expenditure Rationing, specific rationing, and price ceilings. It is worth considering how these will work together and the degree to which Expenditure Rationing could supplement or supplant the others.

1. Expenditure Rationing and Specific Rationing. To the extent that Expenditure Rationing results in a reduction of general purchasing power and in an increase in the equality of consumption expenditures, the severity of all shortages is partially alleviated and the need for specific rationing controls of disproportionately scarce commodities is thereby somewhat diminished. By a slight extension of the Expenditure Rationing technique, however, a means could be provided for the equitable solution through this one mechanism of many of the specific shortages that might otherwise require specific rationing programs. If this could be done, a great simplification of the total rationing picture would be obtained.

The extension proposed for the alleviation of specific shortages is the creation for such commodities of a separate "ration price." For example: if the supply situation of a commodity like tea is sufficiently serious to warrant the establishment of specific tea rationing with registrations, tea coupons, etc., it would be simpler to restrict the demand for tea by requiring a percentage increase in its ration price. That is, if the percentage increase were 20 percent, the consumer would have to pay \$1.20 per pound in ration allowances to buy tea selling for \$1 per pound.

Ordinarily it is inequitable to restrict the demand for disproportionately scarce commodities through price increases because (a) the price increase does not require that the rich restrict their consumption of that or any other commodity, and (b) the price increase unjustly enriches the producers and sellers of the commodity. The plan proposed is partly free from objection (a) and entirely free from objection (b). The rich may continue to consume the scarce commodity, but only at the expense of other consumption and, to the extent that they forego other consumption, they make available for the rest of the community an increased supply of other consumption goods. On the other hand, the poor may buy the commodity, and in that event the abstinence imposed upon them by the higher ration price is in part compensated with an increase in their money savings. The plan would not in any way enrich the producers or sellers of the commodity. To businesses, what matters is their money receipts and not their receipts of ration allowances. A higher ration price would not increase the money receipts of businesses producing or selling the article and there would be no increase in their profits. (Because of the control system of Expenditure Rationing it would, of course, be necessary for retailers to report their gross sales, which are to be equated with deposits of ration allowances, on the basis of "ration prices.")

It is not contended, of course, that this plan would provide an equitable method of distributing automobile tires, whose proper distribution should be based on factors other than price whether in money or rations, nor of certain essential commodities (perhaps sugar) of which a minimum supply must be assured to everyone. But it should

be sufficiently equitable for the distribution of many goods that would otherwise have to be specifically rationed. The inequity of the plan rests in the unequal distribution of ration allowances, since paying a given extra amount in ration money would represent a smaller sacrifice to a person with a large ration allowance than to a person with a smaller allowance.

It would also be possible to encourage the consumption of disproportionately plentiful commodities through reducing their ration prices, i. e., permitting some fraction of the price to be paid in non-ration money. It is believed, however, that this device should not be used. There will be few commodities whose consumption it will be desirable to encourage, and the existence of this technique will cause every other business man in the country to seek this type of special favor.

This device for specific rationing could be used under a ration money system or under a ration coupon system, although it would be somewhat easier under the latter system.

Some of the advantages and disadvantages of the device are the following:

- (a) It is operationally simple and eliminates the need for separate registration and coupon systems.
- (b) Because of its operational simplicity, it would be possible to undertake many more such individual rationing programs than under existing techniques.
- (c) The plan allows much greater flexibility than is possible under existing techniques. That is, specific rations may be imposed or removed for short periods and on short notice without inconvenience; commodities may be much

more closely defined and their definitions may be changed; and changes in the severity of the ration may be more graduated than under a system requiring the definition of rations in physical units.

(d) On the other hand, an individual ration program of this type would be less certain in its effect, and, in small measure, the certainty of the Expenditure Ration itself would be reduced. The ease with which the "ration price" may be changed, however, permits a desired effect to be approximated by trial and error.

If this device should be adopted the need for many specific rationing programs might be avoided. However, the need will remain for those specific rationing programs determining the allocation of commodities whose distribution must be based upon particular needs and for those whose distribution must be so organized as to assure a minimum supply to everyone.

2. Expenditure Rationing and Price Ceilings. The price ceilings by themselves provide no mechanism for reducing consumer demand nor for increasing the supplies of consumer goods. Expenditure rationing will provide a most effective mechanism for reducing general consumer demand, and if the technique of separate ration prices for disproportionately scarce commodities were to be adopted, expenditure rationing could also provide an effective means of restricting consumer demands for specific commodities. In both of these ways expenditure rationing can remove the pressures that might otherwise break the price ceilings.

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The retention of the existing price ceilings, at least for a time, would be desirable. They would provide assurance that excessive aggregate expenditure, due to an overestimate of supply, would not result in higher prices. They would prevent a general distortion in price relationships that would lead to difficulties of adjustment in the future and that would unduly enrich the fortunate holders or producers of goods now relatively scarce. It would in time be possible to remove some price ceilings where there are indications that at slightly higher prices enlarged production of relatively scarce goods would be undertaken, utilizing the resources that could be shifted from other consumer industries.

The retention of the existing price ceiling, at least for a
time, would be desirable. They would provide assurance that neces-
sary expenditures, due to an overstatement of supply, would
not result in higher prices. They would prevent a general increase
in price relationships that would lead to a disturbance of adjustment
in the future and that would largely cancel the favorable balance
inducement of goods and relatively scarce. It would be that be
possible to prevent some price ceilings where there are indications
that an already higher price ceiling might be necessary. It is
reason to be understood, regarding the measures that could
be taken from other economic industries.

Section III

The Mechanism of Expenditure Rationing

The effectiveness and equity of Expenditure Rationing depend in large part upon the arrangements made for paying out and using ration allowances. This might conveniently be referred to as the circular flow of ration money or ration coupons. A description of the circular flow breaks naturally into ^{Four} parts:

- (a) The form which ration allowances might take;
- (b) How people get ration allowances;
- (c) How ration allowances are spent;
- (d) Administration of accounting controls through retailers, employers, and banks.

In the paragraphs below it is proposed to describe each of these parts, and to discuss some of the special problems that must arise under a system that will effect so many income and expenditure transactions.

A. The Form of the Ration Allowance

An effective rationing system requires the use of some kind of coupon or license to purchase. In this section available alternatives are discussed and compared.

Available Alternatives:

Rationing schemes are ordinarily operated with the use of coupons which must be used together with money in making purchases of the rationed commodity. This alternative is, of course, available for use in Expenditure Rationing. However, because it is planned to include within the scope of Expenditure Rationing nearly all transactions

ordinarily made with cash, it is possible to use a device that combines money and the license to purchase in one physical token.

Identifying the license to purchase with money has the disadvantage of destroying the equality of value of ordinary money and ration money. Ration money would probably exchange for Non-Ration Money at a premium, since Ration Money would be available for all uses while non-ration money would be used only in very restricted spheres. This objection is more apparent than real. Under a coupon system coupons would have a salable value approximately equal to the premium that would otherwise exist upon ration money, and except for numismatic niceties the effect of the two procedures would be the same.

On the other hand, there are a number of positive advantages to the use of a token combining money and the license to purchase that strongly recommend its use:

1. Most important is the factor of convenience. A primary consideration of any system that will involve so many billions of transactions must be that of the convenience of the system to the consumers and retailers who must use it. If coupons were to be used, every consumer would have to carry with him an assortment of ration coupons as well as an assortment of money adequate for all the purchases he would be likely to make, and all retail stores, banks and other institutions would have to keep on hand a full assortment of coupons as well as their normal stocks of money. Each transaction would require searching for, counting, perhaps making change in, and putting away both money and coupons. The inconveniences of such an arrangement would be enormous. For instance: Change would have to be made more frequently since the chance of having both money and coupons in the

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right denominations for any purchase would be much less than when money alone is used. Similarly, existing devices for handling money, such as wallets and particularly cash registers, could not readily be adapted to handle coupons also.

2. The use of ration money also makes it possible to extend the inclusiveness of the ration. If coupons were to be used it would be necessary to exclude purchases made from coin vending machines, and convenience would demand the exclusion of small purchases. These exclusions would represent discrimination amongst different businesses and would provide a means of evading in small measure the intent of the ration.

3. The use of ration money would make it necessary for retailers and other businesses handling licenses to purchase to be more careful of them, since the loss of ration money would be the loss of both the coupon and the money. This consideration would reduce the possibility of retailers permitting evasion of the ration.

Under either a coupon or a ration money system banking facilities in the form of checking accounts for ration uses could be easily provided. A depositor could have two accounts: An ordinary account for uses outside the ration area and a consumption account established through the deposit of ration money or through the deposit of money and ration coupons.

4. Finally the use of ration money, by being less expensive to the Government and more convenient to consumers and businesses, could permit many savings of time, labor, and materials useful for the war effort.

If Coupons are to be used, What Form would they take?

If ration coupons are to be used, the principal problem to be considered is whether they should be one-use coupons or multiple-use coupons. A one-use coupon would present an overwhelming problem. With approximately \$50 billion of coupons distributed annually it would require for each year's use 5 billion books each containing \$10 worth of coupons. The magnitude of this task is so great as to suggest immediately the desirability of multiple-use coupons.

Multiple-use coupons might be confined to denominations of \$1, \$2.50 and \$5 printed on standard currency paper, but, to make them readily distinguishable, printed in a different color and about 1/4 smaller. Coupons for fractions of a dollar, which would be one-use coupons, could be put up in books containing a proper proportion of 5¢, 10¢, 25¢, and 50¢ coupons, the total of such coupons in a book amounting to \$10. Alternatively, they could be printed in perforated sheets of 10 coupons each, the sheets being the same size as large denomination coupons.

This scheme would reduce the printing problem to manageable proportions, although it would still be enormous. The representative family would probably need at least \$10 worth of one-use fractional coupons each week. That is to say, in the case of books, it would be necessary to provide 40 million such books weekly or 2 billion annually. It is doubtful whether a lesser number would provide the community with a satisfactory proportion of ration coupons for fractions of a dollar. In addition to these fractional coupons there would be a need for multiple-use coupons in the larger denominations.

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Assuming an aggregate annual rationing of \$50 billion, of which about 1/2 would be distributed in the form of weekly wages, 1/4 in the form of semi-monthly salaries, and 1/4 in the form of monthly salaries or income drawn at irregular intervals, the amount of ration coupons distributed to the public at the peak of any payment period would be about \$2 billion. Allowing for the accumulation of about \$1 billion of ration coupons in consumers' balances, it would be unnecessary to have a minimum of about \$3 billion in ration coupons constantly outstanding, or about \$2-1/2 billion in multiple use large denomination coupons and 1/2 billion in one-use fractional coupons. This figure would be increased somewhat by coupons in the process of issue and redemption and reduced somewhat by the use of coupon checking accounts. The \$2 to \$3 billion in multiple-use coupons would probably be replaced between one and two times a year. If they were issued in denominations of \$1, \$5 and \$10, in the same proportions as currency, the total number of such pieces outstanding would be nearly 1 billion, and the total annual provision would be about 1.2 billion pieces.

If Ration Money is to be Used, What Form Should it Take?

A ration money system may be established in either of two ways:

(1) All existing small denomination money (all coins and \$1 and \$5 notes) and perhaps a new issue of \$2.50 notes may be declared to be ration money. In this case all existing larger denomination notes would be available for non-ration uses, and a small issue of distinctively colored \$1 and \$5 notes might be provided for non-ration uses. Fractional currency might be provided for the few non-ration

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transactions in which it would be needed in the form of coupons, or in the form of new metallic 10¢ and 25¢ pieces.

(2) All existing moneys might be declared to be non-ration money, and a new issue of notes printed in a distinctive color from the same plates might be provided for ration uses.

The second alternative would have fewer legal difficulties, but it would require the replacement of a larger proportion of the present circulation, and it would not provide an adequate solution to the problem of fractional currency.

The best compromise would probably be to issue a new series of notes for ration money in denominations of \$1 and over, and to use existing coins as ration money. In this case, it would be necessary to provide coupons or cheap metallic tokens for non-ration transactions requiring denominations of less than \$1. This procedure would require less changes in existing legislation and would also avoid the difficulty that those holding disproportionately large amounts of existing currency at the beginning of the ration program would receive ration allowances to which they were not entitled if the ration privilege were to be given to outstanding currency.

If existing forms of money are to be used as ration money, the problem of supplying this money will not be difficult. Because smaller denominations would be used, a slightly larger supply might be necessary, and it would also be necessary to provide a small amount of small denomination money for non-ration transactions. Even if a new issue of ration money is to be used, there will be little problem in supplying it. Such money can be printed from presently existing plates using a

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distinctive color and bearing the overprint word: "ration". It may be assumed that the maximum amount needed would be roughly 2/3 of the

outstanding \$1, \$5 and \$10 notes, or approximately \$3-1/2 billion.

This money would take the place of ordinary currency, and its printing would therefore be in lieu of the printing of approximately the same

amount of ordinary money. In fact, since Expenditure Rationing will diminish total expenditure, the overall need for money, both ordinary

money and ration money, should be diminished. The most serious

problem in the use of ration money would be to provide a satisfactory

fractional currency for non-ration transactions.

B. How do people get their ration allowances?

There are two basic procedures by which people get their expenditure allowances:

1. Persons receiving a regular income for current services in the form of wages, salaries, commissions, or similar types of payments from a single source may submit to their employer a statement of the number of their dependents. On the basis of such statement the employer will be authorized to obtain from his bank and to pay to his employees in ration money or coupons (or in checks cashable in ration money or coupons) that portion of the earnings of each that is due him in accordance with the Expenditure Rationing schedule.

Such persons who have other sources of small amounts of income may, if they wish, also report to their employer their earnings from these sources during the preceding quarter. Upon the basis of this statement the employer will be authorized to obtain and to pay to the applicant the full amount of ration allowance due him.

For reasons of convenience, many employees will elect this procedure, but the Expenditure Rationing procedure should not require employees to report other sources or income or even dependency status to their employers. Employees who do not choose to make reports to their employers should be free to use procedure 2, below, for obtaining their entire ration allowance or for obtaining the amount of ration allowance due them from supplementary sources.

Most persons would doubtless prefer to obtain all their ration allowances from this source. Probably 80 percent or more of total ration allowances could be distributed through employers.

2. Persons receiving dividends, interest, rents, royalties, or similar more or less regular incomes from one or more sources could make an application to a bank, a post office, a local rationing board, or the Federal Administrator of Expenditure Rationing. This application should show the person's family status and his income in the preceding quarter. On the basis of this application and the Expenditure Rationing schedule, the agency to which the reports were submitted could authorize any bank or post-office designated by the applicant to issue coupons to him or to permit him to exchange non-ration money for ration money up to the schedule amount each month. The simplest procedure would be to authorize a bank to transfer once a month a specified amount from the applicant's non-ration account to his ration account.

One of these two procedures will cover almost all the cases, but there are many special categories as well as individual cases, that require special treatment. These are discussed in the following paragraphs.

3. People who make all or part of their expenditures from sources other than income. There are many persons who live partly or wholly on the proceeds of private insurance or annuity benefits, or the sale of their capital or personal effects. Such persons should be required to submit to their local ration board a statement showing their family status and their customary receipts from these sources. The ration board could then determine their expenditure allowance roughly in accordance with the Expenditure Rationing schedule. The ration boards should be free to impose upon them heavier cuts than those called for by the schedule, and also (because their past rate of capital depletion does not include any savings) to provide in some cases a larger allowance than that called for

in the schedule. In general, boards should not permit the maintenance of present living standards, but should attempt to cut the consumption of such applicants at least as much as that of income receivers with similar pre-ration expenditure standards.

Secondly, there are those living upon receipts from gifts, allowances, charity, pensions, social security benefits, alimony and funds from allied sources. Those receiving gifts and allowances may receive them in ration allowances. If not they should report to their local board for an authorization for a ration allowance. In most such cases the total income of the recipient will probably be below the minimum ration and the whole of it may be allowed. Otherwise the board will have to decide whether the allowance is overly generous.

Those receiving their income exclusively from social security benefits or charity or pensions from recognized organizations probably should not have to report their affairs to any board. Instead, the organizations concerned might obtain authorizations to make ration allowances in approved amounts. Recipients of alimony or other court awards might be required to treat their receipts as income and file reports under procedure 2, above.

Thirdly, there are those spending funds provided them for specific purposes, i.e., fellowships, travel and research allowances, army and navy officers' food allowances, per diems, etc. The business, government, or institution making such payments could apply to the local board in its area for an authorization to make ration allowances in scheduled amounts.

4. People receiving irregular incomes. Incomes of street vendors, domestic servants, boarding house proprietors, some types of professional etc., constitute special categories. They might be required to sell their services for ration allowances. Excepting for professionals, few of these

will have incomes above the minimum ration so that no great injustice will be done by their failure to report. The law might require those receiving more than the minimum ration to report their receipts and surrender that portion of their allowances to which they are not entitled. This provision should take care of most of the professional cases. Street vendors and boarding house proprietors may be prevented from selling their receipts of ration allowances by requiring that dealers sell to them as retailers.

Other irregular or non-market incomes will be received in kind. This case is important only in the case of farmers and farm laborers, who will be discussed below.

5. Lastly, there are an almost limitless number of special cases, of which only a few will be discussed.

(a) Farmers and farm laborers. These could make applications to local farm officials competent to evaluate that part of their incomes received in kind. They may then receive authorizations to acquire enough ration allowances to give them the consumption allowed in the schedule. There would probably be some political objections to this procedure.

(b) Illicit incomes. Persons receiving illicit incomes must report under procedure 2. They may attempt to conceal the source of their incomes as they would an income tax return, but they then would not be able to obtain ration allowances without difficulty.

(c) Institutional consumers. Bona fide institutions should be treated as businesses and their purchases exempted from the ration. Their consumption must, of course, be taken account of in determining ration schedules. Institutional inmates paying fees to the

institution ought not, however, to be exempted.

(d) Remittances from abroad. Persons receiving remittances from abroad must file under procedure 2.

(e) Savings deposit and war bond interest, common forms of supplementary incomes. Presumably this income would be taken care of under procedure 1.

(f) Families with more than one income earner. Separate returns from working husbands, wives and children, and from husbands and wives in the community property states will create injustices under Expenditure Rationing which require special consideration.

6. The general and special procedures by which people will obtain their ration allowances have been discussed above. In many cases local boards have been referred to. The composition and duties of these boards will now be described.

There is already in each community a ration board charged with certain responsibilities in connection with specific rationing program. These boards may also be assigned such duties as are necessary in the administration of Expenditure Rationing, such as making decisions in special cases and granting extra-schedule allowances in cases of hardship and inequity.

The plan of Expenditure Rationing envisages central control. The local boards are not expected to make policies, but to interpret rulings of the Federal Administrator of Expenditure Rationing. The Federal Administrator should provide directives, as specific as possible, to cover as many as possible of the cases that may arise, and his approval or rejection of any local board decision shall be binding upon all other local boards. Control of the ration boards will be discussed in a later section.

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The Federal Administrator should, for instance, provide rule of thumb decisions for extra-schedule allowances in cases of marriage, child birth, unemployment, household fires or air raid damage, theft or loss of ration allowances, and purchases of automobiles permitted under the automobile rationing program.

The boards should have the authority to make ration loans as well as extra-schedule allowances. There will be many cases in which a person must be granted an additional expenditure allowance although he is not entitled to it (for instance, a man who spends his entire ration allowance at the beginning of the period.) The authority to make loans will permit the boards to handle such cases equitably.

C. How Ration Allowances are Spent.

1. All purchases of ration goods and services are to be made with ration money or with money and ration coupons. Retailers will deposit their receipts of ration money or coupons and through a deposit book or other receipt establish evidence of its deposit. The total of such evidenced deposits must agree with gross sales as reported upon income tax returns at the end of the year. This is the basic procedure.

2. Elsewhere in this memorandum it is suggested that the mechanism of Expenditure Rationing might be extended to provide selective controls over some specific commodities that might otherwise require separate rationing. This extension would involve increases in the "Ration Price" of disproportionately scarce commodities. The consumer would then pay the regular price in money and the higher "ration price" in coupons.

If this device were to be adopted, some changes would be required in the procedure described for making purchases with ration money in ration coupons. Retailers' deposits of ration money would then have to agree with gross sales at "ration prices," and some additional bookkeeping would therefore be required upon their part. Also, some form of non-ration small denomination money would have to be provided.

3. There are many types of transactions that require special discussion:

(a) Transactions in which it would be difficult to enforce compliance. These include barter deals in goods or services, second-hand sales by those others than dealers, sales direct from farms and backyards, sales direct from wholesalers, sales by small unincorporated retailers, and consumer services performed by casual workers. For the most part, compliance cannot be enforced in these transactions and no great harm will be done thereby. Wholesalers, however, may be expected to comply for fear of detection either by the government or by retailers. A satisfactory degree of compliance might also be obtained from small unincorporated retailers by field checkers. Such checkers may find evidences of non-compliance not only by making purchases in such stores but by examining its books and bank account.

(b) Transactions partly within and partly without the ration area. Such transactions include apartments rented with utilities and heat, rooms and meals priced jointly, certain types of sanatoria fees when it is doubtful whether the service sold is medicinal or recreational, housing maintenance expenditures, etc. A sufficiently

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equitable solution to most of these problems can be obtained only through clear statements of definitions by the Administrator and a clear understanding that when the corporate income tax returns are checked departures from the definitions will be discovered.

(c) Transactions theoretically exempt from the ration. These include petty business purchases, doctors' bills, church collections, state sales taxes, etc. If ration coupons are to be used church collections will present no problem, but if there is to be no small denomination non-ration money, churches will have to find some other means of taking collections. Businesses and other organizations should be entitled upon application to draw ration money or coupons in limited amounts for petty transactions at retail. If ration money is to be used states having sales taxes without the use of tokens may have to provide tokens.

(d) If ration money is not to be used, vending machine sales and all small sales will have to be exempted from the ration.

(e) Consumer debts. Consumer credit must not be extended by sellers from one ration period to the next — at least so far as the ration money or coupon portion of the debt is concerned. It might be possible to permit stores to sell for coupons and carry the debt. The administration of this element of Expenditure Rationing might be incorporated with Regulation W of the Board of Governors of the Federal Reserve System. There is, of course, no means, nor any great necessity, of preventing consumers from lending ration money or coupons to each other if the ration medium is to be transferable.

D. The Devices for Control of Expenditure Rationing.

1. Consumers. The entire responsibility for determining the accuracy and honesty of statements made in applications for ration allowances probably should rest with the ration administration, and not with the employers, local boards, post offices, or banks receiving the applications. All such agencies would be authorized to act upon the basis of the applicant's statements.

When authorizations have been sent to the bank or post office designated by the applicant, and when employers have established their right to draw ration money for pay rolls, all applications could be sent to the Federal Administrator. The staff of the Federal Administrator could then arrange them for subsequent checking against income tax returns and other available data. Sample checks would probably be sufficient. The law would, of course, provide penalties for those found to have falsified their applications.

2. Retailers. The mechanism for checking retailers was described above. The principle checking device would be a comparison of ration receipts deposited with a bank and reported gross sales for income tax purposes.

3. Employers. Employers could be responsible for paying to their workers the proper amount of ration money in accordance with the statements of their employees, their own knowledge of their total payments to their employees, and the Expenditure Rationing schedule. The employer's corporate income tax return could provide a rough indication of his compliance. A more satisfactory check would be provided by comparison with social security records of the employer.

4. Local Boards. Local boards could be responsible to the Federal Administrator of Expenditure Rationing and subject to removal by him. Records of their actions should be sent to the Federal Administrator so that he may review a sufficient number of cases to satisfy himself of the board's competence and honesty. In order to avoid misuse of ration money or coupons by the boards, they might make all their awards in the form of authorizations to banks or post offices to exchange certain amounts for their applicants. They would then have no occasion to handle ration money or ration coupons.

The most difficult aspect of control over local boards is that of preventing them from granting too many extra-schedule allowances. To insure that they will husband their authorizations, it might be provided that each local board will have available a certain proportion of the total ration of its community. The total of such reserve funds could be taken account of in the determination of the schedule. Local boards could be permitted to exceed the amount of their reserve fund only with the approval of the Administrator. At the time of this request the Administrator would have an opportunity to review the allowances granted by the board.

5. Post offices authorized to make ration money payments might send to the Federal Reserve Bank a list of such authorizations and their total for their ration period. This statement will provide an authorization upon which they may draw ration money in exchange for non-ration money. It may then be provided that the post office must receive a receipt for authorized exchanges made for its customers, but this may be an unnecessary complication. Post offices would be able to make unauthorized exchanges

only to the extent that authorized persons fail to make the amount of exchanges permitted them, and this, together with the general reliability of post office officials, might be considered a sufficient check.

6. Banks would acquire ration money or coupons for distribution by applying to a Federal Reserve Bank. They would receive ration money or coupons from retailers. Banks would account for what they distribute by filing the applications with the Federal, and they would account for what is deposited with them by giving receipts which would be returned to the Federal.

Section E. Should Ration Allowances be Transferable?

Rations granted to individuals are ordinarily not transferable. Sugar ration cards, for instance, are for the use of the individual to whom they were issued, and gasoline ration cards are for use only in the automobile for which they were issued.

In the case of expenditure rationing, however, it would be almost impossible to set up a functioning system that did not permit transfer of ration allowances from one person to another. The attempt to make the ration allowance non-transferable would immediately rule out the use of ration money, and force the use of ration coupons. Furthermore, such coupons would have to be one-use coupons, and the cost of providing a sufficient number would be enormous. The mechanics of non-transferability would require that the coupons be issued in books, detachable only when a purchase was made. Under such circumstances it would not even be possible to make a change in coupons.

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It is almost certain that non-transferability of the ration allowance cannot be enforced. But it is believed that this condition will do no real harm. While most ration coupons are not transferable, there is no means under any ration system to prevent goods being transferred after their purchase. Making expenditure ration coupons or ration money transferable will merely permit such evasions of the spirit of rationing to be made openly and lawfully. Transferring ration money from one person to another will not upset the total ration schedule, for individuals selling ration money will consume as much less as individuals buying it will consume more. Sales will probably take place from the poor to the rich, and amongst some poorer families the sale of ration coupons may provide the means for somewhat more luxurious purchases of housing, medical services, tuition, and other goods outside the ration area.

There is, moreover, a special reason why expenditure ration allowances should be transferable even though specific ration allowances are ordinarily not transferable. Specific ration allowances are ordinarily granted in recognition of need; expenditure ration allowances, on the other hand, are granted as a matter of right in accordance with one's family status and income.

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would be enforced. But it is believed that this arrangement will do no
real harm. While some ration coupons are not transferrable, there is no
reason why any ration system to prevent goods being transferred after
their purchase. Hence, expenditures ration coupons or ration money trans-
ferrable will merely permit such owners of the right of rationing
to be made openly and lawfully. Transferring ration money from one person
to another will not affect the total ration available for individuals
selling ration money will continue as much less an individual paying it
will continue more. Sales will probably take place from the year to the
year, and savings from goods bought within the area of ration coupons will
provide the means for purchase of luxuries outside of rationing.
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and income.

Section IV

The Effects of Expenditure Rationing Upon Consumers and Businesses.

1. Consumers

The operation of expenditure rationing will alter not only the spending patterns of all consumers, but many activities in their daily lives as well. Though the aggregate of consumers' goods will be no smaller under rationing than it would be in any case if the desired diversion of non-war production to war production were to take place, the distribution of those goods among various classes of consumers will be changed.

The characteristic change to be most observed will, however, be the drastic curtailment in the consumers' goods and services available to most persons. Most people will, of course, hold the ration system to blame for this change. The expenditure rationing will be responsible for this curtailment only in the sense that it took place simultaneously with the increasing diversion of productive facilities. It will be responsible only in the sense that, without rationing, the same degree of diversion would be less likely to take place. That is exactly one of the virtues of expenditure rationing; the other virtues are, of course, the prevention of higher prices for consumers' goods and the more equitable distribution of such consumers' goods as are produced.

The degree of curtailment of consumers' goods to various consumers will, of course, vary greatly with income. The higher the income group, the greater the curtailment. At the low levels of income, the objective is to make more consumers' goods available than they

would otherwise obtain. The functioning of expenditure rationing is thus to be recognized as an instrumentality for redistributing real income as well as consumption goods. However, the extent to which real income is redistributed is a minor factor in the plan. Almost all consumers will be left with money incomes that they cannot spend in the ration area, and they will, therefore, attempt to utilize more of their incomes in the non-ration area, namely, for housing, tuition, medical services and especially institutional savings such as war bonds, life insurance, repayment of mortgages, etc.

One peculiar consequence of this redistribution of expenditure rationing will be that a portion of the consumers, those who are just above the exemption levels, will find that they have money which they cannot spend in the ration area, not because their income has been increased nor because their consumption of real goods and services has been decreased, but simply because the real goods and services which they have been accustomed to purchase have, as a consequence of the expenditure rationing system, been reduced in price. They will feel that the expenditure rationing system has curtailed their consumption, but actually it will have resulted in making possible increased expenditure on non-rationed goods or increased saving.

Practically all consumers will shift their pattern of expenditures from expensive or luxurious goods to less expensive and more essential items. The consequence of this shift will have a terrific impact on numerous parts of the economy. This is discussed later.

To the man accustomed to filing an income tax report, the requirements of expenditure rationing will not be as new or onerous as to

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the millions who have never filed tax reports. The task of obtaining the necessary coupons and filing the appropriate forms will probably not be much more onerous than has been the task of obtaining one's gas ration, though it will be more difficult than obtaining one's sugar ration. However, there is little doubt that the first few months of expenditure rationing will be accompanied by a clutter of editorials, cartoons, letters, and skits pointing to the confusion, evasion, and delays occasioned by the inauguration of the program.

There is little doubt, however, that the public will take the matter in its stride and treat it in just as matter of fact a way as we now treat gas rationing assuming, of course, a reasonable improvement in the effectiveness of the administration as the months go on.

It is to be remembered that dependents, which include more than one-half of the population, will not be required to make reports.

Finally, the entire community will find it necessary to adopt new habits in the handling of money and bank deposits. If ration money is used, all people must learn the mechanics of its operation and must learn to distinguish it readily from non-ration money, while if ration coupons are used, all persons must become familiar with them and with the manner in which they are to be spent. Similarly, most persons having checking accounts for use in ordinary purchases will find it necessary to open a second account for the deposit of ration money or money and ration coupons.

Were it not for the existence of rationing for some specific commodities, the nuisance of having to have a ration coupon when purchasing goods might be advanced as an argument against the plan. However, before another year has passed, the average citizen may have to deal with sugar rationing, gas rationing, and possibly half a dozen other rationing books, but with expenditure rationing he will have to carry less individual ration books so that the net result of the rationing should be less inconvenience rather than more. This is true for two reasons: firstly, as a result of the limitation of total spending power, there will be less need to ration certain goods, for example, clothing; secondly, as suggested elsewhere in the report, the expenditure rationing system can be combined to a certain extent with specific rationing.

2. Businesses

All businesses will also be affected by expenditure rationing, either as sellers or as employers. As sellers, all businesses will feel the effects of the community's attempts to shift receipts into uses in the non-ration area and to shift its consumption from more luxurious to less luxurious goods. In addition to this, retailers must adopt new practices in handling money receipts, practices that in most cases will probably involve additional costs. They must make separate deposits of ration money, save the evidences of such deposits, and, at the end of the year, make reports demonstrating the equality of their gross sales and ration money deposits. Retailers granting consumer credit will also be subject to further restrictions, for, under expenditure rationing, consumer credit, at least its coupon portion, may not be granted from one rationing period to the next. Wholesalers must, in their bookkeeping, make more careful distinctions between wholesale sales and those that are more properly retail sales, and to the extent that any of their sales are in effect retail sales, they must follow the procedures established for retailers in selling for, disposing of, and reporting ration receipts.

All businesses will be affected as employers. They must make available to their employees a method by which employees may receive together with their regular pay checks the amount of ration money or coupons due them. To do this employers will have to receive reports of dependency status from their employees, determine the amounts of ration money due each, establish with their bank the rights to draw the necessary amounts of ration money, and account at the end of the year for ration money received from their banks and paid to their employees.

The altered pattern of consumer expenditure will raise some serious problems connected with the earnings and employment of certain types of establishments. Some manufacturers and retailers will be very hard hit. For example, the makers and sellers of high-price jewelry, of high-price clothing, and of expensive leather goods and furs, might find their sales so curtailed that they will have to let some workers go and many of them may become bankrupt. High-grade department stores and certain categories of articles in department stores and drug stores will be likewise hard hit. As a consequence, there is bound to be a terrific outcry against the system on the part of a large number of business persons and workers.

In view of the dislocation, that will be caused by the rationing system and the unemployment and monetary losses borne by certain groups, it may be that the Government would wish to consider means of ameliorating the situation. In this connection, however, it should be borne in mind that nothing was done for the automobile and tire dealers who experienced a similar curtailment in the demand for their products, nor for the salesman who were thrown out of employment. It should not be overlooked that the impact of war is inevitably ruthless.

There are a number of industries and institutions that require special consideration and special treatment. Decision would have to be made how to handle hospitals, penitentiaries and other consuming institutions. The military services likewise present a special problem of administration.

Colleges will be very hard hit even though tuitions are excluded from the rationed area. In many institutions the average cost of a

year at college is from \$800 to \$1,500, less than half of which consists of tuition fees and room rent. It is the higher income groups who, in the main, send their sons and daughters to college, and these income groups will be the very ones who will find their expenditure allowance most curtailed.

Passenger service will come under the rationing plan except where the traveling is for direct business purposes. The means of differentiating between consumer use and business use may be the same as that used by the income tax authorities in ruling as to whether a certain traveling expense is deductible from business income. In order to simplify the procedure as to railroad and other transportation records, it is desirable that all payments for passenger service should be made either with ration money or ordinary money accompanied by coupons. To do this, it will be necessary to permit businesses to apply for ration money with which to pay such expenses of their employees.

It may be assumed that freight service is in general so exclusively for business purposes that no rationing of such service to the consumer will be necessary. If, however, it should be decided that the movement of household goods and the purchase of articles to be sent by freight provided enough burden on the transportation agencies to make rationing necessary, it would be desirable to set up special arrangement for the use of ration money or coupons for this purpose. This would complicate the accounting procedure but could presumably be handled satisfactorily by such well organized agencies as the railroads. Express service could be easily distinguished when for consumption purposes, and ration allowances would be required with the payment for such services for consumers.

Local business utilities such as electric companies, gas companies and water works will be paid with ration money or ordinary money with coupons. They will be required to turn in all such ration money or coupons to the Ration Authority. Such services provided for business use would be exempt from the ration requirement.

3. Banks

Inauguration of an expenditure rationing program will have many important effects upon the banking system. According to the plan, banks are assigned certain duties to perform, and, because of the use of ration money or ration coupons, their customers will also call upon them to perform additional services. Furthermore, the use of ration money or ration coupons and the provision of ration accounts will cause many changes to be made in their bookkeeping and reserve practices. All of these factors will cause an increase in bank expenses.

Other effects that follow from expenditure rationing will tend to reduce bank earnings. For instance, expenditure rationing requires that consumer credit be eliminated, and this will remove one of the more profitable outlets for bank loans. The effects of expenditure rationing upon individuals, which were discussed above, will also reduce the possibilities of bank loans to retailers and especially to manufacturers of and dealers in luxury items. These effects should not be exaggerated, however, since the ability of banks to employ funds in these directions has been rapidly declining for other reasons: the cessation of automobile sales, the operations of Regulation W, etc.

On the other hand, however, expenditure rationing would bring into play some factors tending to increase the earnings of banks. For instance, the use of ration accounts will greatly increase the number of accounts upon which banks may be able to impose service charges, and, because expenditure rationing will remove the inflationary dangers of borrowing from banks, the Government may tend to depend more heavily upon bond sales to the banks for financing the war effort.

The duties which expenditure rationing will impose upon the banking system are the following: They will be one of the agencies to which consumers may apply for their expenditure allowances. They will be one of the principal agencies from which consumers will obtain their allotments of ration money or ration coupons. They must set up means by which employers may establish their rights to draw ration money for payroll purposes and means by which retailers may obtain receipts for their deposits of ration money. Finally, they must set up a book-keeping system adequate to enable themselves to account for ration money that has passed through their hands.

The additional services which expenditure rationing will cause customers to demand of banks are the provision of checking accounts for ration expenditures, and the provision of an adequate stock of ration money to meet authorized withdrawals and to exchange one denomination of ration money for another.

The operation of a system of expenditure rationing will cause far reaching effects upon the bookkeeping and reserve practices of banks. Operations in ration accounts would have to work in some such manner as this: Consumers would deposit ration money in a ration account.

The bank would keep a certain amount of its ration money receipts as till money and send the rest to the Federal. It will thus have, in effect, a 100 percent reserve in ration money for its ration deposits. The Federal could credit the bank in two accounts, a dollar account and a "ration unit" account. That is, a bank sending ordinary money to the Federal would be credited in its dollar account, but a bank sending ration money to the Federal would be credited in both accounts.

At any time, it would be necessary for a bank to have a balance of ration units equal to its ration accounts (less ration money in its own tills), and a balance in its dollar account equal to the prescribed ratio of its total deposits. Adverse clearing balances with other banks in ordinary accounts would be settled with its dollar account, and adverse balances in ration money would be settled through debits to both its accounts. In this way, a bank might have more ration units than dollars to credit, which would simply mean that when it was necessary to obtain ration money to meet the withdrawal of depositors it would have to send dollars to the Federal and receive ration money.

The deposits of retailers, of course, would not be credited to ration deposits, but to the retailer's regular account, and the receiving bank would send such ration money direct to the Federal for credit to its dollar account. When retailers' receipts are collected at the end of the year, they should be sorted by banks in order that the total receipts issued by any bank might be checked against such shipments by that bank to the Federal. After obtaining money for the payroll needs of their employer customers, banks will be required to send to the Federal receipts signed by the employer. Banks will obtain the ration money they require for providing authorized sums to individuals by sending signed receipts by the recipients to the Federal for credit to their

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ration unit account.

4. Public Finance

The expenditure rationing program will have some effects upon the public finance system, although most of them will be indirect. Tax collections will probably decline, while voluntary bond sales to individuals should increase substantially.

Receipts from the Federal luxury tax will, of course, decline sharply. Receipts from taxes on liquor may be expected to decline somewhat since those receiving limited ration allowances will be inclined to reduce their consumption of liquor. Excess profit taxes will probably also decline as the effect of expenditure rationing will be to limit rates and perhaps restrict profits. Furthermore, the profits of incorporated businesses dealing in luxuries or in expensive commodities will certainly be of a lesser dollar magnitude under expenditure rationing than otherwise and, hence, excess profits tax revenue from these sources will decline.

Receipts from income taxes will rise at a less rapid rate than would have been the case had expenditure rationing not been introduced. Because of the influence of expenditure rationing in preventing price increases and in dampening general retail business, money income is almost certain to rise less than would otherwise have been the case. Hence, both corporate and individual income taxes can be expected to yield less revenue because of expenditure rationing.

In the case of state governments, the effect of expenditure rationing on finances may be particularly acute. Since a large portion of the revenue of many states is derived from sales taxes the decline

in retail sales which expenditure rationing will necessarily entail will mean that the principal source of state revenue will be affected. Furthermore, state revenues will be adversely affected by the probable reduction in revenues from gasoline and liquor taxes. In those states where gasoline rationing does not prevail, the introduction of expenditure rationing will tend to reduce gasoline consumption. As in the case of the Federal Government, the general effect of expenditure rationing on the corporate and individual incomes will tend to reduce state revenues derived from income taxes.

Another effect of expenditure rationing on the finance system of the Government is likely to be the greater reliance of the Government on bond sales as a means of raising funds. Since the inflationary effects of the sale of bonds to banks will have been largely removed by the expenditure rationing program, the principal objection to selling bonds to banks will have been obviated. Furthermore, the reduction of investment outlets of bank funds caused by the effects of expenditure rationing on profits and the retail and wholesale business generally, will make Government bonds a more desirable medium of investment for banks.

The demand for Government bonds may also be expected to increase from another quarter, namely, from individuals and businesses with funds made idle by the expenditure rationing program. Since individuals will be unable to spend a part of their income, they will naturally seek to place the unspent part in safe investments that yield a reasonable return. Similarly, in the case of businesses, such as retail stores, whose sales have been restricted and who therefore have idle working capital which they may seek to invest.

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A difficult problem which Expenditure Rationing may raise concerns the payment of taxes. Most direct taxes should be paid, of course, in non-rationed money. In the case of sales or excise taxes, however, administrative considerations may compel payment in ration money or coupons. If sales taxes were paid in ration money or coupons, problems of equity arise, the reliance upon sales taxes as a source of revenue varying greatly from state to state. Individuals living in states with high sales taxes would be penalized as compared with those individuals living in states having low or no sales taxes by having to use part of their ration allowance for the payment of these taxes.

This difficulty could be overcome quite easily if ration coupons were used in making purchases. The purchase price would be paid in money and ration coupons, the sales tax would be paid only in money. If ration money were used, provision would have to be made for selling sales tax tokens for the smallest unit of non-ration money. With a 25-cent non-ration money coin, the consumer could buy 25 cents worth of sales tax tokens to be used in payment of taxes on rationed purchases.

... difficult problem which expenditures for liquor are...
 the payment of taxes, that direct taxes should be paid...
 the un-restricted money, in the case of sales or excise taxes, however,
 administrative considerations may counsel payment in various ways or
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 of equity arises, the revenue goes sales taxes as a source of revenue
 varying greatly from state to state. Individuals living in states with
 high sales taxes would be penalized as compared with those individuals
 living in states having low or no sales taxes by having to use part
 of their net income for the payment of these taxes.
 This difficulty would be overcome quite easily if restrictions
 were used in making payments. The amount which would be paid in
 money for various coupons, the sales tax would be paid only in money.
 If all net income were used, no problem would exist as to which tax policy
 specific tax taken for the earliest date of non-restriction money. This
 account non-restriction money being the consumer would have 25 cents worth
 of sales tax taken so he need not pay the amount of tax on his net
 income.

- Section V

Administrative Problems

The administration of expenditure rationing will unquestionably present many difficult and complex problems. There is no reason for minimizing the difficulties of initiating and carrying on a program of expenditure rationing. Nevertheless, the difficulties can be met. By making full use of present agencies already engaged in rationing work, by utilizing as far as possible the economic and financial system as it already operates, and by enlisting the cooperation of other governmental agencies, it should be possible to meet the problems that will arise.

How difficult would it be to administer Expenditure Rationing? That depends on the alternatives. In its administrative task Expenditure Rationing should be compared with a system of price control and goods distribution involving the setting of price ceilings, supplemented by specific rationing for numerous commodities. While Expenditure Rationing is more comprehensive and more difficult to administer than the rationing of a specific commodity like sugar, it should not be much more difficult to administer than several specific rationing schemes for such commodities as food and clothing. As the present system of price control and commodity distribution is extended to more and more commodities, particularly when use is made of the point system, the complexity of the task would become far greater than that of a single comprehensive scheme of Expenditure Rationing supplemented by some specific rationing.

A. The Office of Price Administration, regional and local rationing Boards.

The proper agency for administering Expenditure Rationing is the Office of Price Administration. It is now charged with the duty of controlling prices. It has already undertaken to control consumer expenditure and prices by setting maximum ceiling prices and by rationing specific commodities. The Office of Price Administration has a competent central staff in Washington, and it has regional and local boards throughout the country. Their experience with price ceilings and with specific rationing will facilitate the initiation of a program of Expenditure Rationing.

The greater part of the central planning work in connection with the administration of Expenditure Rationing could be initiated by the existing staff of the Office of Price Administration. The fundamental problems of central planning for Expenditure Rationing are (1) estimating available civilian supply, and (2) setting up schedules for ration allowances that would limit the aggregate demand to the available supply. The administrative and research staff of the Office of Price Administration have been continuously studying prospective consumer supply and demand. It should be possible, without great difficulty, to direct the work that is now being done toward the solution of similar problems related to Expenditure Rationing. Obviously other agencies have an important stake in the determination of the proper aggregates and schedules, and would, of course, participate in the decisions on these matters.

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Most of the administrative work for Expenditure Rationing would have to be done in the field. The present regional offices and local rationing boards established by the Office of Price Administration should be fully competent to take care of the problems that would arise under a system of Expenditure Rationing. Local boards have had experience with sugar rationing, gasoline rationing, and the rationing of tires and automobiles. They could very well undertake the duty of passing upon the exceptional cases requiring special consideration and ration allowances and the granting of extra schedule ration allowances.

The problem of extra schedule allowances is in fact not so great as it might seem. Most extra schedule allowances would be granted for ordinary needs, such as the need for extra clothing and household equipment in connection with the birth of a child, or the furnishing of a house in connection with marriage. It is probable that such extra schedule allowances could be disposed of by setting up standard extra schedule allowances for such purposes, permitting some graduation of the standard allowance with the income of the applicant.

In 1940 the number of children born in this country was 2,400,000, and the number of marriages was 1,700,000. If in each instance an application for an extra schedule allowance were made to a local rationing board, the local boards would have to consider some 4 million applications. Large as this number is in the aggregate, it would not be beyond the capacity of the local boards to dispose of without difficulty. With 5,000 local rationing boards handling an average of 800 such cases per year, they could dispose of 4 million extra schedule allowances without difficulty.

The most troublesome problem that would be faced by local rationing boards would be the granting of ration allowances to persons living on capital. Where records are available showing the normal level of expenditure for the applicant, no great difficulty would be encountered in granting a ration allowance. The applicant would be granted ration allowances equal to those allowed to each income class that formerly had the same standard of expenditure. The key to the simplification of the work of the local rationing boards must be the setting up of standards for extra schedule allowances and for ration allowances not based on income.

B. The Use of Banks, Employers, and Business Establishments.

The distribution of ration allowances to some ^{Forty}~~50 or 60~~ million recipients would be an overwhelming task if the existing system of distributing income were not fully utilized. Ration allowances are, after all, a form of income payment and they can be distributed in connection with the distribution of money income. If full utilization is made of employers, banks, schools, and business establishments for the normal distribution of ration allowances, the task of administration can be immeasurably simplified. Local ration boards should deal only with the most exceptional cases. Wherever possible, the recipients of regular income should be granted their ration allowances on the basis of standard schedules by application to an employer, a bank, or a post office.

The more than 50 million people gainfully employed in this country are largely employed in large-scale establishments. About 40 million people are engaged in industrial, commercial, financial and governmental

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work, including the armed services, whose ration allowances could be paid by their employers without any difficulty.

The distribution of ration allowances through employers could be undertaken without much disturbance to the existing system of wage and salary payment. The danger of violation is not very great in the distribution of ration allowances through employers. The over-all payments of employers can be checked against their wage expenditures as reported for income tax purposes. The payment to each individual wage earner can be checked, if necessary, against the Social Security returns or against the income tax returns. It should be noted that each employer now reports to the Bureau of Internal Revenue, on Form ¹⁰⁹⁹ 1049, the family status and annual income of every employed person earning \$500 or more, if unmarried, or \$1,200 or more, if married. This same form could be adapted to include a further statement of the ration allowance distributed to each wage earner.

About 75 percent of the income recipients will be persons employed for wages or salaries. Most of them are employed in relatively large establishments where the keeping of records is fully understood and where the employers are accustomed to reporting to the Government. There is no reason for believing that any significant violation would develop. Occasional violations in the distribution of ration allowances would not disturb the success of the program. Furthermore, detection and the application of penalties will make violation so costly that no established business enterprise would deliberately distribute ration allowances in violation of the law.

The more difficult problem is the distribution of ration allowances to some 12 million persons engaged in agriculture, in professional employment, or as independent enterprises in various fields of retail trade. The distribution of ration allowances to such persons would have to be made through application to banks, post offices, or local rationing boards. With 15,000 banks, 50,000 post offices, and 5,000 local rationing boards, it should be possible to handle the applications for ration allowances by persons not employed by an industrial or commercial establishment authorized to distribute ration allowances. This would require each bank, post office, or rationing board to handle on an average fewer than 200 applications a year. As the granting of ration allowances to such applicants would be based very largely on the submission of a sworn application, the work of the bank, post office, or rationing board would be relatively simple. However, it would be difficult to check on the accuracy of the applications unless they were compared with income tax returns. Better still, it would be desirable to combine the application for ration allowances with an income tax return.

The more likely place for violation would be in retail transactions where retailers might be tempted to sell goods to favored customers without requiring the surrender of ration allowances. It is very likely that violations among retailers will be concentrated in the small neighborhood establishments where accurate records are not kept and where the distinction between business funds and personal funds is not always clear. It is easy to exaggerate the role of such retail

establishments in the distribution of consumers' goods. By far the greater part of retail trade is carried on in establishments keeping adequate records that can be checked.

The concentration of retail trade is evidenced by the fact that nearly 25 percent of total retail sales are made by less than 1 percent of the retail establishments; more than 60 percent of total retail sales is done by 10 percent of the retail establishments. In fact, the concentration in retailing is even greater than indicated as each unit of a chain store is counted as a separate establishment. Making allowance for chain stores, the probability is that close to 75 percent of retail trade is done by 10 percent of the selling enterprises.

This concentration of retail sales is also revealed by approaching the question from the side of small establishments. More than one-half of all retail establishments accounted for less than 10 percent of the total retail sales. Even if this group of small retail establishments were careless or indifferent in requiring the surrender of ration allowances for retail sales, no serious difficulty would be encountered. If the smaller half of the retail establishments cheated to the extent of one-fourth of their total trade, it would have the effect of distorting ration allowances by only 2-1/2 percent of the total. The fact of the matter is that in a variety of ways it would be possible to compel a close adherence to a system of compulsory surrender of ration allowances in retail trade.

The obvious method of compelling every retailer to collect and surrender ration allowances for his sales is to make his supply of goods dependent upon the volume of the ration allowances he surrenders.

Thus, a retailer surrendering \$15,000 of ration coupons would be allowed to purchase goods to the extent of \$10,000 or \$12,000 depending upon the average mark-up in his establishment, and depending upon available supplies and the policy to be pursued in the holding of inventory. In fact, such a system would have the wholesome effect of preventing hoarding of inventories, and it would facilitate the shifting of trade to those areas and those stores which are expanding. Without some such requirement, the newer establishments in defense areas might find it difficult to get sufficient supplies.

The Use of Banks. The method of administration discussed in this memorandum has placed great emphasis upon the use of banks. The logic of this procedure is simply this: ration allowances, whether they are coupons or money, are fundamentally associated with the payment of income and the sales and receipts of business houses. As a greater part of all payments is customarily made through banks, it would least disturb the normal economic life of a country to channel expenditure through banks.

For this reason, it has been suggested that each employer file with his bank the ration allowance forms submitted by or for his employees and secure from the bank the necessary amount of ration allowances. Similarly, as retailers normally deposit their receipts with banks, it is suggested that their normal procedure would be least disturbed by having them deposit ration coupons with their banks.

The banks would take receipts for ration allowances distributed by them. All of these receipts would be submitted by the banks to the Federal Reserve System in accounting for the ration allowances they

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receive from the Federal Reserve Banks. Similarly, the banks would give retailers receipts for the ration allowances that they would deposit and these receipts could be used by retailers in acquiring goods from wholesalers. A copy of the receipt could also be forwarded to the Bureau of Internal Revenue for checking against the reported gross sales of the retailer. No accounting beyond that of the Federal Reserve Banks would be necessary to assure the proper use of ration coupons or ration money. The facilities for checking the inflow and outflow of ration coupons could well be provided by the Federal Reserve Banks who are accustomed to paying and receiving large sums.

C. Cooperating Governmental Agencies

The establishment of adequate administrative machinery for expenditure rationing can be considerably simplified through the use of existing agencies of the Federal Government. The primary responsibility, of course, would be that of the Office of Price Administration, which would be charged with the duty of administering the entire system of Expenditure Rationing. But much of the work of this Administration could be performed by cooperating agencies of the Federal Government acting under directives of the Office of Price Administration. Some of the duties that might well be delegated to other agencies are discussed briefly.

The Treasury and Federal Reserve Banks

The Treasury Department could be given the duty of providing ration money or coupons. As in the case of ordinary currency, ration money could be printed by the Bureau of Engraving and Printing, and

distributed through the Federal Reserve Banks. If ration coupons are used, the Government Printing Office could provide the standard books containing \$10 in coupons. Multiple use coupons for \$1 or more should be prepared by the Bureau of Engraving and Printing.

The most important function of the Treasury in the administration of expenditure rationing would be to facilitate enforcement. The vast amount of data on business and personal incomes which the Internal Revenue Division receives each year from tax returns would constitute an important means of keeping under control the receipt and disposition of ration money or coupons by employers, consumers and retailers. When an individual declares his income and family position on the basis of which declaration his ration allowance is given, the best check on his honesty will come from a comparison of this declaration with his income tax declaration.

Similarly, data on gross sales of retail stores are necessary to determine whether retailers have turned in to the authorities an amount of ration money or coupons equal to their sales.

The Federal Reserve Banks could serve as distributing agents, receiving their supplies of ration money or coupons from the Treasury and distributing them, on the basis of requests, to commercial banks and post offices. A complete record should be kept by the Office of Price Administration of all ration money or coupons supplied Reserve Banks and the latter should maintain a complete record of all ration money or coupons which they distribute to banks and post offices. A similar record should be kept of all ration money or coupons returned.

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The Reserve Banks might initially check on the use of ration money or coupons by requiring all banks and post offices periodically to submit to the Reserve Bank in their district a list of all requests for ration money or coupons and authorizations to pay out the same.

Post Offices.

Post offices can well supplement the function of the banks in administering expenditure rationing. Persons receiving dividends, interest, rents, royalties or similar more or less regular incomes from one or more sources may make application to a post office instead of to a bank for their ration allowances. This would considerably relieve the banks of the burden of distributing ration allowances authorizations. Moreover, it would make it possible for an individual to obtain his ration allowance without giving out information as to his income and family status to a private institution. There are 50,000 postal offices convenient to practically every person in the country.

Farm Security Administration and County Agricultural Agents.

One of the most difficult administrative problems which will confront the Federal Ration Administration will be that of determining the ration allowance of farmers. The problem is two-fold:

- (1) Making out requests for ration allowances in communities where a bank or post office is not conveniently at hand;
- (2) Determining what portion of the farmer's income is consumed in kind.

Either agents of the Farm Security Administration or County Agricultural Agents could well serve to perform these functions. Having

offices in agricultural communities and being familiar with local farm habits and production, either of these agents would be in a good position to give information on expenditure rationing, accept ration allowance applications, and verify farmers' statements as to home consumption in kind.

The additional advantage of having men who are acquainted with farmers and their psychology of independence help in administering a system limiting expenditure by the farmers should not be overlooked.

Social Security Administration.

Social Security might be particularly helpful in enforcing the ration expenditure regulations. Having a record of most employees, their wages and salaries and the date of their various employments, Social Security officials might furnish valuable information in checking on cases of infraction either on the part of employees or employers. Social Security could also administer ration allowances granted for unemployment benefits, old age benefits, etc.

Army and Navy.

The principal part that the Army and Navy can play in administering expenditure rationing is the distribution of ration allowances to the personnel of the armed forces. It would appear that the entire process of distributing and checking Army and Navy personnel ration allowances could well be left to the payroll authorities of these organizations.

School System.

There are school buildings in every community which can be used. There are hundreds of thousands of school teachers who can easily be organized to help. They are accustomed to carrying out written instruc-

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tions, and can be relied upon to perform their tasks intelligently, honestly and in the main with good grace. Use can also be made of thousands of college professors who would eagerly participate if called upon to do volunteer work involving judgment, intelligence and social responsibility.

Government Employees.

Finally there are thousands of Government employees who could be called upon to put in some evenings and week-ends during the rush periods to help where feasible.

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Professor Peter Odegard
Secretary Morgenthau

August 5, 1942

After the movie you talked to me about this letter that the President wanted Leon Henderson and me to answer. If you don't mind my saying so, I think you made a mistake to let Henderson answer it alone. What I would like you to do is to call up Henderson, inasmuch as you started it, and say that since the memorandum came to me, I would appreciate having his suggestions, and then I will forward it to the President. I want the original memorandum back.

The President undoubtedly had a very good reason for sending it to me. What it is I don't know. Inasmuch as he did, I want to send the memorandum back to him and comply with his wishes.

If you have any doubts or don't understand this memorandum, I would be delighted to discuss it with you before you do anything. Thank you.

See memo to Pres. 8/5/42 -

August 5, 1942

MEMORANDUM TO THE PRESIDENT:

Transmitted herewith for your signature is a letter to William Green, President, A. F. of L. This is in compliance with your request to Leon Henderson and myself under date of August 4.

Respectfully,

(Signed) H. Morgenthau, Jr.

cc-Professor Odegard

Delivered by SS Agent 4:45
8/6/42

Dear President Green:

I learned with great pleasure from your letter of July 31 of the extensive campaign which the American Federation of Labor has undertaken to help make price control of consumer goods effective. The Consumer War Pledge which you are distributing deserves the full support not only of organized labor but of every patriotic citizen.

In pledging every member and his family not to buy above ceiling prices, not to wangle more than his share of rationed goods, but to buy only what he absolutely needs, the American Federation of Labor is making a direct contribution toward checking inflation and toward winning the war.

Total war demands total sacrifice. There is no escaping it for any of us.

On the home front, we have already set up the machinery through the Office of Price Administration to see to it that sacrifice shall be equitable, fair and just among all consumer groups. Loyal and voluntary observance of O.P.A. regulations and ceiling prices is an effective way for consumers to protect themselves against unwarranted increases in the cost of living.

As you know, total war can be won only by fighting simultaneously on many fronts. All these fronts are interlocking. Our actual battle lines now extend around the earth. But the victories already won and the greater victories to come depend in no small measure upon what we in civilian life achieve on the production front and in the fight against inflation here at home.

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By exerting every ounce of energy in turning out equipment for our armed forces, by reducing personal expenditures to the utmost, and by investing in War Bonds every dollar that can be scraped together, the workers of America can win victory on the production and consumer fronts and thereby help to insure victory on the fighting front.

Sincerely yours,

Mr. William Green, President,
American Federation of Labor,
Washington, D. C.

Prof. Odgers
you and Mr.
Henderson -
between you -
are to have ready
by noon tomorrow
Reply as indicated.

8/4/42 From: Lieut. Stephens *ES*
C 520

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THE WHITE HOUSE
WASHINGTON

August 4, 1942.

MEMORANDUM FOR THE

SECRETARY OF THE TREASURY ✓
and HON. LEON HENDERSON

FOR PREPARATION OF REPLY FOR
MY SIGNATURE.

F.D.R.

Handwritten notes on the right margin, including a large 'b' and some illegible scribbles.



AMERICAN FEDERATION OF LABOR

Executive Council

President, WILLIAM GARDNER
Secretary-Treasurer, GEORGE MEANY
A. F. of L. Building, Washington, D. C.

First Vice-President, WILLIAM L. HUTCHINSON,
Carpenters' Bldg., Indianapolis, Ind.
Second Vice-President, MATTHEW WALL,
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Third Vice-President, JAMES M. YEMM,
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Fourth Vice-President, G. M. BOWEN,
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Fifth Vice-President, CHAS. M. HANCOCK,
Railway Clerks' Bldg., Cincinnati, O.
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Twelfth Vice-President, HARVEY W. DUNN,
Mechanics' Bldg., Washington, D. C.
Thirteenth Vice-President, W. C. BOTTENBACH,
Delaware at Twelfth Street, Indianapolis, Ind.

INTERPHONE NATIONAL 3570-1-2-3-4
CABLE ADDRESS AFL.

Washington, D. C.
July 31, 1942

The President
The White House

Dear Mr. President:

The American Federation of Labor is launching a campaign to mobilize its entire organization throughout the nation to make effective sustained consumer participation in price control of consumer goods and in the rationing programs necessary to maintain stabilized cost of living.

I feel confident that voluntary consumer support on the part of organized labor will prove decisive in making price control of consumer goods and rationing of scarce consumer goods fully effective.

Enclosed are two copies of the American Federation of Labor consumer war pledge which the American Federation of Labor, on its own initiative and at its own expense, is distributing to 24,000,000 members of workers' families in its ranks. Each member of our union families is being asked to sign this pledge in duplicate. One copy is to be returned to the union to keep a record of the progress of the campaign, and one copy is to be kept and displayed by the signer.

The American Federation of Labor is launching this campaign and is making the financial contribution which such a campaign entails, to do its full part in making the workers deeply conscious of their responsibility to the nation in time of war and to demonstrate the effectiveness of labor's national organization, as a free and voluntary institution, in carrying out our national policy.

Workers and members of workers' families participating in this campaign will be glad to have from you, Mr. President, a statement of recognition and encouragement of their unstinting effort to contribute to the strength of the nation in time of war.

Sincerely yours,

President
American Federation of Labor



A. F. of L. Consumer War Pledge

*TO HELP MY COUNTRY AND MY PEOPLE WIN;
TO MAKE OUR COMMON SACRIFICE EQUAL,
FAIR AND JUST—*

I join my fellow unionists in the solemn pledge that:

- 1.** I will not buy above the ceiling prices.
- 2.** I will not attempt to get more than my share of rationed goods.
- 3.** I will buy only what I absolutely need.

Signed:

Name _____



Local Union _____

Int'l Union _____

AMERICAN FEDERATION OF LABOR

Each member of the family should sign a separate pledge in duplicate. One copy to be returned to the Union and one copy to be kept and displayed by signer.

11 1000 11



A. F. of L. Consumer War Pledge

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11 1000 11

THE SECRETARY OF THE NAVY
WASHINGTON

39483

August 5, 1942

(SC)JJ46-14
033200A/GRC

CONFIDENTIAL

My dear Henry:

I read with care your letter of August 4 dealing with the possible removal to inland points of about two and a half billion dollars worth of gold now held in New York for account of various foreign countries and foreign central banks.

My first reaction is that this is a matter that should be proceeded with only after very careful consideration and with the utmost secrecy. If it became known that we were taking any such precautionary measures, it would probably start a very regrettable form of panic among a jittery lot of people. Even though the war is not going in a very satisfactory way at the moment, the danger of an invasion of our country is very remote and we shall have abundant warning before it becomes imminent. I am not referring now to nuisance raids by aircraft but a real invasion force which alone would threaten the security of our banking institutions.

Consequently, I do not believe that it is necessary at this time to do more than secretly formulate plans which can be put into operation when this danger becomes imminent if it ever does. Even if this moderate course were followed, I cannot urge too strongly the importance of secrecy in the matter. I think it would be most unwise to have more than a very few people know what was under consideration, the fewer the better.

Yours sincerely,

Frank Knox

Honorable Henry Morgenthau

Secretary of the Treasury

Well

AUG 5 1942

My dear Mr. Secretary:

I wish to refer to my letter of July 24, 1942 relative to a shipment of gold valued at \$3,766,000 which the Russian Ambassador informally advised me would arrive at Nome, Alaska on the SS SHOLNI about the end of July. The Treasury has now been advised by the Soviet Embassy that the value of this gold shipment is \$5,600,000. The gold represents approximately 160,000 troy ounces or 6-3/4 short tons, an increase of 2-1/4 short tons over the tonnage figure which was given in the letter referred to above.

The Treasury desires to advise its representative, Mr. Kenneth H. Failer, who is probably now at Nome awaiting the arrival of the shipment, of the increased value of the gold and it will be appreciated if you would arrange to send the following telegram through Army facilities to the Commanding Officer, Nome for the attention of Mr. Failer.

"The Treasury is now advised that value of the shipment is approximately \$5,600,000."

Sincerely yours,

(Signed) D. W. BELL

Acting Secretary of the Treasury.

The Honorable

The Secretary of War.

Init.) P. D.
SWB

FD-701 6-3-42

Secret

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

August 5, 1942

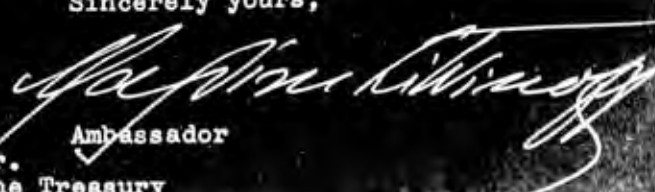
My dear Mr. Secretary:

There is en route to the United States a shipment of gold valued \$5,600,000 shipped by the Government of the Union of Soviet Socialist Republics. This shipment of gold is to be deposited at the United States Mint in Denver for account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics, and it is to be applied against the amount of gold^{sold/} under the agreement of January 3, 1942.

It is understood that an officer of your Department will take charge of the gold at Nome, Alaska, and that such gold will be shortly transported for the Government of the Union of Soviet Socialist Republics by United States Army plane to Denver, Colorado. It is further understood that all risk of loss remains with the Government of the Union of Soviet Socialist Republics until delivery of the gold at the United States Mint, Denver, Colorado, and all expenses incurred in connection with delivery of the gold to such mint shall be for the account of the Government of the Union of Soviet Socialist Republics.

Please advise and request the Federal Reserve Bank of New York to communicate with the State Bank of the U.S.S.R., Moscow, relative to any expenses which may be incurred in connection with the transportation of this gold.

Sincerely yours,



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

Ambassador

Regraded Unclassified

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

August 5, 1942

Dear Mr. Secretary:

With reference to my letter of August 5, relative to a shipment of gold valued at approximately \$5,000,000 shipped by the Government of the Union of Soviet Socialist Republics, will you please arrange to have general insurance (insurance against all risks) placed on this shipment of gold for \$5,000,000 plus the insurance expenses, from the Bay of Providence - Soviet Far Eastern coast - to the United States Mint, Denver, Colorado. Any losses under this insurance are to be payable to "Government of the Union of Soviet Socialist Republics". This shipment will be transported by steamship from the Bay of Providence to Nome, Alaska and from that city to Denver, Colorado by United States Army planes. For your information the shipment is either en route at the present time or will be shortly.

Please advise and request the Federal Reserve Bank of New York to communicate with the State Bank of the U.S.S.R., Moscow relative to any expenses which may be incurred in connection with the insurance of this gold.

Sincerely yours,



Ambassador

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

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 5, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Status of Stabilization and Gold Agreements on July 31.

1. Stabilization Agreements in Operation.

Country	Dated	Expires	Amount		Collateral
			Commitment	Outstanding	
Brazil ^{1/}	7/15/37	7/15/47	\$100,000,000	None	None gold
China	7/14/37	12/31/42	50,000,000	\$19,112,500	\$19,379,000 gold
China	4/ 1/41	6/30/43	50,000,000	None	None required

2. Stabilization Agreements Concluded but not yet effective.

Argentina	1/1/41	6/30/41 ^{2/}	\$ 50,000,000	None	None required
Mexico	11/1/41	6/30/43	40,000,000	None	None required
Ecuador	3/1/42	6/30/43	5,000,000	None	None required
Iceland	5/1/42	6/30/43	2,000,000	None	None required

3. Gold Purchase Agreement.

Country	Dated	Delivery by	Commitment to buy	Gold still undelivered	Advance still outstanding
Russia	1/3/42	12/29/42	\$21,070,000	\$10,562,050 ^{3/}	\$8,099,830

4. Gold Sale Agreement.

Country	Dated	Expires	Gold Sales Commitment	not yet Paid For Outstanding	Payment due within:
Cuba	7/6/42	6/30/43	\$5,000,000	None	120 days from each sale

^{1/} This agreement, as amended, also provides for sale to Brazil of up to \$100,000,000 in gold, of which \$34,453,300 has been sold.

^{2/} Argentines informed agreement can be revived on ratification.

^{3/} Another \$5,600,000 in gold is expected to arrive soon.

BOARD OF ECONOMIC WARFARE
~~ECONOMIC DEFENSE BOARD~~
WASHINGTON, D. C.

OFFICE OF THE EXECUTIVE DIRECTOR

August 5, 1942

The Honorable

The Secretary of Treasury

Dear Mr. Secretary:

The minutes covering the meeting of the Board of Economic Warfare, which was held on Thursday, July 30, are enclosed. If there are any corrections which you care to suggest, please let me know.

Sincerely yours,

Neil Perkins
Executive Director

Enclosure

Minutes of the Meeting of the Board of Economic Warfare
Held July 30, 1942, at 10:00 A. M.

A meeting of the Board of Economic Warfare was held in the Vice President's office in the Capitol Building at 10:00 A. M. on July 30, 1942.

Those present:

The Vice President, Chairman of the Board
Mr. Dean Acheson, representing the Secretary of State
Mr. Robert Patterson, representing the Secretary of War
Mr. Homer Jones, representing the Attorney General
The Secretary of the Navy
The Secretary of Agriculture
Mr. Wayne Taylor, representing the Secretary of Commerce
Mr. Nelson Rockefeller, Coordinator of Inter-American Affairs
Mr. Donald Nelson, Chairman, War Production Board
Mr. Thomas B. McCabe, representing the Lend-Lease Administration

Mr. Christian M. Revndal, Department of State
Mr. Herold Neff, War Department
Mr. Adlai Stevenson, Navy Department
Mr. Leslie Wheeler, Department of Agriculture
Mr. W. L. Clayton, Department of Commerce
Mr. Walter Blumenthal, Office of Coordinator of Inter-American Affairs
Mr. John Lockwood, Office of Coordinator of Inter-American Affairs
Mr. Milo Perkins, Executive Director, Board of Economic Warfare
Col. R. B. Lord, Board of Economic Warfare
Mr. J. Anthony Penuch, Board of Economic Warfare
Mr. E. W. Grumnitz, Board of Economic Warfare

Sydney Ross Company:

The Vice President opened the meeting, stating that the first subject was the report on Sydney Ross Company exports to Latin America ("Sydney Ross Company Exports to Latin America", dated 7-27-42) copies of which had been circulated to members of the Board. The subject was brought before the Board to determine whether information in addition to that before the Board's staff and on the basis of which the export licenses had been issued had become available.

Mr. Perkins reviewed the case briefly stating that the licenses had been suspended under date of July 18, that the Sydney Ross Company had pressed for licenses since last August, that licenses representing relatively large volumes of aspirin had been issued to the company in July of this year after quite comprehensive checking on the part of the Treasury Department, Department of State and the Coordinator's Office:

SECRET

- 2 -

that volumes licensed were within the quantities for export as indicated by War Production Board; that the Sydney Ross Company proposed aggressive selling and had repeatedly requested commitments as to future volumes of drugs; that in issuing the licenses it was understood that other outside companies would receive comparable treatment, and that while the general policy of exports to South America was to give equal treatment with our own civilians, the total volume of aspirin actually licensed to all exporters was around 800,000 pounds compared with the usual requirements of 3,000,000 pounds.

The Coordinator of Inter-American Affairs stated that reports available to his office on the operations of the Sydney Ross Company indicated that the company was doing an aggressive job of selling and stated that the company was one of the most important propaganda agencies available to his office, with extensive representation and outlets in the entire area.

Mr. Acheson stated that the Department of State had supported the issuance of the licenses of the Sydney Ross Company after a careful review of the general drug situation and the activities of the company including a comprehensive report of some 500 pages by the Treasury Department and careful checking with State's representatives in several of the Latin American countries. He stated that the company had requested special treatment but that no special treatment was supported by his Department.

In response to questions by Secretary Knox, it was indicated that requirements for the exportation of materials in short supply were reviewed by the Inter-Departmental Foreign Requirements Committee on which the Armed Forces were represented. Mr. Nelson stated that reports on strategic materials were circulated prior to the meetings of the Inter-Departmental Foreign Requirements Committee. Also a sub-committee on drugs was being organized upon which there would be representatives of the Armed Forces.

Mr. Taylor stated that within the limits of war time urgency, the maintenance of private firms in the export and import business is desirable. However, preferential or monopolistic control should be watched. His Department favors equitable allocation of those items in short supply between all exporters and importers.

After additional discussion of the newspaper reports of "quick action" on the export licenses issued to the Sydney Ross Company and of the desirability of more aggressive foreign action looking toward the elimination of firms with Axis domination, there was agreement that the Sydney Ross licenses should be reinstated, with particular care that no drugs be exported to the disadvantage of our armed forces and that the Sydney Ross operations in Latin America should be subjected to continuing scrutiny.

- 3 -

Patent Rights:

Mr. Taylor stated that the Government's policy with respect to the disposition of alien property and alien owned patents needed clarification. The Department of Commerce recommended that all alien property, patent rights, stock ownership and the like be confiscated and sold to American citizens or be declared, in the case of certain specific patent rights, as public property. Latin American governments have been urged by this Government to take measures so that enemy international trade structures will be confiscated and so that such enemy systems and properties cannot exist or actually prosper during the war or post-war period at the expense of the United Nations. In view of the fact that Resolution 5 of the Rio de Janeiro Conference outlined a method for the confiscation and sale of alien property, it is the Department's opinion that this Government should establish a similar policy and take similar action.

Recognizing that responsibility for action in this field lies with the Alien Property Custodian, Mr. Perkins suggested that this question be handled informally without the necessity of Board action.

Wooden Vessels:

Mr. Rockefeller stated that the Inter-American Navigation Corporation formed under the laws of the State of Delaware to carry out the wooden vessel program was capitalized for \$500,000. A \$10,000,000 loan has been worked out with the R. F. C. Mr. Alexander M. Perbody, President of the Puget Sound Navigation Company, has been chosen President and will place the Corporation in active operation on August third. Thorough field surveys have been made in Central America, Colombia and Venezuela. Builders' representatives from Cuba and Mexico have been in Washington. The Corporation will shortly be ready to let contracts in ten or a dozen different yards calling for delivery of vessels in the early part of 1943. It is now indicated that 100 vessels can be constructed and delivered within the next fifteen months. Vessel designs for a 400 ton three-masted schooner and for smaller power vessels are being drawn. Existing United States vessels have been surveyed, and 15 appear to be suitable for requisition; an additional number are available for purchase or charter in Latin America. Available vessels will be made ready for sea and skeleton crews will deliver them to operation points where permanent crews will be put aboard. The corporation's operations will be, for the present, in three principal areas: Cuba-Haiti-Dominican Republic; east coast of Central America; and the north coast of South America, where the corporation's vessels will distribute and concentrate local cargoes to express points. Mr. Rockefeller further stated that the corporation received fullest cooperation from the War Shipping Administration, the Maritime Commission, Navy Department, Department of Commerce, State Department, and other agencies. In reply to a question by Secretary Knox, Mr. Rockefeller stated that it was clear that such ships were to be operated without Navy escort.

Food Supply Program in the Other American Republics:

With respect to the food supply program in the other American republics, Mr. Rockefeller reported that his Office was proceeding as rapidly as possible with respect to the program for obtaining factual information concerning the current and changing food situation, and the establishment of field parties to organize the production, distribution of food and requisition of foodstuffs for deposit in suitable stockpiles at strategic locations in the other American republics. With respect to purchases of food for stockpiles, Mr. Rockefeller stated that an informal agreement had been reached with the Export-Import Bank for \$15,000,000 credit to this end. Negotiations to formalize this agreement are in progress. With respect to the increase of food production in the other American republics, this program is at present delayed in some areas by the necessity for completion of negotiations with the various governments in order to insure that the operations contemplated would be satisfactory to those governments. Mr. Rockefeller said that his experience in the health and sanitation field had led him to believe that in the long run much greater progress was made if a satisfactory arrangement with the local government was first consummated. Agreements have been reached with the Venezuelan government and the Paraguayan government and exports are on their way to these countries in accordance with the agreements.

Mr. Perkins emphasized the vigorous manner in which the Rubber Reserve Corporation was securing rubber through eleven field offices in Latin America. In many areas, however, development of rubber will be dependent on adequate food supplies. There was general agreement that the food program should be pushed actively.

Treasury Department **132**
Division of Monetary Research

Date..... Aug. 7 19⁴²

To: Miss Chauncey

For Secretary's files. No comment.

MR. WHITE
Branch 2058 - Room 214 $\frac{1}{2}$

TELEGRAM SENT

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

August 5, 1942

5 p.m.

AMBASSY,

CHUNGKING.

700

FOR ADLER FROM SECRETARY OF THE TREASURY.

Mr. Currie in cable dated July 31, 1942 has informed me that he has indicated informally to Dr. Kung the growing resentment of United States diplomatic, military and charitable organizations over the declining purchasing power of the U. S. dollar in China. Mr. Currie 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;

-2- #700, August 5, 5 p.m., to Chungking

Americans reside; and (c) What, if anything, is being considered to meet the situation outlined by Mr. Currie.

We also would like to have your views on Mr. Currie's proposal and as to whether you feel this matter should be raised with the Chinese Government at this time.

HULL
(FL)

FD:FL:ME

FE

PA/H

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 268

Information received up to 7 A.M., 5th August, 1942.

1. MILITARY

EGYPT. Operations are still confined to patrols which were particularly active in the northern sector on third.

RUSSIA. The Russians have launched counter attacks in the DON bend and forced the Germans on to the defensive in the CAUCASUS sector. The Germans have made a considerable advance southwards and are approaching the River KUBAN.

2. AIR OPERATIONS

WESTERN FRONT. 4th. 7 enemy aircraft crossed the south coast where damage was done to residential property but casualties few.

4th/5th. Aircraft were despatched ESSEN area 38, sea mining 45, 6 bombers missing. "Intruders" 13 and convoy off the FRISIAN ISLANDS./ 25 enemy aircraft operated over widely scattered areas in south western counties. Only minor incidents reported. Our night fighters shot down 6 probably 7.

EGYPT. 2nd/3rd. Our bombers attacked harbours at TOBRUK, SOLLUM and BARDIA, also tank workshops near MERSA MATRUH.

3rd. Bomb carrying fighters attacked enemy mechanical transport in the southern sector whilst enemy aircraft heavily escorted bombed a landing ground near BURG EL ARAB. 2 Messerschmidts 109 were probably destroyed by our fighters, three of which were lost (two pilots safe).

MALTA. Between 1248/3 and 0910/4 approximately 40 enemy aircraft approached. Only 11 flew overland and one Italian fighter was probably destroyed.

CORRECTION to OPTEL No. 267

Page 1 under TURKEY. Last line should read: "in our opinion, too much of the Turkish Army was stationed".

136

8 • 5 • 42

WHITE
ATTITUDES
TOWARD
NEGROES

INTELLIGENCE REPORT

CONFIDENTIAL

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

OFFICE OF
WAR INFORMATION
BUREAU OF
INTELLIGENCE

COPY No. 7

Henry Morzenian, Jr.

Such recommendations and suggestions as may appear in this report have not been cleared in advance with the Director of the Office of War Information and do not necessarily reflect his views or those of the Office of War Information. Recommendations and suggestions, if they do appear, are only submitted by individuals in the Bureau of Intelligence who have assembled the data and they are offered for the consideration of appropriate authorities.

The Bureau of Intelligence of the Office of War Information uses a variety of procedures and techniques to obtain its data on the attitudes of people and on what is brought to their attention. These procedures and techniques have been found reliable after extensive experimentation over a period of years.

C O N T E N T S

SUMMARY

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SECRET

CONFIDENTIAL

CONFIDENTIAL

[Faint, illegible text, possibly bleed-through from the reverse side of the page]

SUMMARY

White people are largely unaware of the fact that dissatisfaction is so widespread among Negroes that large numbers of them have no heart for the war. Six whites in ten, out of a national cross-section recently interviewed, felt that Negroes were pretty well satisfied with conditions. Almost as many felt that Negroes are now better off than they were before the war.

More than half of those interviewed with an opinion on the question believed that Negroes have as good a chance as whites to get jobs in war plants. Three out of four respondents in the South and nine out of ten in the rest of the country felt that a Negro should draw the same pay as a white person when he does the same work.

Fifty-five per cent of the sample believed that a Negro makes as good a soldier as a white man. Forty-nine per cent felt that he makes as good an airplane pilot. Respondents were about equally divided on the question of whether Negroes have as good a chance as whites to get ahead in the armed forces.

Whites showed a fairly good knowledge of the hopes and demands of Negroes. They recognized, for example, that what Negroes are most concerned about is improvement in their economic situation. But relatively few whites were willing to make concessions in this area. They were willing, however, to provide better housing facilities for Negroes.

On all of these issues pronounced regional differences were evident. Southerners were more inclined than people in the rest of the country to feel that Negroes are being treated fairly or are themselves to blame for any differentiation in the treatment accorded them. And they were less willing than people in other regions to make concessions to Negroes.

In all parts of the country, however, large numbers of people were unsympathetic to Negroes. Not only were they cold to their aspirations; many evidently felt that rights long since granted to Negroes should be revoked. For example, more than half of all respondents in the Northeast and West believed that there should be separate schools for white and Negro children.

Educational status also affected people's answers. On most questions the better educated were somewhat more realistic and more liberal than the less well educated.

Finally, it was found that people's views on the Negro's role in the war effort were closely linked to their prejudices on segregation and their desire to maintain present caste distinctions.

[Faint, illegible text covering the majority of the page, likely bleed-through from the reverse side.]

"I note with satisfaction that the theme of your significant gathering reads 'Victory is Vital to Minorities.' This theme might well be reversed and given to the Nation as a slogan. For today, as never before in our history, 'Minorities Are Vital to Victory.'"

"We are, in a sense, a Nation of minorities. By race, by religion, by color, by ancestry, each constituent group is a minority when viewed in relation to our total population. But it is the essence of our democracy that our very differences have welded us into a Nation. And the democratic way of life within that Nation can be defended successfully only with the help and support of all groups within its borders."

—Franklin D. Roosevelt,
Message to the National
Association for the Advance-
ment of Colored People Con-
ference, July 14, 1942

WHITE ATTITUDES TOWARD NEGROES

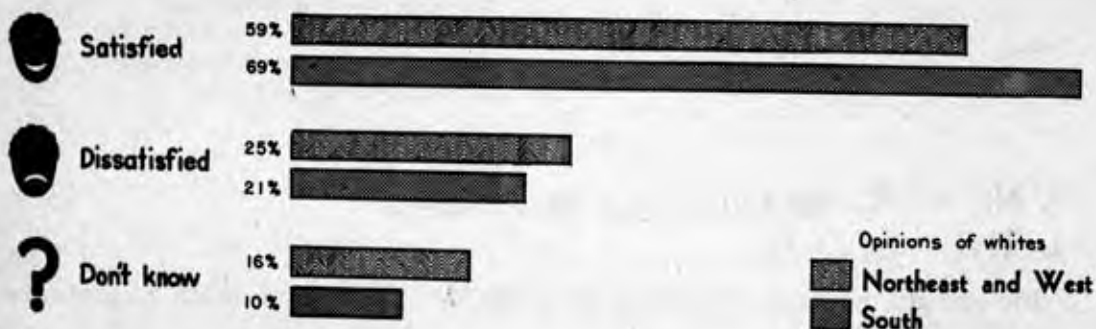
The amount of support Negroes give the war effort—and their very desire to support it—depends to a very large extent upon the attitudes of white people toward them. Negroes cannot put their shoulders to the wheel in the war effort if they are not permitted to do so. And their morale is inevitably affected by the kind of treatment they experience.

It is important, therefore, to see to what extent white Americans share the view of their President that the support of the nation's Negroes is vital to the war effort. To supplement its previous investigations of Negro morale, the Bureau of Intelligence conducted a survey of white attitudes toward Negroes. Interviews were conducted with a representative cross section of white people in all parts of the country between June 22 and July 7.

I. Basic Attitudes Toward Negroes

Perhaps the most surprising finding of the entire investigation was that a majority of white Americans are unaware that there is anything that might be called a "Negro problem." The illustration below shows the range of responses to the question, "Do you think most Negroes are pretty well satisfied with things in this country or do you think most of them are dissatisfied?"

ARE NEGROES GENERALLY SATISFIED WITH CONDITIONS?



Previous investigations of Negro morale in Memphis and New York indicate that, in fact, Negroes are far from satisfied. Many of them have grievances. Some of them feel so badly about their present situation, and so discouraged about the future, that they do not think that they would be any worse off if Japan won the war. A few feel they would be no worse off under German domination. Views of Negroes in these two cities cannot be taken as indices of national sentiment, but studies in four other cities suggest that they are not unrepresentative.

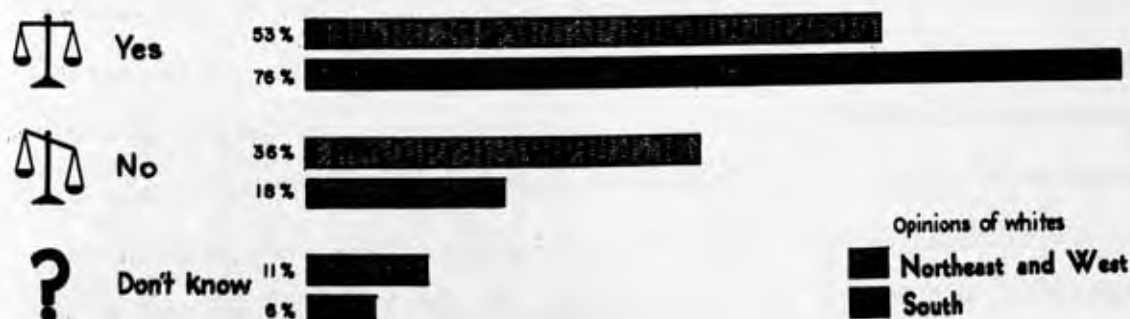
The opinion of six white people in ten that Negroes are reasonably well satisfied with their situation must, therefore, be attributed in very large measure to ignorance. But many factors contribute to this ignorance—including the

callous belief that Negroes do not need much to satisfy them. It is in the South, where discrimination is most marked and Negroes constitute a relatively large proportion of the population, that the comforting opinion that Negroes are satisfied is most prevalent.

Opportunities Open to Negroes

The beliefs whites have about Negroes tend to bolster one another. Some light is shed on the opinion that Negroes are relatively well satisfied with conditions by the response of white people to the question, "Do you think Negroes are getting all the opportunities they deserve in this country, or do you think in general they are not being treated fairly?"

ARE NEGROES GETTING ALL THE OPPORTUNITIES THEY DESERVE?



The belief that Negroes are getting all the opportunities they deserve is itself a product of ignorance and a disparaging attitude toward Negroes. As the chart shows, the belief is more widespread in the South than in other parts

of the country; it is more frequently expressed by those who did not complete high school than it is by the relatively well educated. But the belief is prevalent in all parts of the country, among the well educated and the poorly educated. Eighty-four per cent of the poorly educated respondents in the South subscribe to it, but so do more than one half of the well-educated respondents in the North who have an opinion on the question.

The extent to which ignorance of the facts contributes to the viewpoint is perhaps suggested by peoples' opinions on a more specific question, "Do Negroes have as good a chance as white people to get a good education?" In the Northeast and in the West eight out of ten respondents felt that Negroes in their own regions have as good a chance as whites to get a good education. And the majority of white Southerners maintained that Negroes enjoy equality of educational opportunity in their region.

Whatever the facts may be about the Northeast and the West, the opinion that Negroes have equal educational opportunities in the South is demonstrably mistaken. Because there are separate schools for the two races, it is possible to make direct statistical comparisons. In a recent year, in ten Southern states where Negroes constituted 28 per cent of the total school enrollment, only 12 per cent of the total expenditures went for Negro schools. The average expenditure per white pupil was \$37.87; per colored pupil, \$13.09. Only 19 per cent of the Negro children of high school age, as contrasted with 55 per cent of the white children, were enrolled in school.

Respondents in the Northeast and in the West, especially the better educated ones, showed some awareness of these inequalities in the southern part of the United States. When asked, "Are there any other parts of the country where

you feel Negroes do not have the same chances as white people do to get a good education?", six respondents in ten in the Northeast and West said, "Yes." It is interesting psychologically that those who acknowledged the existence of inequalities in their own areas were most prone to recognize the failure of other sections of the country to treat Negroes equitably.

Views on Negroes' Ability

A low opinion of Negroes' capabilities also probably contributes to the feeling that they are getting all the opportunities they deserve. As the chart on the following page shows, more than a half of all white people in the South and more than a third of all white people in the rest of the country feel that Negroes are primarily responsible for their inferior status in our society. The bottom half of the chart shows the shortcomings attributed to Negroes by those who hold this viewpoint.

Better educated respondents were more inclined than the less well educated to blame white people, or both whites and Negroes, for the fact that Negroes do not have equality of opportunity. Even in the South 43 per cent of the better educated respondents were willing to put all or part of the blame for the plight of Negroes on the shoulders of the white population.

The sample was asked: "In general, do you think Negroes are as intelligent as white people — that is, can they learn things just as well if they are given the same education and training?" Forty-eight per cent — a majority of those who expressed an opinion — replied that Negroes are not as intelligent as whites. As one would expect, this view was far more generally held in the South than in other regions. Surprisingly, it was voiced somewhat more frequently by the well educated than it was by the less well educated.

Whites put a somewhat more favorable appraisal on the potential ability

WHO IS TO BLAME FOR THE FACT THAT NEGROES DON'T HAVE THE SAME CHANCES AS WHITES?

Whites



Negroes



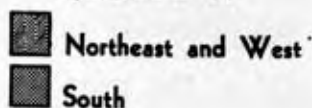
Both



Other causes and don't know



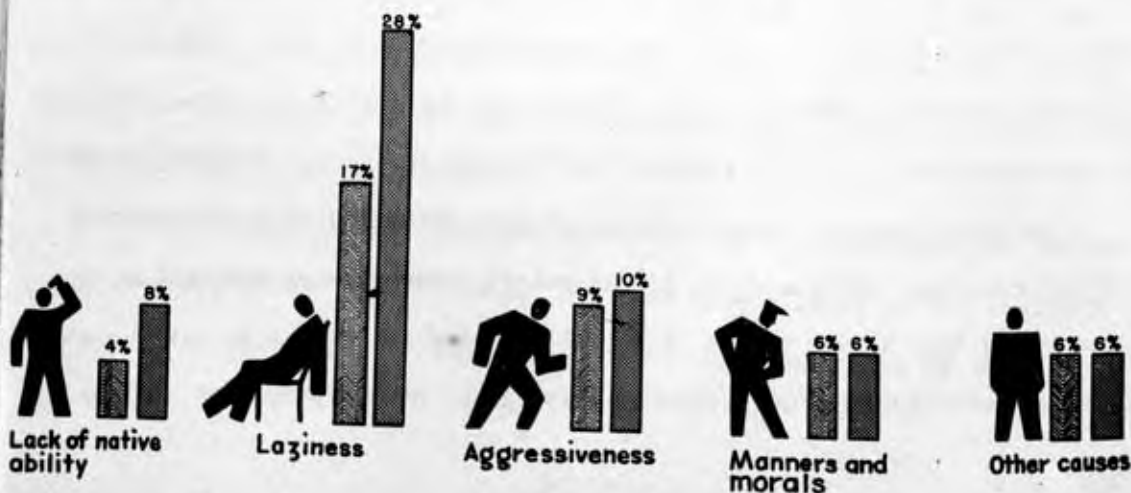
Opinions of whites



Negroes



IF NEGROES, WHY ARE THEY TO BLAME?



of Negroes as workers. When asked, "If a Negro has the same training as a white person, do you think he can do a particular job just as well?", seven respondents in ten in the Northeast and in the West said, "Yes". But less than 40 per cent of the Southerners interviewed shared this view.

In every region those who had worked with Negroes had more faith in their capabilities than those who had not.

Segregation

The views of whites on the segregation issues are summed up in the table below:

	Northeast		South		West		Total
	Edu- cated*	Unedu- cated	Edu- cated*	Unedu- cated	Edu- cated*	Unedu- cated	
<u>There should be</u>							
Separate residen- tial sections	75%	80%	96%	99%	80%	84%	84%
Separate restau- rants	53	60	96	99	59	67	69
Separate schools	47	55	95	99	54	71	66
Separate sections in street cars and busses	29	37	91	97	41	47	51

The most marked differences of opinion are clearly on a regional basis. But it will be observed that large numbers of people in both the Northeast and the West expressed a preference for arrangements which would keep Negroes and whites separated. The sentiment for separate schools in these regions is especially surprising. Even though children of the two races customarily attend the same schools in the Northeast and West, except as they may be accidentally separated as a result of living in different areas, majority sentiment endorsed segregation.

* Completed high school or better.

Similarly, large numbers of people in these regions maintained that separate sections should be provided for whites and Negroes in public conveyances, even though this would involve a change in existing arrangements. Rural people were particularly prone to favor separate sections for whites and Negroes.

It would be clearly inaccurate to say that on the issue of segregation a tolerant North and West are arrayed against an intolerant South. Yet on each of the questions the proportion of those who plumped for a policy of segregation was markedly larger in the South. It is probable, too, that Southerners feel more intensely about the issue than people in the rest of the country. The sample was asked, "If a Negro with just as much education and income as you have moved into your block, would it make any difference to you?" Eighty-six per cent of those interviewed in the South, as compared with 54 per cent in the rest of the country, said that it would. The proportion of those who indicated that they would either actively oppose the encroachment of Negroes or else move away was also larger in the South.

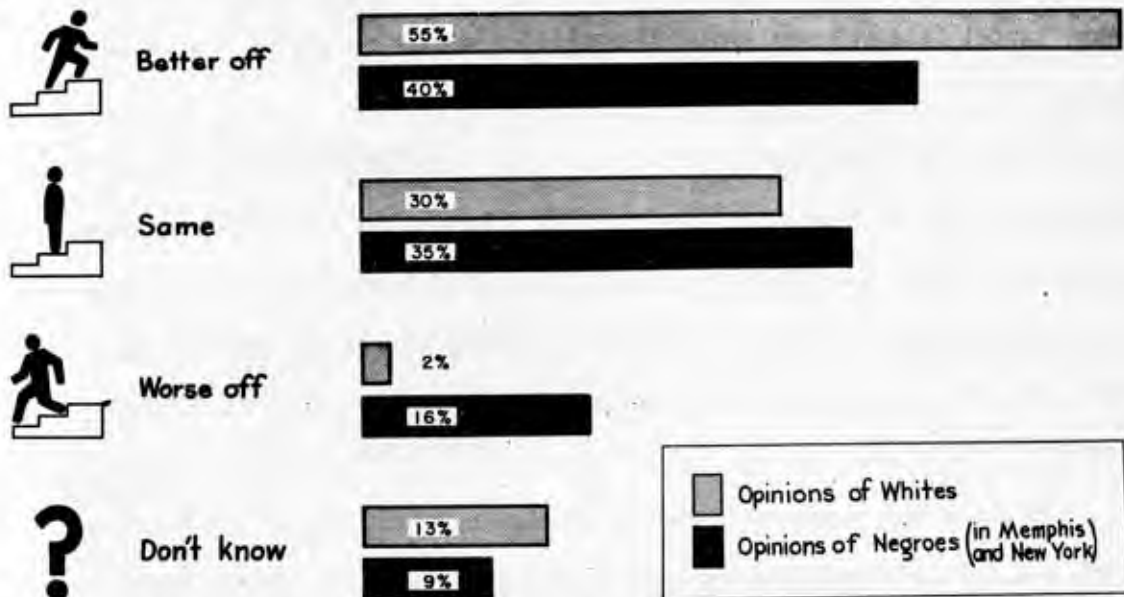
On most issues it will be noted that well-educated respondents were somewhat more liberal than the less well educated. But the better educated respondents expressed more concern than those with less education about living in the same block with Negroes. In all probability, however, this difference was due to their superior economic status--to such considerations as fear of a decline in real estate values following Negro infiltration into their neighborhoods.

II. Negroes in the War Effort

The various attitudes which have been discussed inevitably find reflection in white people's views on the role of Negroes in the war effort and the impact of the war upon them.

Whites' ignorance of conditions among Negroes and their reluctance to see that there is any Negro problem may have something to do with the fact that 55 per cent of all those interviewed believed that Negroes have shared in the war-stimulated economic boom, and are better off than they were before December 7. In any case, as the chart below indicates, whites were significantly more inclined to hold this view than the Negroes in Memphis and New York.

ARE NEGROES BETTER OFF SINCE THE WAR BEGAN?



Whites are less optimistic than Negroes about the effect of an American victory upon the status of Negroes, but the fact that they believe that Negroes have already improved their position may account for this. If, however, the view of seven white respondents in ten that the war will not change the status of the Negro in American society is based on a reluctance to make concessions, it may point to trouble ahead. For, if the New York and Memphis samples are typical, a sizeable minority of American Negroes believe that victory should and will mean some improvement in their lot.

Willingness to Make Concessions

The divergence between the kind of changes Negroes want made right now and the willingness of whites to make concessions constitute a more immediate source of conflict between the races. The issue about which Negroes feel the keenest resentment today is economic discrimination. They want to have the same opportunities as whites to secure jobs for which they are qualified. And they want to get the same pay as whites when they do the same work. Better economic opportunities are regarded as the key to the improvement of Negro life in all its aspects. About better houses and the abolition of segregation, Negroes show less concern.

As the charts on the opposite page show, on the whole whites assess the grievances of Negroes quite accurately. But despite the fact that they recognize the Negroes' desire for economic equality, there is a pronounced reluctance to make concessions in this area. On the other hand, whites are willing to act to improve Negro housing conditions, although they recognize that this is not the step which Negroes most desire.

The disparity between whites' knowledge of what Negroes want and what they are willing to grant them requires explanation. It may be conjectured that economic concessions are resisted because it is felt that they threaten existing caste barriers. On the other hand, better housing for Negroes fits in with the noblesse oblige tradition, which is particularly strong in the South, of "taking care" of Negroes. It permits the perpetuation of existing segregation. Finally, it is a way of improving the health of Negroes, and many whites have come to realize that the germs of communicable diseases do not obey Jim Crow laws and that Negroes' health is a matter of close personal concern to them.

WHAT WHITES THINK NEGROES WANT MOST NOW AND WHAT THEY ARE WILLING TO GRANT THEM

NORTHEAST and WEST

Job equality



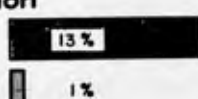
Equal wages



Better houses

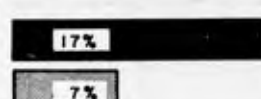


No segregation



SOUTH

Job equality



Equal wages



Better houses



No segregation



What whites think Negroes want most

What whites are willing to grant

The Negro in War Production

Almost one-half of the cross section of white people expressed the belief that Negroes have as good a chance as whites to get jobs in war plants. (See chart opposite ~~page 18~~) But the relatively well educated were not so likely to hold this opinion as the less well educated.

Those who believed that Negroes do not have as good a chance as whites to get war jobs were asked to tell who they thought was responsible for the situation. Regional differences sharply influenced their answers. Southerners thought that Negroes themselves deserve most of the blame for whatever difficulties they encounter. A plurality in the Northeast blamed the managers of factories; a plurality in the West blamed labor unions.

Nine out of ten respondents in the Northeast and the West, and three out of four in the South, said that a Negro doing the same work as a white person should draw the same pay. But some people, especially in the South, may have expressed this opinion secure in the knowledge that the issue was remote, since in all probability Negroes could not get the same jobs as whites.

Southerners were far more prone than people in other parts of the country to object violently to Negroes working alongside them. In the Northeast and in the West, only three respondents in ten said that it would make any difference to them if Negroes were hired to work with them. But seven Southerners in ten said that it would make a difference. And far more Southerners than Northerners or Westerners carried their opposition to the point of saying that they would quit their jobs if Negroes were hired to work with them.

There are some grounds for encouragement, however, in the fact that in all parts of the country those who had already worked with Negroes were far more willing to work alongside them than were those who had never had the experience.

NEGROES IN THE WAR EFFORT

Opinions of whites
 Upper bar: NORTHEAST and WEST
 Lower bar: SOUTH

"Do Negroes have as good a chance as whites to get war jobs?"



"Are Negroes as patriotic as whites?"



"Does the Negro make as good a soldier as the white man?"



"Does the Negro make as good an airplane pilot as the white man?"




"Do Negroes have the same chances as whites to get ahead in the armed forces?"



 Yes

 No

 Don't Know

The Negro in the Armed Forces

From two-thirds to three-fourths of the people interviewed in the Northeast and in the West believed that Negroes are just as patriotic as whites. But in the South a majority of respondents with an opinion on the subject maintained that they are not as patriotic.

The same regional differences were apparent in views on the Negro's ability as a soldier. Six out of ten respondents in the Northeast and in the West felt that the average Negro makes just as good a soldier as the average white man. But in the South a majority of respondents held the contrary opinion. Throughout the country even fewer people felt that the Negro makes a good airplane pilot. Most of those who were scornful of Negroes' fighting ability maintained that they are cowardly, have less native ability, or are lazy and lack initiative.

Respondents divided up into three groups of almost equal size on the question of who should lead Negro troops. Three in ten believed that they should be led by white officers, and almost the same number were of the opinion they should be led by Negro officers. Four respondents in ten felt that they should be led by both whites and Negroes.

The usual regional variations were apparent. In the Northeast and in the West the most popular view was that Negroes should be led by officers of both races. In these regions the second largest vote was for Negro officers, except in the rural West, where white officers were in second place. In the South the predominant opinion was that Negro troops should be led by white officers. A sizeable group felt that both white and Negro officers should be employed, but the comments volunteered by some of those who expressed this opinion indicated that they felt that the top officers should be whites and the minor officers, who have close contact with the troops, Negroes.

CONCLUSIONS

The task of making Americans generally see the importance of bringing the nation's Negro minority more fully into the war effort is one of immense difficulty. In part this difficulty stems from the close relationship between views on the Negro's role in the present emergency and deep-seated, stubbornly-held attitudes toward his worth, his ability and his place in society.

The task is national in scope. Although Southerners were more disparaging of Negroes than people in the rest of the country, and more reluctant to make concessions to them, large numbers of people in all regions showed what must be regarded as an illiberal attitude toward Negroes. On some issues, indeed, it appears that rights which have long since been granted to them are still opposed by large numbers of white people.

Despite these difficulties, the situation is by no means hopeless. There are promising possibilities, for example, in the fact that large numbers of white people recognize the need for improving Negro housing conditions.

Many of the attitudes of whites toward Negroes stem in part at least from ignorance. Thus a wide dissemination of information about the accomplishments of Negroes may be expected to do a great deal of good. Perhaps the most fundamental requirement for the solution of the Negro problem is further education of the white population.

Finally, the imperative need of expanding the labor force imposes an obligation on the Federal Government, and provides an opportunity, to encourage the wider employment of Negroes in American industry.

By turning the spotlight on Negro housing conditions and attempting to improve them; by making people aware of the necessity for employing more Negroes and attempting to eliminate employment discrimination; and by publicizing the

accomplishments of Negroes, the Federal Government can simultaneously make progress towards immediate and long-term objectives. It can secure a fuller participation of Negroes in the war effort and raise Negro morale. And over a period of time it can develop greater good will toward Negroes among the white population.

Sources of the Report

This report is based on the following material:

- "White Attitudes Toward Negroes," (tables),
Extensive Surveys Division, Special Report #11
- "The Negro Problem," (comment on tables), Ex-
tensive Surveys Division
- "Memphis Negroes and the War," (tables based on
interviews with whites in Memphis), Extensive
Surveys Division, Special Report #10
- "White Attitudes Toward Negroes," Special Service
Division, Report #19
- "Negroes in The War: A Study in Baltimore and
Cincinnati," Division of Surveys, Special
Report #16
- "Minority Groups in Baltimore and Cincinnati,"
Special Services Division, Report #18
- Report on statements of private thought leaders
and Government spokesmen on Negroes, Sources
Division, July 21, 1942
- "Axis Propaganda Intended to Undermine Relations
Between Whites and Negroes," Sources Division,
July 21, 1942
- "Negroes in A Democracy At War," Survey of Intel-
ligence Materials #25, May 27, 1942
- "Memphis Negroes and The War," Supplement to
Survey #25, July 14, 1942

All of the above reports are available to authorized individuals through the Bureau of Intelligence of the Office of War Information.

FOR RELEASE IN MORNING PAPERS, THURSDAY, AUGUST 6, 1942.

WASHINGTON, Aug. 5. The Victory Fund Committees will be used, Secretary Morgenthau announced late today, to stimulate widespread distribution of the \$1,500,000,000 issue of Certificates of Indebtedness, which is being offered tomorrow, following similar efforts on the 2-1/2% registered bonds offered earlier in the week.

It was pointed out that it has been the aim of the Treasury to place as large a volume of securities as possible outside the banking system. This is consistent with its policy of utilizing the large reservoir of spendable funds and accumulated savings in the war effort. The Victory Fund organization, the Secretary pointed out, was formed with this program in mind and its ^{available} trained personnel of nearly 20,000 representatives of the banking and securities industries, working on a voluntary basis through Federal Reserve district and regional committees, is well equipped to help carry out this plan.

From incomplete reports on the sale of the registered 2-1/2s, it appears that the demand in many Federal Reserve districts for the first few days of the offering exceeds that of the corresponding period for the original issue last May, indicating that the Victory Fund Committees are successful in finding new investors interested in this type of security.

George Buffington, Assistant to the Secretary, is in charge of the Victory Fund Committee program.

O.K.
 [Handwritten signature]

GTS. SWP [Handwritten initials]

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, August 6, 1942.
8-5-42

Press Service
No. 32-69

Secretary of the Treasury Morgenthau today announced the offering, through the Federal Reserve Banks, for cash subscription at par and accrued interest, of \$1,500,000,000, or thereabouts, of 7/8 percent Treasury Certificates of Indebtedness of Series B-1943. In order to insure more extensive participation on the part of banks, corporations, and others interested in a type of security carrying maturities longer than Treasury bills, the subscription books will remain open two days, and subscriptions up to \$25,000 will be allotted in full. There will be no restrictions as to the basis for subscribing to this issue.

The certificates will be dated August 15, 1942, will be payable on August 1, 1943, and will bear interest at the rate of seven-eighths of one percent per annum, payable on a semi-annual basis on February 1 and August 1, 1943. They will be issued in bearer form only, with two interest coupons attached, in denominations of \$1,000, \$5,000, \$10,000 and \$100,000.

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

Subscriptions will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, Washington. Banking institutions 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 for the certificates from banks and trust companies for their own account will be received without deposit, but subscriptions from all others must be accompanied by payment of 5 percent of the amount of certificates applied for.

- 2 -

The basis of allotment of subscriptions over \$25,000 will be publicly announced, and payment for any certificates allotted must be made or completed on or before August 15, 1942, or on later allotment. These certificates will be redeemed in cash at maturity and will carry no exchange privileges.

The text of the official circular follows:

UNITED STATES OF AMERICA

7/8 PERCENT TREASURY CERTIFICATES OF INDEBTEDNESS OF SERIES B-1943

Dated and bearing interest from August 15, 1942

Due August 1, 1943

1942
Department Circular No. 693

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, August 6, 1942.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF CERTIFICATES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for certificates of indebtedness of the United States, designated 7/8 percent Treasury Certificates of Indebtedness of Series B-1943. The amount of the offering is \$1,500,000,000, or thereabouts.

II. DESCRIPTION OF CERTIFICATES

1. The certificates will be dated August 15, 1942, and will bear interest from that date at the rate of 7/8 percent per annum, payable on a semi-annual basis on February 1 and August 1, 1943. They will mature August 1, 1943, and will not be subject to call for redemption prior to maturity.

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

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

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

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

- 2 -

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Subscribers must agree not to sell or otherwise dispose of their subscriptions, or of the securities which may be allotted thereon, prior to the closing of the subscription books. 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. Others than banking institutions and security dealers will not be permitted to enter subscriptions except for their own account. Subscriptions from banks and trust companies for their own account will be received without deposit. Subscriptions from all others must be accompanied by payment of 5 percent of the amount of certificates applied for.

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

IV. PAYMENT

1. Payment at par and accrued interest, if any, for certificates allotted hereunder must be made or completed on or before August 15, 1942, or on later allotment. In every case where payment is not so completed, the payment with application up to 5 percent of the amount of certificates applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depositor will be permitted to make payment by credit for certificates allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

V. GENERAL PROVISIONS

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

- 3 -

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.

8/6/42 143

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, August 7, 1942.
8/6/42

Press Service
No. 32-72

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 7/8 percent Treasury Certificates of Indebtedness of Series B-1943 will close at the close of business today, August 7.

Subscriptions addressed to a Federal Reserve Bank, or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight Friday, August 7, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and the basis of allotment will probably be made on Tuesday, August 11.

-oOo-

August 6, 1942.
9:20 a.m.

HMJr: Hello.

Operator: Judge Rosenman.

HMJr: Hello.

Judge Rosenman: Hello.

HMJr: Sam?

R: Henry.

HMJr: Good morning.

R: Good morning.

HMJr: Have you read the Washington Post?

R: No. (Laughs)

HMJr: You haven't?

R: What's in there? (Laughs)

HMJr: Well, it's - I - it's a great big streamer across the headline....

R: Oh, about your Mr. What-do-you-call-it, yes.

HMJr: Yeah, yeah.

R: Yes.

HMJr: Yeah. Now what I want to know from you, where is that copy that I gave you?

R: I've got it.

HMJr: Is it in the safe?

R: Well, now wait a minute, let me see. I'm trying to think. I'm trying to think where it is now. I - did I - I don't know - did I return it to Mr. What-do-you-call-it?

HMJr: No.

- 2 -

R: I didn't.

HMJr: No.

R: Well, maybe it's in the regular files here.

HMJr: Would you mind making a few discreet inquiries?

R: Yeah, now let - let me refresh my recollections. So damn much has happened. What - what was it that you gave me?

HMJr: I gave you a report, and the report that I gave you is - is practically this story, and the - and the story is written in the same order as the report.

R: Yeah.

HMJr: It's - it's - it follows exactly the same sequence.

R: Well, now was this - this was a pure leak? Was the Post story a leak?

HMJr: As far as we know.

R: Yeah.

HMJr: As far as we know. I don't know what you mean by a "pure leak". (Laughs)

R: Well, I - I mean, it - it was not any off-the-record talk by anybody. It was....

HMJr: Not - not in this office.

R: Yeah.

HMJr: No.

R: Well, I'm just trying to refresh my recollection. I have here in my desk this other one, the Mexican and Cuban....

HMJr: No.

R:you know, the alcohol....

- 3 -

HMJr: Yeah, well, that - that's - that's....

R:and....

HMJr:but it's the other one which you have it would be....

R: Yeah. All right, let me....

HMJr: I tell you, I've got to face the press by ten-thirty.

R: Yeah.

HMJr: If you had anything, would you mind calling me?

R: Yeah, yes.

HMJr: And that's that. Now could I just change the subject a minute? Hello?

R: Yeah.

HMJr: How - what's doing on the price order?

R: Not a thing is done - been doing in a long time. I've been on rubber.

HMJr: Yeah.

R: Wait a minute, wait a minute. I just unlocked a drawer here....

HMJr: Yeah.

R:and here I have it.

HMJr: Yeah.

R: Letter from Ireys to you dated July 7, and letter of June 26 from Sullivan to Ireys. I have the file right here locked up in my desk.

HMJr: Locked in your desk. Well, then it's....

R: Yeah, here it is.

- 4 -

HMJr:well, then that's that. That's that.

R: Here it is.

HMJr: Well....

R: Now somebody - now I don't know how they got it - I know that some column - wait a minute - some - some columnist had it quite awhile ago.

HMJr: Lyons.

R: Lyons, yeah, I saw that.

HMJr: That's right. Well, I....

R: And I'm trying to - this is coming back to me - day before yesterday either Mac or Steve over in the bedroom said that - called attention to some other columnist that had it....

HMJr: I didn't see that.

R:and they said they didn't know where the fee came from, and the Boss - I said to the Boss, "You know, don't you?"

HMJr: Yeah.

R: And he said, "Yes, Trujillo."

HMJr: Yeah.

R: But the....

HMJr: Well, I....

R:the actual report is here....

HMJr: Well, that's - that's....

R:locked up in my drawer.

HMJr: Well, then that's - then that's....

R: The original blue - you use blue typewriters.

HMJr: Yeah, that's safe then.

- 5 -

R: "Secretary Morgenthau from Elmer Irey."

HMJr: That's right. Well, that's all. I just wanted to be - if it's in your deck, then I - that's one place it didn't leak from.

R: That's right. It's here locked up.

HMJr: Okay. Do you want to keep it?

R: I have no more use for it. It's - it really belongs in your files and....

HMJr: Yeah.

R:if you want me to send it over....

HMJr: Oh, at your convenience.

R: All right, I'll send it over to you.

HMJr: At your convenience.

R: Okay.

HMJr: Now what about the price order?

R: Now he's been - he's been - since he's been back, he's been on this....

HMJr: Rubber.

R: Well, not only rubber, but this damn saboteur....

HMJr: Yeah.

R:and then rubber - and rubber will be out today.

HMJr: Yeah.

R:and saboteur, I got to get out today or tomorrow.

HMJr: I see.

R: So inflation has been shunted aside.

- 6 -

HMJr: I see. Well, I'm going away Friday afternoon for a week.

R: Oh. Well, I'll....

HMJr: I'll be up at Malone, but I have a....

R: Going to bring back some fish?

HMJr: I don't know, but I have some - I mean, we have a code. Lieutenant Commander Stephens goes up there with me, so I can always be reached.

R: I mean, the Treasury can get you on the wire.

HMJr: Well, I'd have to go to the telephone, but I - I mean, they can get me if....

R: Well, in your absence I'll talk with Paul.

HMJr: On - on - on inflation?

R: Yes.

HMJr: That's all right.

R: Okay.

HMJr: That's all right.

R: Have a good time.

HMJr: Thank you, Sam. Take care of yourself.

R: Okay. I'll send this directly to you.

HMJr: At your convenience.

R: Okay.

HMJr: Hello?

R: Yeah.

HMJr: And you better - so that they get it - well, who - tell him to only either put it into my hands or Mrs. Klotz, one or the other.

- 7 -

R: Okay.
EMJr: Thank you.
R: All right. Goodbye.

August 6, 1942
9:30 a.m.

GROUP

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

H.M.JR: I got a message that you wanted some assignments, Viner, and I got busy. Did you get my note?

MR. VINER: Yes, I did, thank you.

H.M.JR: Did you have enough to do the rest of the day?

MR. VINER: Yes, sir.

H.M.JR: All right, I just wanted to make sure.

MR. VINER: I had to work for it, though.

H.M.JR: It was my fault. I slipped. I just didn't remember you. That is the right thing. As soon as I got the message - there were enough things floating

- 2 -

around, but you were well taken care of the rest of the day?

MR. VINER: Oh, yes, plenty.

(Mr. Blough entered the conference.)

MR. THOMPSON: I haven't anything this morning.

MR. BELL: I haven't got anything, but I would like to see you right after this meeting on that Russian gold.

H.M.JR: Harold?

MR. GRAVES: You sent word to me that you wanted to know what you did about Mr. Boettiger's telegram of last Friday.

H.M.JR: Yes.

MR. GRAVES: Well, that was in relation to a matter that Mr. Haas had written and telegraphed and telephoned me about, and I sent--

H.M.JR: I just wanted to know whether Boettiger's telegram was answered.

MR. GRAVES: That is the way it was dealt with. I sent that wire to Haas.

H.M.JR: We have got to answer it. I think we ought to answer Boettiger.

MR. GRAVES: Haas brought Boettiger in.

H.M.JR: Would you mind when you go back to your room, to dictate a telegram to Boettiger and sign my name. He signs it "regards," and when you sign it, sign it "affectionate regards to you and Anna."

MR. GRAVES: Yes, sir.

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H.M.JR: Last night somebody said he would get me something up to the house. I can't remember who it was. They wanted to clear something; they said they would get it up to the house last night.

MR. ODEGARD: Mr. Secretary, I think it may have been two things that I told you I would get in to you before you left, and there was a bottleneck in the office and I couldn't.

H.M.JR: All I remember was that something was to come with me and I looked through all my papers, and I couldn't remember what it was.

MR. ODEGARD: They are here this morning.

H.M.JR: All right.

While I am talking to you - I will come back to you.

I took the liberty of asking Callahan to be in your office at ten o'clock. Then I thought as soon as we got through you and I and Callahan and Tickton would go over there and have a dress rehearsal.

MR. GRAVES: Yes, sir.

H.M.JR: Harry?

MR. WHITE: The status of the silver discussions here is that the letter, which you had signed and was to go to Senator Thomas upon receipt of acquiescence by Lend-Lease that they would consider lend-leasing silver for coinage, was never sent; and we are right back where we were a couple of months ago on that situation. Nothing is going forward; nothing is being considered. The thing is just resting. The last move that was made was by OPA, who announced a ceiling of thirty-five cents on imported silver.

H.M.JR: That was in this morning's paper.

MR. WHITE: Yesterday's.

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H.M.JR: I read it this morning.

MR. WHITE: I talked to the man who is next in charge, and he said that if the Mexicans made a good case, which they seemed to be doing, they would give sympathetic consideration to an amendment which would not include a reasonable export tax in Mexico as part of the price. You couldn't get that positive statement, but he thought that would be so, and that would meet the request of Mr. Betata to you. Beyond that, nothing is being done by us.

H.M.JR: Well, is either England or Australia pressing us?

MR. WHITE: No, they haven't mentioned it to me.

MR. BELL: No.

MR. WHITE: No cables have come since that time. In the last request, which was a month and a half ago, England inquired as to whether we would lend-lease silver to them for industrial purposes. Now, the answer to that, I presume, would be, yes, in the light of the Lend-Lease memo. We haven't given them that answer. We were waiting until you might be able to include lend-lease for coinage purposes. I think the matter can rest until they raise it again so far as the Lend-Lease arrangement is concerned.

H.M.JR: You mean, wait until England or Australia--

MR. WHITE: Until they raise it again.

H.M.JR: You were raising it?

MR. WHITE: Merely to indicate that there is nothing being done here.

MR. BELL: I think we have met Australia's coinage problem. As I recall, England said they wouldn't need the coins until about October.

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MR. WHITE: Not coinage, but industrial purposes.

H.M.JR: What else, Harry?

MR. WHITE: That is all.

H.M.JR: I have a couple of things I want to clear up with you before I go.

Paul?

MR. PAUL: Chief Justice Stone wrote a letter to the President - it came in to me - with respect to the acquisition of the Widener Gallery by the National Gallery. Mr. Widener is in precarious health. The collection has been valued by the Treasury at about four million, and it can be acquired by the payment of a tax of about a hundred eighty thousand. We have looked into the power. My feeling is that you ought to recommend that we have appropriate legislation to get it. I have got a memorandum along that line and a proposed answer by the President to Chief Justice Stone. We had a conference yesterday.

H.M.JR: Have you got it right there now?

MR. PAUL: Yes.

H.M.JR: Now, the Chief Justice wrote the same thing to Mrs. Morgenthau, so do you mind - she will have to write it in longhand, but just give her a draft of a letter that she can use as an answer, because she got exactly the same thing.

MR. PAUL: All right. Finley has been after me, and the Chief Justice - there has been quite a lot of talk about it.

MR. WHITE: I suppose you noticed the morning Post about that--

H.M.JR: About what?

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MR. WHITE: Fish and his income.

H.M.JR: In the Post?

MR. WHITE: Spread all over the front page. Excuse me, Chick. (Mr. Schwarz handed a clipping to the Secretary.)

H.M.JR: It is funny that I missed that.

MR. SCHWARZ: It was right on the top of the page.

MR. SULLIVAN: What page was it on?

MR. VINER: The front page.

MR. WHITE: Double headline. The Secretary must have seen the advance copy.

MR. SCHWARZ: How did you find it?

MR. WHITE: It hit me right in the eye. (Laughter)

MR. VINER: The Post probably printed several samples and showed them for approval. (Laughter)

H.M.JR: That thing for Mrs. Morgenthau, if you could do that today, so that her letter could go to Mr. Stone also.

MR. PAUL: I can do it in a few minutes.

H.M.JR: You might send it right upstairs to her. She is upstairs.

I am glad you brought that to my attention, Harry.

MR. WHITE: It has been a pleasure. (Laughter)

H.M.JR: Elmer Irey met me at the dentist's at quarter of nine this morning. I got him out of bed when I read it.

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MR. SULLIVAN: I called Norman Cann about quarter of one this morning to get some kind of a confirmation.

MR. SCHWARZ: That is nothing compared to the six calls I got during the night.

H.M.JR: You got six?

MR. SCHWARZ: From midnight on.

H.M.JR: Where were we? Harry White read the Post this morning. (Laughter)

MR. PAUL: You brought up the subject of this Dutch desire to take over the Dutch assets. We had a long conference on that yesterday afternoon. I hope to have a memo later in the morning. If you want to talk about it, I am ready anytime.

H.M.JR: I would just as leave answer it after the Queen leaves town.

MR. PAUL: So would I. I expect we will have a renewal of pressure there.

H.M.JR: I would just as soon leave her go out of town.

MR. WHITE: Are they apt to take it up with you when she is in town?

H.M.JR: I don't know. When we went by last night to be introduced, when I curtsied - (Laughter)

MR. WHITE: I should think she couldn't do anything but laugh at that point. (Laughter)

H.M.JR: When she recovered, anyway, she said, "I hope that this time when I see you I will have a chance to talk to you."

MR. PAUL: We were unanimously against turning it over.

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H.M.JR: It will be time enough when I come back from my holiday.

MR. PAUL: There is one - you have a three-fifteen appointment with Miss Newcomer. I won't be able to be here at that time. I have a meeting with the subcommittee on pension trusts at two-fifteen. I don't think it will be over by that time, but I don't see why you shouldn't - or Blough can come up.

H.M.JR: Let Blough and Gaston be here. It is a matter of public relations.

MR. PAUL: All right.

H.M.JR: Blough and Gaston.

What else?

MR. PAUL: That is all.

H.M.JR: George?

MR. HAAS: I have nothing this morning.

MR. BLOUGH: Nothing.

H.M.JR: Peter?

MR. ODEGARD: I have nothing. I sent a wire to President Quezon last night, and I would like to get a reply today, to telephone our Cleveland people so that they can make their plans accordingly.

H.M.JR: Whatever you do I will be satisfied as long as I don't have to go. When are you leaving for the West Coast?

MR. ODEGARD: The plans are that I am to be in San Francisco on the seventeenth for the meeting and in Seattle on the twentieth, so I won't be leaving before--

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H.M.JR: You will stay a few extra days, won't you?

MR. ODEGARD: If I may, I would like to.

H.M.JR: I wish you would.

Anything else, Peter?

MR. ODEGARD: I would like very much to get this ABA article cleared so that we can meet their deadline as nearly as possible.

H.M.JR: I talked with Bell. Can I talk with you and Gaston a minute about this?

MR. ODEGARD: Yes. That is all.

MR. GAMBLE: You mentioned that you might like to attend one of these labor-management meetings. Mr. Green has accepted an invitation to attend the meeting in New York on August twenty-seventh, and every effort is going to be made to have Mr. Murray there. I think it would be a very good meeting for you to attend if you would like to see one.

H.M.JR: Ted, I am not going to date myself up now for any more than the current week, because take this thing of the twentieth--

MR. GAMBLE: Roanoke.

H.M.JR: That is in my way. I want to do something else; and so if you don't mind - if you want me - if you will talk with me on it Monday of the week you want me - I am not going to date myself up any more.

MR. GAMBLE: You mean you want to cancel Roanoke?

H.M.JR: No, no, I am keeping the Roanoke, but it is proving to be embarrassing because I want to do something else. No, I have got to keep the Roanoke, haven't I?

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MR. GAMBLE: I should think so, after your conversation with the Senator.

H.M.JR: We will see. What is the plant down there, anyway?

MR. GAMBLE: In Roanoke, you say what is the plan?

H.M.JR: The plant. Is there one plant?

MR. GAMBLE: No, it is not one plant; it is a civic meeting, and they hope to have all two hundred and twenty-one companies in Roanoke flying the Treasury flag on that date.

H.M.JR: Do you know, either of you, is it the afternoon?

MR. GAMBLE: It is twilight, Thursday evening.

H.M.JR: Did Stephens get that?

MR. ODEGARD: It will be over at six-fifteen. I want to remind you of the dinner following.

H.M.JR: Did you give that to Stephens?

MR. ODEGARD: Yes.

H.M.JR: And to Mrs. Klotz?

MR. GAMBLE: Yes.

MRS. KLOTZ: I didn't know you were going.

H.M.JR: I asked him yesterday to give you a memo.

MR. ODEGARD: It should come in this morning.

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H.M.JR: Chick? What did you tell these people when they kept calling you?

MR. SCHWARZ: I didn't "know from nothing."

MR. BUFFINGTON: I have nothing.

H.M.JR: Jake?

MR. VINER: Nothing.

H.M.JR: John, you had something yesterday.

MR. SULLIVAN: Yes. You thought it would be a pretty good idea to put in that executive--

H.M.JR: I can't hear you.

MR. SULLIVAN: You recall we decided to do away with the Processing Tax Board of Review and transfer the few remaining duties to the Board of Tax Appeals. You thought it would be nice if the Executive Order went in just before you left town, or just after. I think we will be ready to send that over tomorrow afternoon.

H.M.JR: All right.

MR. SULLIVAN: There is a man out in Ohio--

H.M.JR: Make sure I take off, though. (Laughter)

MR. SULLIVAN: Yes, and I was wondering if you thought I ought to be away that week, too. (Laughter)

MR. BELL: No. (Laughter)

MR. SULLIVAN: There is a man in Ohio who isn't too bright who has been writing you for an appointment. I finally had him come on and I saw him. I think he is a little bit off his trolley. He has kept writing you for an appointment ever since. I think he won't be satisfied until he gets your autograph. (Letter addressed to Mr. Russell S. Waldorf signed by the Secretary.)

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MR. SULLIVAN: You recall earlier in the week I attempted to give you a memorandum on withholding that Norman Cann had written at the request of Commissioner Helvering, and you asked me to give it to you at the time these figures were completed. (Memorandum dated July 28, 1942, from Mr. Cann handed to the Secretary.)

I would like to see you for just a minute afterwards.

MR. GASTON: I saw Bishop Sheil. He expressed himself as satisfied that there has been a thorough investigation--

H.M.JR: A little louder, please.

MR. GASTON: He expressed himself as satisfied that there had been a thorough investigation, and that the matter was all closed so far as he was concerned. He appeared quite affable and cheerful about it. He said that he considered it more amusing, now, than anything else, but I couldn't help but see a considerable lingering feeling, resentful feeling, over the whole matter, but at any rate he doesn't want anything more done. It is all washed up, he says, as far as he is concerned.

I do think it would have a good effect on him if they do a little something in regard to the remaining expenses. I think Harold is working on something along that line.

H.M.JR: I didn't know that was the question.

MR. GASTON: One of the things that particularly annoyed him was to get a bill from the motion picture company for the transportation of the stars who actually came to the meeting. That was according to custom, and apparently according to the understanding with him, but not his understanding of the understanding. (Laughter)

While he says he doesn't want anything done about it, yet if we worked out a way to pay for that airplane transportation, I think it would leave him a little happier.

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H.M.JR: How much is involved?

MR. GASTON: Around three hundred dollars, I think.

MR. GRAVES: I think it was more than that - four hundred and some.

MR. GASTON: He told me that the whole affair had cost him something over three thousand dollars, but he said if he had realized at the start that it was going to be so expensive to him he wouldn't have gone into it.

H.M.JR: Is that possible, to pay for that, Harold?

MR. GRAVES: It is hard to understand how it could be possible, but I expect it is true if he said so.

H.M.JR: No, no, you misunderstood my question. Is it possible to pay this three or four hundred dollars? I mean, can we do that legally?

MR. GRAVES: I think we can do it. It will require a little--

MR. VINER: Finesse.

MR. GRAVES: What we will have to do will be to issue travel authorizations as of the date when these people--

H.M.JR: No, no. Don't you think that would be a mistake?

MR. SULLIVAN: I am not familiar with this.

H.M.JR: Well, I won't bother. I am sorry, I thought you knew about it.

MR. SULLIVAN: Not about this aspect of it.

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H.M.JR: It was Ed who sat in on it. I am sorry. I withdraw my request.

MR. THOMPSON: That is the only way you can reimburse for travel is to date travel orders back.

H.M.JR: No, I am sorry, I don't want to. I mean, those things - don't you think that would be a mistake, Norman?

MR. THOMPSON: To issue them now?

MR. BELL: How long ago?

H.M.JR: It is at least two months.

MR. GRAVES: June 13.

MR. GASTON: June 13 was the date - June 12 and 14 were the dates of the travel.

H.M.JR: I am not going to ask anybody. I will take the responsibility of saying no. I can't do it. I am not going to do it.

MR. GRAVES: We have never done it before and I was, myself--

H.M.JR: For which company did these movie stars work?

MR. GRAVES: Twentieth Century-Fox.

MR. GASTON: Skouras.

H.M.JR: What do you think?

MR. GAMBLE: It is worth trying at any rate.

MR. GRAVES: I doubt that, too, but that would be one other alternative. The transportation bill has

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been paid, and it is a matter of reimbursing Twentieth Century-Fox.

H.M.JR: Oh, who paid it?

MR. GRAVES: Twentieth Century-Fox paid it.

H.M.JR: I thought the Bishop--

MR. GASTON: They paid it because they could get it cheaper than it could be gotten by an individual or directly.

MR. GRAVES: They got a fifteen percent discount.

H.M.JR: They sent the bill?

MR. GRAVES: They sent it to us and we sent it to Bishop Sheil in accordance with our understanding of the understanding.

H.M.JR: Twentieth Century-Fox sent a bill to us for four hundred dollars?

MR. GRAVES: Something in that neighborhood.

MR. GAMBLE: The money they had advanced to the stars.

MR. GASTON: They were told that all expenses would be paid, so they paid the transportation expenses and billed the Treasury for them.

H.M.JR: That is much simpler. All you have got to do is tell Skouras that we can't do it - legally, that is, now does he want the church to do it?

MR. GAMBLE: Yes.

H.M.JR: Put that up to him. That is simple.

MR. GASTON: That puts us in the position of accepting four hundred dollars from the Twentieth Century-Fox.

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MR. GRAVES: I think that would be very bad, in view of our tax relationships with that company and with the people who are still in the management of that company.

MR. BELL: I am not so sure that you can't reimburse the company on that voucher.

MR. GASTON: That would be the desirable thing, the clean way.

MR. GRAVES: But you would have to get up travel authorizations, Dan.

MR. BELL: I am not so sure about that, either. The language on the expenses, alone, is very broad. It says it can be spent the way the Secretary thinks it should be spent to carry out his purpose.

MR. GASTON: We authorized Twentieth Century-Fox to incur certain expense; for which we agreed we would reimburse them. I think a way ought to be found to reimburse them without pre-dating a travel order.

H.M.JR: I, unfortunately, never read this report. I just read the one page, which was purely on personalities, that you gave me.

MR. GASTON: Perhaps if you had you wouldn't have let the Bishop read it.

H.M.JR: I can see your expression now. Your expression was like a book.

MR. GASTON: He was quite avid to read the exhibits, and in the exhibits were some quite frank interviews with various people; and he smiled and chuckled and at the same time boiled while he was reading them. (Laughter)

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H.M.JR: Were they uncomplimentary?

MR. GASTON: In spots, yes, in spots. (Laughter)

MRS. KLOTZ: He asked for it.

H.M.JR: I told him - I said, "Bishop, I read a one-page summary. I have not read this report. I don't know what is in it."

MR. GASTON: The Bishop has a little habit - I think it isn't unfair to say he has a little habit of chuckling and smiling when he is really cursing. (Laughter) That was what was going on.

H.M.JR: I don't know what is in it. I hope he believed me when I said I didn't read it, and I didn't read it. I read your report and that was all, which was one page.

MR. THOMPSON: I think we could try that. The worst that could happen is they might suspend it, but we can look into it.

H.M.JR: If Civil Service thinks it is all right, I think it is all right.

MR. GRAVES: I will take it up with Norman.

H.M.JR: Did you read the report?

MR. GRAVES: With great interest. (Laughter)

H.M.JR: I think I want to read it, now.

MR. GASTON: The Bishop still says that Harold is a fine man; he has great admiration and affection for him.

MR. GRAVES: That is one of these chuckling expressions, I expect. (Laughter)

H.M.JR: Can I have the report back?

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MR. GASTON: Yes.

MR. ODEGARD: It is better than any mystery story.

MR. GRAVES: I have it. I will give it to you.

H.M.JR: What else?

MR. GASTON: That is all.

H.M.JR: Bell asked first, and then Sullivan asked to see me, and who else wanted to see me?

Then I wanted to see Odegard and Gaston for a moment.

DEPARTMENT OF STATE

*Memorandum of Conversation*STRICTLY CONFIDENTIAL

DATE: August 6, 1942

SUBJECT: Conversation held at 11:00 A.M., August 6, in the office of the Secretary of the Treasury.

PARTICIPANTS: Secretary Morgenthau, Undersecretary Bell, and Mr. Harry White of the Treasury; Assistant Secretary Acheson, Ambassador Armour and Mr. Cochran from the Department of State.

COPIES TO: Original to Secretary Morgenthau, 1 copy to Mr. Acheson, 1 copy to Mr. Armour, 1 copy to Mr. Cochran.

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Secretary Morgenthau and Mr. White referred to the conversations had some two months ago by the State, Treasury and other interested agencies of the Government which led to the drafting of an instruction which Mr. Cochran took to the Ambassador in Buenos Aires with respect to implementation of Rio Resolution V by the Argentine Government. The Secretary said he was unaware of what had taken place since the time the instruction was despatched.

Mr. Acheson said the story could be broken into three parts. He suggested that Mr. Cochran first tell of the action that was taken on the instruction insofar as the Central Bank officials were concerned; that Ambassador Armour explain the circumstances in which representations were made to the Argentine Government; and that he, Mr. Acheson, would indicate the action which was to be taken to strengthen the staff at Buenos Aires with the view to meeting the requirements of our Government in economic warfare work.

Mr. Cochran told of his call on Argentine Ambassador Espil before departing for Buenos Aires. The Ambassador had expressed the opinion that the Argentine failure to implement Rio Resolution V was importantly responsible for

bad

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bad feeling between the two countries. The Ambassador had seen a preliminary draft of the Agenda of the Central Bank Conference and thought the "road seemed so rough" for the Argentines that no delegates might be sent. Mr. Cochran urged representation, but advised prior preparation to get Argentina in line. The Ambassador said he would telephone Prebisch at once to this end.

On the day that Cochran arrived in Buenos Aires three decrees were issued toward implementing Article V. Undersecretary Irigoyen of the Ministry of Finance and General Manager Prebisch of the Central Bank both insisted to Cochran that further concrete proof would be given shortly of their desire to cooperate with us. With the Ambassador's approval, Cochran and Meltzer met with the Central Bank officials, prior to the departure of the Argentine delegates to the Washington Conference, and pointed out deficiencies in the decrees together with points which should be covered by regulations or legislation. Cochran saw the Central Bankers repeatedly during the five weeks he was in Buenos Aires. He believes that ample machinery was being set up through the decrees and legislation to provide facilities for full cooperation with us. He had emphasized to the Central Bankers that the important point was the fashion in which the new decrees and regulations might be administered. The Central Bankers insisted they would go as far as they could, but reminded that approval and support would have to come from the Foreign Office. Prebisch had given much new information in regard to Argentine control and had been active in getting out the new regulations and in drafting legislation. It was explained that a long despatch in which Cochran and Meltzer had analyzed the Argentine decrees, as well as numerous other despatches and cablegrams on the Argentine control, including that on United States currency, had been sent from Buenos Aires during the time Cochran was there. To Mr. White, Cochran handed a memorandum prepared by the Embassy, giving statistics of trade between the Argentine and the Axis and neutral countries of Europe, which data Secretary Morgenthau had specifically requested.

Ambassador Armour emphasized the desire of his Embassy to achieve those ends which our Government sought in this time of war. He explained that several developments took place just about the time the instruction reached Buenos Aires. The three decrees were issued on the day the instruction arrived. Shortly thereafter the Germans sank the Rio Tercero. Almost simultaneously President Ortiz resigned and

Castillo

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Castillo became President in his own right. During these eventful days the Government was being interrogated on its foreign policy. Mr. Armour, as the responsible official on the spot, weighed all of these developments and thought it an inappropriate moment to file a strongly worded note. In the weeks following the Rio Conference, the Ambassador had already filed several communications with the Foreign Office protesting against Argentina's failure to implement various of the Rio Resolutions, including No. V. Oral representations had also been made, with the result that the entire field covered by the Department's special instruction had already been gone over by the Embassy with the Foreign Office. The Ambassador thought there might be some chance of the Argentine Government becoming more anti-Axis with the Rio Tercero incident and he decided not to file at that moment a written protest which might give ground for some reaction against the United States. He emphasized the sensitiveness of the Argentine Government to strongly worded representations in writing. He had found it easier and more effective to broach some difficult propositions orally rather than leave something in writing. Mr. Armour thought that real progress had been made in the past few weeks in the development of Argentine machinery for control. He realized that two instances of payments by Argentina within the past few days might indicate that Argentina is not going to follow our wishes in every respect. He sees no way other than pursuing the adopted line of approach with the view to obtaining more satisfactory results as our war aims become better understood and our successes more evident. The Ambassador indicated his willingness to go over next week a memorandum which Mr. White was to clear with Secretary Morgenthau in regard to further possible steps to be taken in the Argentine situation.

Mr. Acheson would confirm that the cablegrams and reports from Buenos Aires on the above-mentioned developments were sent to the Treasury. He thought that progress had been made toward the desired end in the conversations of the past few weeks with the Argentine officials. He said the State Department was ready to strengthen the Buenos Aires Embassy with the view to obtaining the best possible results in economic warfare effort. He mentioned that Mr. James Mann was to be sent down as a technical expert. Furthermore, consideration was being given to the selection of someone who might function somewhat as a financial attaché for Buenos Aires, Montevideo and Asuncion. Secretary Morgenthau asked that the official selected by the State Department would be

agreeable

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agreeable to him and should be available for obtaining the information and carrying out the work which Treasury feels is necessary in connection with the policing of financial transactions. Furthermore, reports from such official should be marked specifically for the attention of the Secretary of the Treasury.


HMC:LN

August 6, 1942.
1:08 p.m.

HMJr: Hello.

Operator: Mr. Rouse.

HMJr: Hello.

Robert
Rouse: Good morning.

HMJr: How are you?

R: Oh, I'm fine. I hope you are.

HMJr: I'm all right. What sort of a reception does
the certificate get?

R: Excellent.

HMJr: Excellent.

R: All over.

HMJr: Good.

R: My friends at the Chase - \$150 million is in....

HMJr: Good.

R:first thing this morning....

HMJr: Good.

R:which is the biggest I - in my time.

HMJr: What did they do last....

R: Well, on the two's....

HMJr: A hundred and twenty....

R:last time a hundred and twenty-five, and
on the certificates I think it was a hundred.

HMJr: Yeah.

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- R: The City Bank called up and said that they had one on the way over of seventy-seven and a half, and they wanted us not to take it because they were revising their ideas and going to put in a hundred, and they'd rather have it just the one subscription then for a hundred.
- HMJr: I see.
- R: I talked to the president of one of the large banks in Newark....
- HMJr: Yes.
- R:who is on the board of the Mutual Benefit Life Insurance Company....
- HMJr: Yeah.
- R:with respect to what the Mutual Benefit is - he's - was going to do on the two and a half....
- HMJr: Yeah.
- R:this morning, and he said that - in that conversation, that he liked it very much, and because of it they were going to subscribe for more than they'd planned on - they'd planned for.
- HMJr: I see.
- R: They were thinking of something shorter. He had the same reaction from a treasurer of a corporation who came in on the train with him.
- HMJr: Yeah.
- R: And all the reports we have are very favorable....
- HMJr: Yeah.
- R:well, better than anything, there's been no market reaction at all.
- HMJr: Yes.

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R: We've bought this morning a half million of the November certificates....

HMJr: Yeah.

R:or one million of the November certificates and two hundred thousand of the one and a half of December '46.

HMJr: Well, that's nothing to speak of.

R: No, it's nothing.

HMJr: Well, then what's some talk that - wasn't there some....

R: Oh, yes, they thought - a number of people expressed the view that we'd get a sharp reaction....

HMJr: Yeah.

R:in that four and five-year part of the list.

HMJr: Yeah.

R: So far there's no evidence of it at all.

HMJr: Well....

R: And I also got - on this Mutual Benefit thing on the two and a half....

HMJr: Yeah.

R:they hadn't any in yet. We're planning to put twelve in today....

HMJr: Yeah.

R:and had in mind another twenty.

HMJr: Yeah.

R: And I heard from Philadelphia that the Penn Mutual down there, seven and a half, and at a meeting next week they expect to increase it quite substantially.

HMJr: That's on the two and a half.

R: On the two and a half.

HMJr: Yeah.

R: So that both things seem to be going along beautifully.

HMJr: Well....

R: I'm - feel very much better this noon than I have for the past two or three days.

HMJr: Well, I'm glad that on the financial front we're more than holding our own.

R: (Laughs) All right, sir.

HMJr: Okay.

R: Thank you.

HMJr: Thank you.

August 6, 1942.
3:48 p.m.

Operator: Go ahead.

Allan
Sproul: Hello.

HMJr: Yes.

S: Mr. Secretary?

HMJr: Speaking.

S: I wanted to check in with you and tell you I was sorry not to be among the hosts on Monday when you came to lunch.

HMJr: Oh.

S: I regret very much my illness....

HMJr: Well....

S:on that occasion.

HMJr:how are you feeling now?

S: I'm feeling much better. I've been....

HMJr: Good.

S:back here since Tuesday....

HMJr: Oh.

S:and I called now to let you know I was here, and also to tell you I've just been going over with Mr. Rouse the day's developments, and I think you have two successes on your hands now.

HMJr: Good. I didn't know you were back. I'm glad you're back and I'm glad you let me know. And that thing is going all right today?

- 2 -

S: It's going all right, and the rest of the market, particularly the nearby short market, has not fallen out as bad as some people predicted.

HMJr: Yeah.

S: It's handled itself very well.

HMJr: Well, that - that's very cheering. It's good to get a little good news.

S: Well, it - we felt that way about it.

HMJr: Well, thank you, Allan. I'm glad you're feeling better.

S: Thank you.

HMJr: Goodbye.

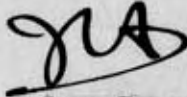
S: Goodbye.

THE UNDER SECRETARY OF THE NAVY
WASHINGTON

6 August 1942

MEMORANDUM TO SECRETARY MORGENTHAU

I know you will be glad to see this improvement
in the send-off of the most recent Beacon contingent
under Selective Service.



James Forrestal

RECEIVED
AUG 11 1942
U.S. DEPARTMENT OF THE NAVY
WASHINGTON, D.C.

LIGHT

Official Paper
County of Dutchess

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Beacon Sends Another Contingent to the War

FORTY-TWO FINE SONS ARE FETED AND GOD-
SPED ON THEIR DEPARTURE TO AN
UNKNOWN DESTINY

A group of 42 young men, the pick of Beacon's crop, headed by Melio Bettina, entrained today to face whatever destiny awaits them in the service of their country. The boys were given a oyal farewell dinner in the outdoor pavilion at the Elks Club, were led by a color guard, city officials and band to the station, and were given the kind of send-off that leaves a lump in the throat of every one attending or observing. The selectees who departed today were:

Melio A. Bettina, Jerome S. Aifron, John A. Brill, Joseph M. Stafford, Robert V. T. Resck, Dudley R. Buck Jr., Robert L. Campbell Jr., John L. De Nialo, Edward G. Ducharme, Angelino V. Casella, Emilio G. Cobbe, Raymond D'Aprile, Donald J. Cummings, James D. Williams, George F. Farmer, Arthur A. Hunt, Vincent F. Fitzgerald, Edward J. Eagan, Elbert A. Reed, Clifton B. Clloyd, Emerson N. Lund, Clerant Garrey, William A. Gehel, Robert E. Vench, Chester Horton, Bernard J. Cole, Frederick V. Coates, William J. Komorock, Paul Long, Frank J. Partington, Earl D. Daley, George J. Matthews, Richard Alkinson, Eugene D. Murphy, James F. Lockwood, Frederick L. Bossons, Robert J. Horton, Charles S. Mason, Clasper A. Emerson, Arthur B. Leonsbury, William V. De Lorry, Bronislaw Cpolawa.

The lasty meal prepared by Elk Steward Babe Dondoro, assisted by Joe Cross and Mike Yanarella, consisted of turkey, dressing, peas, potatoes, butter gravy, rolls and fancy assorted cakes. At the speakers' table were Mayor Thomas J. Cunningham, Elks Ruler Harry B. Trapp, Rev. James Cassidy, Rev. James Cunningham, Rev. Max B. Poznansky, Rev. Burton F. Tarr, Rev. A. O. Trinch, Rev. Howard McKinley, City Judge Benjamin P. Rocco, Dr. Charles V. Keating, Dr. Charles B. Dugan, Commissioner Robert W. Post, Captain Luella Boyle, and Lieut. Evelyn Andrews of the Salvation Army.

Also Red Cross officials Mrs. Charles Storm, Mrs. J. M. Blackstock, James Lynch, Mrs. Albert C. Dunke; American Legion Auxiliary ladies Mrs. F. Boyce, Mrs. Ada Post, Mrs. J. B. Pomvrahe, Mrs. C. Bowing; Red Cross Quanteen Unit members Mrs. C. MacKinon, Mrs. H. Crum, Mrs. V. D. Stearns, Mrs. J. Stevens, Mrs. Simon Oahn, Mrs. Lois P. Marzoo, Mrs. Adalide Post, Mrs. Roberts Post, Mrs. J. Nichols, Mrs. J. Buris.

Board of Governors, Past Executive Robert O'Connell, chairman and Ruler Harry Trapp.

Chairman of send-off committee, Milton Pothill, assisted by William T. Keelan.

The music was furnished by the High School band under the direction of Prof. Henry Renner, and the Beacon Girls' Drum corps.

The Legion Color Guard was made up of Stephen Mitchell, Thomas J. Buris, and James Martin.

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

August 6, 1942.

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

Dear Mr. Morgenthau:

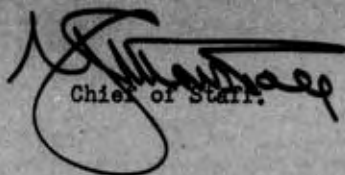
Enclosed is a proposed itinerary for your tour of Army posts and stations between the dates of August 16th and August 20th inclusive. It may appear to be a particularly strenuous program, but it is my idea that you should not attempt to go into much detail at many of the stops which are listed. I would like you to see all of these stations, however, in order that you may come home with an idea of the magnitude of our program. You will note from the proposed itinerary that at many of the camps you are simply scheduled for a tour through them by motor. In such cases you will be accompanied by an officer who will point out all matters of interest. At other posts, a rather detailed program will be arranged.

If this schedule meets with your approval, I shall see that all of the arrangements involved are made. On your part, all that will be necessary will be to arrive at the appointed place in your own airplane at the proper time.

Colonel James H. Phillips of the Army Ground Forces has been selected to accompany you on the entire trip. He will call on you at your convenience and you may make any detailed arrangements with him that you desire.

I want to make certain that your trip is not only instructive but also enjoyable, and if there is anything that you can think of that I can do to further this, please call me.

Faithfully yours,



Chief of Staff.

PROPOSED ITINERARY FOR TOUR OF ARMY INSTALLATIONS
BY THE SECRETARY OF THE TREASURY

<u>Sunday, August 16</u>	<u>Hour</u>
Leave New Hackensack Airport	9:00 a.m. EWT
Arrive La Guardia Field	9:30 a.m. EWT

Party will be met at La Guardia Field and driven to the headquarters of the 1st Interceptor Command, New York City, where it will be shown all details of the Air Warning Service and methods taken to combat hostile submarines.

Luncheon will be served at this headquarters.

A car will then take party to La Guardia Field.

Leave La Guardia Field	2:15 p.m. EWT
Arrive Fort Knox, Kentucky	4:45 p.m. CWT

Dine and spend night at Fort Knox, Kentucky.

Monday, August 17

Inspect the activities of the Armored Force School and the 8th Armored Division during the morning.

Leave Fort Knox, Kentucky	11:45 a.m. CWT
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Luncheon will be served on airplanes.

Arrive Fort Sill, Oklahoma	3:45 p.m. CWT
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Here party will be met by the Commanding General who will drive party through Fort Sill, Oklahoma, explaining their activities during the course of the ride.

PROPOSED ITINERARY FOR TOUR OF ARMY INSTALLATIONS
BY THE SECRETARY OF THE TREASURY

<u>Sunday, August 16</u>	<u>Hour</u>
Leave New Hackensack Airport	9:00 a.m. EWT
Arrive La Guardia Field	9:30 a.m. EWT

Party will be met at La Guardia Field and driven to the headquarters of the 1st Interceptor Command, New York City, where it will be shown all details of the Air Warning Service and methods taken to combat hostile submarines.

Luncheon will be served at this headquarters.

A car will then take party to La Guardia Field.

Leave La Guardia Field	2:15 p.m. EWT
Arrive Fort Knox, Kentucky	4:45 p.m. CWT

Dine and spend night at Fort Knox, Kentucky.

Monday, August 17

Inspect the activities of the Armored Force School and the 8th Armored Division during the morning.

Leave Fort Knox, Kentucky	11:45 a.m. CWT
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Luncheon will be served on airplane.

Arrive Fort Sill, Oklahoma	3:45 p.m. CWT
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Here party will be met by the Commanding General who will drive party through Fort Sill, Oklahoma, explaining their activities during the course of the ride.

Leave Fort Sill, Oklahoma 4:45 p.m. CWT
 Arrive Randolph Field, Texas 7:05 p.m. CWT
 Dine and spend the night at Randolph Field.

Tuesday, August 18

Inspect the activities of the Army Air Forces at Randolph Field, and all phases of flying training.
 Leave Randolph Field 11:45 a.m. CWT
 Luncheon will be served on plane.
 Arrive Camp Livingston, Louisiana 2:20 p.m. CWT

Prior to landing at Camp Claiborne it is suggested that pilot circle over Camp Polk and Camp Livingston which are in the vicinity of Alexandria. This will give party a good bird's eye view of these installations. Upon arrival at Camp Claiborne party will be met by Commanding General who will drive with party through the post explaining the activities that are taking place, and party will then witness a review of one regimental combat team from newly formed 82nd Division.

Leave Camp Livingston, Louisiana 4:30 p.m. CWT
 Arrive Fort Benning, Georgia 6:20 p.m. EWT

Wednesday, August 19

Spend morning at Fort Benning, Georgia. Inspect activities of the Infantry School, parachute training, and Second Armored Division.

Luncheon at Fort Benning.

Leave Fort Benning, Georgia

1:00 p.m. EWT

Arrive Macon, Georgia

1:30 p.m. EWT

Upon arrival at Macon, Commanding Officer, Camp Wheeler, will meet party and take them on an automobile inspection through Camp Wheeler, explaining the activities of that post. Thence drive through the Basic Flying School at Cochran Field accompanied by the Commanding Officer.

Leave Macon, Georgia

3:30 p.m. EWT

Arrive Augusta, Georgia

4:25 p.m. EWT

Here the Commanding Officer, Camp Gordon, will meet party and tour by automobile through Camp Gordon, explaining the activities at that post.

Spend the night in Augusta, Georgia, or at Camp Gordon.

Thursday, August 20

Leave Augusta, Georgia

8:00 a.m. EWT

Arrive Fort Bragg, North Carolina

9:35 a.m. EWT

Inspect activities of Airborne Command and other training activities at Fort Bragg for the remainder of the morning.

Luncheon at Fort Bragg.

Leave Fort Bragg, North Carolina

1:00 p.m. EWT

Arrive Camp Pickett, Virginia

2:00 p.m. EWT

Inspect activities of 79th Division
which has been activated for one
month.

Leave Camp Pickett, Virginia

4:30 p.m. EWT

Arrive Roanoke, Virginia

5:00 p.m. EWT



TREASURY DEPARTMENT

WASHINGTON

aug 6th 1942

To: Secretary Morgenthau

JLS

From: Mr. Sullivan

The Bureau of Internal Revenue reports 460 completed inquiries on the effect of collection of part of the regular income tax at source on payroll allotment plans for purchase of bonds. The completed inquiries show that 379 of the 460 industries contacted have war bond payroll allotment plans in operation.

Analysis of the field inquiries shows that 322 of the 379 employers report that employee participation in the voluntary war bond payroll allotment plan would be adversely affected in the event collection of a part of the regular income tax at the source is enacted into law. It is further shown that 53 employers anticipate no effect on the voluntary plan for the purchase of war bonds and that 4 employers failed to express an opinion.

It is indicated that the additional duties caused by collection of tax at source would affect 19 employers' operations in the handling of the payroll allotment plan. A number of employers volunteered the information that additional personnel and equipment would be essential in their operations.

The inquiries indicate that employers having large groups of employees anticipate that the sale of bonds would more adversely be affected by the collection of tax at source than in the instance of employers having small groups of employees.

Employers with a large group of employees generally have a much higher employee participation. The percentage of total payroll deducted averages more with the larger



- 2 -

employers than the small employers. Of the 379 employers, 178 report less than 5% of total payroll, 158 report from 5% to 10% participation, 39 employers 10% and over participation, and 6 employers failed to disclose the degree of participation.

Table 2. - Employers with War Bond allotment plan in effect by (1) Opinion expressed as to effect of collection at source on participation in War Bond Plan, (2) Percentage of total payroll now deducted for War Bonds and (3) Average number of employees per payroll period.

Average number of employees	Percentage of total payroll now deducted for War Bonds				
	Total	Under 5	5 under 10	10 and over	Unknown
	<u>Total</u>				
Under 10	4	2	1	1	-
10 under 100	26	6	12	8	-
100 under 1,000	125	64	50	11	-
1,000 under 10,000	163	79	68	13	3
10,000 and over	47	20	20	5	2
Unknown	14	5	7	1	1
Total	379	176	158	39	6
	<u>Adverse Effect on Participation</u>				
Under 10	1	1	-	-	-
10 under 100	18	5	10	3	-
100 under 1,000	103	52	42	9	-
1,000 under 10,000	146	69	64	10	3
10,000 and over	44	19	20	4	1
Unknown	10	4	6	-	-
Total	322	150	142	26	4
	<u>No Effect on Participation</u>				
Under 10	3	1	1	1	-
10 under 100	7	-	2	5	-
100 under 1,000	22	12	8	2	-
1,000 under 10,000	16	9	4	3	-
10,000 and over	1	-	-	1	-
Unknown	4	1	1	1	1
Total	53	23	16	13	1
	<u>No Opinion Expressed</u>				
Under 10	-	-	-	-	-
10 under 100	1	1	-	-	-
100 under 1,000	-	-	-	-	-
1,000 under 10,000	1	1	-	-	-
10,000 and over	2	1	-	-	1
Unknown	-	-	-	-	-
Total	4	3	-	-	1

Table 1. - Employers with War Bond allotment plan and with no War Bond allotment plan by average number of employees per pay period

Average number of employees	Total		With War Bond allotment plan		With no War Bond allotment plan	
	Number	Percent	Number	Percent	Number	Percent
	:	:	:	:	:	:
Under 10	34	100.0	4	11.8	30	88.2
10 under 100	46	100.0	26	56.5	20	43.5
100 under 1,000	148	100.0	125	84.5	23	15.5
1,000 under 10,000	170	100.0	163	95.9	7	4.1
10,000 and over	48	100.0	47	97.9	1	2.1
Unknown	14	100.0	14	100.0	-	-
Total	460	100.0	379	82.4	81	17.6

ANALYSIS OF FIELD INQUIRY ON EFFECT OF COLLECTOR OF PART OF THE BUREAU INCOME TAX AT SOURCE ON PAYROLL ALLOTMENT PLANS FOR PURCHASE OF WAR BONDS

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Part I. - Employers with War Bond payroll allotment plan in effect the believe such plan would be adversely affected

Name of employer and address	Average number of employees on payroll in each payroll period	Percentage of employees participating	Percentage of total payroll now deducted for War Bonds	Effect of collection at source on War Bond payroll allotment plan		Name and title of officers interviewed
				On employer	On participation - Employer's view point	
J. S. Adams and Company, Buffalo, New York	1,000	95.0	5.5	None	50% of employees would cancel or reduce pledges	G. Breilingaw - Treasurer
Alabama Dry Dock Shipbuilding Co., Mobile, Alabama	80,000	80.0	5.0	Devote less time to War Bonds	Many would reduce pledges - Total payroll deductions being made are maximum employees will subscribe	E. D. Bell - Manager of Tax Dept. J. E. Jones - Full time Auditor
American Gas Company, New York, New York	24,000	98.1	5.2	None	Bond subscriptions would be reduced 50%	G. E. Hedge - Asst. Comptroller J. McCambridge, Asst. Auditor
American Radiator and Standard Sanitary Corporation, Louisville, Kentucky	5,000 to 5,000	100.0	6.25	None	Limited reductions.	H. G. Graham - Chief Clerk Albert F. Hurley - Paymaster
American Smelting and Refining Company, New York, New York	14,000	94.0	5.0	None	Would reduce present allotment at least 50%	M. H. Rosenberg - Asst. Comptroller
American Snuff Company, Memphis, Tennessee	755	75.0	5.7	None	Would mean one more deduction on already overloaded employees	E. V. Bourke, Secretary and Auditor
Anna Harris Nevills Company, San Francisco, California	250	75.0	4.0	None	Most employees belong to labor union which practically forced many to subscribe to War Bonds - both deductions cannot successfully be made	E. E. Doyle - Office Manager
Atlantic Greyhound Corp., Charleston, West Virginia	1,574	55.5	1.7	None	10% might cancel present participation or decrease pledge	Morris Fetter - Asst. Comptroller G. D. Falte - Payroll Auditor
Arton Fisher Tobacco Company, Louisville, Kentucky	1,080	62.5	5.5	None	Some employees would cancel or reduce deduction for War Bonds	C. A. Voller - Treasurer C. A. Boone - Tax Accountant
Kiss Knox Company, Pittsburgh, Pennsylvania	2,410	82.2	5.4	None	Some falling off in bond sales	W. S. Brower - Controller E. W. Siegler - Statistician
Boston Edison Company, Boston, Massachusetts	3,250	90.0	6.0	None	Employees cannot absorb any additional expense without giving up bond subscriptions	Albert G. McMillan - Vice President
Buffalo Klag Company, Inc., and affiliates, Buffalo, New York	175 to 225	50.0	5.0	Company payroll deductions for savings would be affected	Some cancellations	Paul Ermer, Asst. Treasurer
Cannon Mills Company, Kannapolis, North Carolina	12,000	82.0	2.6	None	Payroll allotment for bonds reduced 50%	George A. Bettig, Jr. - Asst. Treas. E. F. Miller, General Auditor
The Carborundum Company, Niagara, New York	5,200	80.0	6.0	None	Experience of Canadian subsidiary indicates a reduction in the subscription to bonds	T. B. Foot, Treasurer G. J. Stewart - Asst. Treasurer
Central Illinois Public Service Company, Springfield, Illinois	1,800	78.0	4.0	None	Reduction of 25% to 50%	H. E. Parker - Treasurer
Century Ribbon Mills, Inc., New York, New York	1,000	80.0	5.2	None	A number of employees purchase bonds outside in addition to payroll deduction - would affect outside purchases	Charles E. Smith - Cashier Meyer Sommerfeld - Bookkeeper
Charles of the Ribs Distributors Corporation (N.Y.), New York, New York	350	70.0	5.0	None	Possibly more than 50% of employees would cancel bond subscriptions	Kiss E. Starin - Bookkeeper George Jallow - Accountant
Charlotte Pipe and Foundry Co., Charlotte, North Carolina	552	24.0	3.25	None	Some adjustment. No material reduction	F. D. Stephens - Secretary
Chicago Towel Company, Chicago, Illinois	991	75.0	6.0	None	Total effect would be small	G. A. Teape - Comptroller
The Commonwealth and Southern Corporation, New York, New York	400	80.5	6.75	None	Some extent at start - employees took into account taxes they would have to pay on their income when they made their pledges	Otto Brannmeister, Jr. - Asst. Compt. F. A. Bain, - Asst. Treas. and Paymaster
Craven Cork and Seal Co., Inc., Baltimore, Maryland	5,800	78.0	5.5	None	Some reduction	J. J. Eagle - Secretary-Treasurer J. F. Donovan - Asst. Treasurer
Outler-Banner, Inc., Milwaukee, Wisconsin	5,400	60.0 to 65.0	4.0 to 4.5	None	Substantial reduction, especially in 1945 when both the 1945 and 1942 taxes will have to be paid	H. F. Vogt - Vice President H. E. Fenne - Auditor
Dewey and Alay Chemical Co., Cambridge, Massachusetts	945	80.0	5.0	None	Percentage of the total payroll pledged would drop from present 52 to 45	Dana Hisko - Asst. Treasurer
The Diamond, Inc., Charleston, West Virginia	800	89.0	5.0	None	Decreased participation might run as high as 25%	M. E. Horne - Comptroller
Quabbin Bond, Inc., Chicago, Ill.	2,500	80.0	4.0 to 5.0	None	Some reduction	John Piris - Secretary-Treasurer George E. Rogers - Asst. Secy.-Treas.
Dunlop Tire and Rubber Corp., Tusconado, New York	5,000	100.0	7.5	None	Some would reduce war bond pledge.	G. H. Crawford - Comptroller G. F. McOm - in charge of methods and procedure of payroll
Eastman Kodak Company, Rochester, New York	24,471	80.0	6.5	None	Some reduction	I. L. Newby - Asst. Comptroller
Edwards of Charlotte, Inc., Charlotte, North Carolina	84	88.0	7.0	None	Cancellations would not exceed the amount of the withholding tax.	Thomas E. Williams - Vice Pres. & Treas.
Fidelity and Columbia Trust Co., Louisville, Kentucky	180	75.0	5.5	None	Some reduction	L. C. Whitford - Auditor

ANALYSIS OF FIELD INQUIRY ON EFFECT OF COLLECTION OF PART OF THE REGULAR INCOME TAX AT SOURCE ON
PAYROLL ALLOTMENT PLANS FOR PURCHASE OF WAR BONDS

Part 1. - Employers with War Bond payroll allotment plan in effect who believe such plan would be adversely affected - Continued

Name of employer and address	Average number of employees on payroll in each payroll period	Percentage of employees partici- pating	Percentage of total payroll now deduct- ed for War Bonds	Effect of collection at source on War Bond payroll allotment plan	Name and title of officers interviewed	
						On employer
Fidelity Trust Company, Baltimore, Maryland	180	75.0	2.0	None	Employees would not buy bonds, especially in 1945, after that year burden would not be so much of a strain	R. E. Street - Treasurer A. M. Scott - Asst. Treasurer
First Wisconsin National Bank, Milwaukee, Wisconsin	1,000	98.79	2.3	None	Reduction of about 80% in subscriptions	Clarence E. Lichtfeldt - Comptroller
The Falk Corporation, Milwaukee, Wisconsin	5,100	80.0	2.9	None	Subscriptions would fall off at least 80%, probably more	James A. Butler, Asst. Secretary, Treasurer and Comptroller
General Railway Signal Company, Rochester, New York	1,380	57.0	2.77	None	15% of the number of subscribers	E. E. Fink - Secretary E. E. Stoddard, Asst. Secretary
L. S. Ayres and Company, Indianapolis, Indiana	2,870	88.0	2.0	None	1% reduction	James A. Glain, Asst. Treasurer William B. Flores, Comptroller
The Buckeye Brass and Manufac- turing Company, Cleveland, Ohio	580	80.0 to 85.0	2.3	None	Some reduction	E. W. Rosewater, Vice-President
Cleveland Electric Illuminating Co. Cleveland, Ohio	4,400	77.0	2.15	None	Some reduction	E. E. Smith, Comptroller L. F. Sholly, Assistant Comptroller
The Cook Coffee Company, Cleveland, Ohio	500	85.0	1.0	None	Low wage earners will increase purchases if no tax is withheld at source. Higher bracket wage earners will buy less.	George F. Ramsey, Comptroller
The Deval Engineering and Contract- ing Company, The Geo. B. Anshuter Co., and Watson-Cook Co., operating as contractors - Contract No. 4152 Jacksonville, Florida	4,500	10.0	1.0	None	Deduction for bonds reduced 80%	Henry W. Sheppard, Chief Accountant
Florida East Coast Railway Co., St. Augustine, Florida	2,000	72.3	2.98	None	Some will offset present bond purchases against the tax	Ralph Elmsdell, Chief Accounting Officer C. E. Coomes, Auditor
Florida National Bank, St. Petersburg, Florida	80	100.0	4.51	None	Some reduction	C. D. Dyal, President
Florida Power and Light Company, Miami, Florida	1,600	92.0	2.2	None	8% would cease to participate until check were off	V. E. Blackwood, Treasurer E. E. Wood, Asst. Treasurer
Florida Public Service Company, Orlando, Florida	542	70.8	2.0	None	Some will have to curtail buying bonds to meet 8% tax deduction	O. C. Schnepfer, Comptroller O. W. Dunn, Chief Accountant
General Machinery Corporation, Hamilton, Ohio	4,000	78.0	2.0 to 7.0	None	Some reduction	J. E. Peterson, Vice-President W. E. Kiska, Personnel Manager
The Gentile Bros. Company, Cincinnati, Ohio	400	97.0	2.0	None	Some employees would reduce or cancel subscriptions	Leonard Gentile, President Arthur Newport, Comptroller
The Gibson Hotel Company, Cincinnati, Ohio	580	82.0	2.0	None	Present 8% participation would drop to 20%. Percent of payroll from 2% to under 1%	A. J. Geal, Treasurer
Greif Bros. Coopersage Corp., Cleveland, Ohio	2,892	85.0	4.0	None	10% to 25% reduction of subscriptions	Harry Krans, Secretary A. Viska, Comptroller
Indianapolis Power and Light Co., Indianapolis, Ind.	1,454	79.0	2.42	None	80% would make a small reduction	W. C. Richardson - 1st Vice-President O. T. Flomwater, Asst. Treasurer
The Kroger Grocery and Baking Co., Cincinnati, Ohio	28,000	64.0	4.0	None	Many employees would be reluctant to curtail allotments	J. E. Sadler, Sec'y. and Asst. Treas. H. J. Weber, General Auditor
F. E. Mallory and Company, Inc., Indianapolis, Indiana	2,500	95.0	2.0	None	80% would reduce purchases	H. E. Hamilton - Vice-Pres. & Treas. Geo. Petheringham - Secretary
Humes Cellulose Company Terre Haute, Indiana	525	22.0	2.2	None	Would reduce purchases	Hugh E. Lee - Vice-President Charles Hunt - Social Security Clerk
The Multi-Color-type Company, Cincinnati, Ohio	450	80.0	2.5	None	Would reduce number participating from present 80% to 20% or 25%	H. C. J. Curran, Comptroller
Ohio Bell Telephone Company, Cleveland, Ohio	11,868	95.84	2.14	None	Would reduce amount of purchases	M. S. Felty - Asst. Vice-President O. C. Humiller - Auditor of Measurements
The Procter and Gamble Company, Cincinnati, Ohio	12,100	86.0	2.0	Would be unable to insist on bond purchases	Would reduce bond purchases at least to the extent of income tax deduction	George S. Woodward, Jr. - Asst. Treasurer A. L. McCortney - Senior District Office Supervisor
The Republic Steel Corporation, Cleveland, Ohio	87,000	70.0	4.0	None	Slight reduction in purchases and some amortization of pledges	F. F. Boyer, Comptroller
The John Killian Company, Cincinnati, Ohio	1,800	Over 90.0	2.2	None	Reduction equal at least to the amount of tax deduction in the case of 80% to 85% of participants	Clarence J. Kilby - Asst. Secretary and Asst. Treasurer
Standard Oil Company (Ohio) Cleveland, Ohio	2,700	77.2	4.0	None	Small decrease	J. C. Tice, Asst. Comptroller E. E. Kirk, Treasurer
The Washburn Corporation, South Bend, Indiana	14,000	89.0	2.75	None	Minimal reduction	H. E. Dalton, Comptroller Terry Kilby - Comptroller, Aircraft Div.
John E. Smith and Son, Inc., Jacksonville, Florida	2,880	4.4	.1	None	Present participation of 4.4% will change to 2.5%. Present percent of payroll of .2% would change to .1%	Bernard A. Dean - Auditor
Tampa Shipbuilding Company, Inc., Tampa, Florida	7,000 and up to 8,000	Over 90.0	12.0	None	Would reduce purchases of small wage earner	J. W. Gray, Secretary-Treasurer J. A. Broadwater, Comptroller
Wilson Apparels Company, Tallahassee, Florida	1,200	82.0	2.0	None	Would reduce purchases by one third	D. E. Klingman, Asst. Secretary

ANALYSIS OF FIELD INQUIRY ON EFFECT OF COLLECTION OF PART OF THE REGULAR INCOME TAX AT SOURCE ON
PAYROLL ALLOTMENT PLANS FOR PURCHASE OF WAR BONDS

Part 1. - Employers with War Bond payroll allotment plan in effect who believe such plan would be adversely affected - Continued

Name of employer and address	Average number of employees on payroll in each period	Percentage of employees participating	Percentage of payroll now deducted for War Bonds	Effect of collection at source on War Bond payroll allotment plan	Name and title of officers interviewed	
						On employer
Belford Lumber Company, Detroit, Michigan	80	75.0	5.5	None	A decided reduction	G. Smith - Secretary-Treasurer
Kim's, Incorporated, Atlanta, Georgia	1,700	10.0	1.0	None	90% cancellation	T. L. Story - Office Manager
Southwestern Bell Telephone Co., St. Louis, Missouri	25,520	94.0	5.74	None	Some reduction	Mark W. Cummings - General Auditor T. F. Leistik - Chief Accountant
Standard Oil Co. of California (Del.) San Francisco, California	15,800	99.0	10.0	None	Some reduction	Granville S. Berden - Special Tax Counsel E. W. Leicher - Secretary and Comptroller
Hinson Aircraft, Wayne, Michigan	1,500	100.0	9.5	None	Large reduction	F. Furtak - Chief Accountant L. Anstis - Paymaster
Utah Copper Company, Salt Lake City, Utah	4,800	100.0	10.0	None	Small reduction	Charles T. S. Parsons - Cashier L. J. Farrer - Assistant Auditor
Utah Idaho Sugar Company, Salt Lake City, Utah	2,250	80.0	5.0	None	15% reduction of pledges	J. A. Wood - Secretary-Treasurer
Utah Oil Refining Company, Salt Lake City, Utah	625	90.7	7.07	None	10% reduction	Mr. Jensen - Auditor Mr. Standing - Chief Accountant
Vickers, Incorporated, Detroit, Michigan	10,000	76.0	5.9	None	Some reduction	J. F. Forster - Treasurer M. Myers - Assistant Treasurer
Wiras Walker & Sons, Incorporated, Peoria, Illinois	2,400	98.0	9.0	None	Small percentage reduction in pledges	G. E. Fogelstrom - Chief Accountant in charge of office B. E. Ford - Comptroller and Assistant to President
Western Coal & Mining Company, St. Louis, Missouri	800	80.0	5.0	None	Would have a considerable effect	George M. Book - Secretary
Tidewater Associated Oil Co., (Western Division) San Francisco, California	5,500	40.0	2.5	None	Many cancellations	Pierre Lacombe - Assistant Vice President
Union Pacific Railroad Company, Omaha, Nebraska	5,800	81.0	5.1	None	20% reduction	E. Wiprecht - General Auditor
United Engineering and Foundry Co., Pittsburgh, Pennsylvania	3,000	95.0	5.51	None	Some reduction	George Lang - Secretary-Treasurer W. H. Wharton - Chief Clerk, Payroll Department
United Fuel Gas Company, Charleston, West Virginia	2,500	70.5	9.5	None	20% decrease in participation	Fred A. Jesser - Assistant Treasurer
United Shoe Machinery Corporation, Boston, Massachusetts	5,214	87.0	2.0	None	Reduction would not exceed 20% of present deduction	Clifton C. Owens - In charge of tax department George A. Kiel - Accountant, Tax Dept.
United States Fidelity & Guaranty Co., Baltimore, Maryland	3,000	80.0	4.0	None	Some reduction	G. Porter Houston - Treasurer
Universal Carloading & Distributing Company, Incorporated, New York, N. Y.	4,100	80.0	5.0	None	Some reduction in lower salaried group	Joseph H. Clark - Assistant to Vice President
Van Swale Company, Incorporated, New York, N. Y.	4,000	92.0	7.1	None	10% to 20% reduction	V. A. Hower - Treasurer
Wabash Railroad Company, Decatur, Illinois	5,700	55.5	5.5 of all \$5.0 of regular	None	Some reduction	Supervisor of Centralized Accounting Bureau
Weaver Manufacturing Company, Springfield, Illinois	400	90.0	5.0	None	Some reduction	August A. Higgs - Office Manager
Wheeling Steel Corp. and subsidiaries, Wheeling, West Virginia	20,276	75.0	4.25	None	Some reduction	Rhodes B. Sulmasy - Comptroller W. W. Saunders - Assistant Comptroller
Whiting Milk Company, Boston (Charleston) Massachusetts	1,080	55.0	2.0	None	Large reduction	William J. Gleason - Office Manager
Wisconsin Mills Company, Albemarle, North Carolina	2,500	2.1	Not available but started	None	Some reduction	E. L. Holbrook - Assistant Treasurer
Wisconsin Bank Shares Corporation, Milwaukee, Wisconsin	80	100.0	5.7	None	Slight reduction	H. C. Adams - Assistant Secretary & Treasurer
Woods Aircraft Corporation, Wichita, Kansas	10,000	100.0	12.0	It may interfere with the Beach Efficiency Incentive Plan whereby 20% of the net earnings available to employees are paid in war bonds and stamps	Employee may demand increase in wages or decrease war bond subscriptions	Walter E. Beach - President John P. Gaty - Vice President and General Manager
Woods Aircraft Company, Wichita, Kansas	3,500	95.0	5.0 to 9.0	None	25% to 50% would cancel between 20% and 100% of pledges	W. T. Williams - Chief Cost Accountant
Chicago Surface Lines, (Not a chartered Corporation) Chicago, Illinois	15,288	95.0	2.0	None	Cancellation of approximately 15% of subscriptions and reduction of allotments by balance of accounts	C. W. Meyer - Auditor E. C. Burke - Assistant Auditor
Jackson Ready Iron Works, Sunnyvale, California	2,500	70.0	10.0	None	Some reduction in about 25% of employees in low income bracket	Mr. Bostala - Assistant Comptroller Mr. Kalin - Large Stockholder - Director V. F.
Louisville & Nashville Railroad Co., Louisville, Kentucky	22,222	70.0	5.5	None	Some reduction in lower income group	E. J. Engler - Assistant to Comptroller W. H. Miller - Auditor of Measurement

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PAYROLL ALLOTMENT PLANS FOR PURCHASE OF WAR BONDS

Part 1. - Employers with War Bond payroll allotment plan in effect who believe such plan would be adversely affected - Continued

Name of employer and address	Average number of employees on payroll in each payroll period	Percentage of employees participating	Percentage of total payroll for War Bonds	Effect of collection at source on War Bond payroll allotment plan	Effect of collection at source on War Bond payroll allotment plan		Name and title of officers interviewed
					On employer	On participation - Employer's view point	
Public Service Company of Colorado, Denver, Colorado	2,800	90.0	2.8	None	Reduced by the amount of income tax withheld		J. E. Loisman - Vice-Pres. and Secr. W. D. Virton - Asst. Secr. and Chief Accountant
John Scowcroft and Sons Company, Opden, Wash	166	100.0	5.0	None	Cancellation of 50% of purchases. Larger salaries would switch from bonds to tax certificates		J. Fletcher Scowcroft - President J. S. Allan - Auditor
Thomas Quilt Factories, Denver, Colorado	55	70.0	2.5	Yes. Would not feel free to promote war bond plan	To some extent		Erlyn K. Hamilton - Office manager Philip A. Simpson - Chief Accountant
The Hotel Bond Company, Hartford, Connecticut	409	40.0	4.0	Would cut down time and effort on war bond drive	Reduce pledges 50% because of objection to two deductions		Edmund J. Glas - Treasurer
Hotel Breton Hall (Hallbrett Realty Corporation), New York, New York	Not available	90.0	6.0	None	Employees could not afford bond purchases		Sam Rosen - President
Hotel Chalfonte, New York, New York	Not available	70.0	7.5	None	Employees could not afford bond purchases, would be discontinued		John Forward - Auditor
Lansdowne Steel and Iron Company, Merton, Pennsylvania	248	90.0	7.2	None	Relatively few will reduce their purchases		William G. Fitzgerald Jr., Asst. Secr. and Treas.
Lit Brothers, Philadelphia, Pennsylvania	4,500	52.0	2.6	None	Extent of reduction in purchases unknown, but many would be unable to carry both		Bernard Brown - Comptroller H. S. Draper - Asst. Comptroller
Penn Mutual Life Insurance Co., Philadelphia, Pennsylvania	1,800	90.0	5.0	None	Reduce purchases		Charles H. Yardley - Comptroller Walter H. Oswald - Personnel Director
Philadelphia National Bank, Philadelphia, Pennsylvania	925	90.0	4.0	None	Stabilized salaries and increased costs will cause reduction in bond purchases		Mr. John T. Hum - Asst. Cashier and Personnel Wallace W. Moir - Chief Works Accountant
Phileo Corporation, Philadelphia, Pennsylvania	4,000	91.5	4.5	Considerable added expense would be involved	Decrease participation to an unknown extent		William B. Toder - Assistant to Treas.
Traver Thread Company, Central Falls, Rhode Island	175	25.0	2.0	Increase difficulty of promoting bond purchases	Employees now claim they cannot afford bonds, would be worse if tax deducted		Thomas F. Mahoney - Vice President Gertrude Flinn - Secretary
Surco - Dupont, Inc., New York, New York	Not available	100.0	8.0	None	Lower paid employees would reduce their purchases		Edward F. Galvin - Cashier
Southern New England Telephone Co., New Haven, Connecticut	8,000	95.0	9.0	None	Expect to increase bond purchases if now, but tax would reduce again to present percentage		G. Gordon Copeland - Secr. and Treas. A. J. Alax - Chief Accountant
Universal Optical Company, Providence, Rhode Island	195	50.0	2.5	None	Some employees would discontinue bonds		E. J. Murray - Vice President E. O. Smith - Asst. Treasurer
Wabaco Elevator Company, New York, New York	200	100.0	10.0	Additional bookkeeping would curtail bond activities	Some - though not many - employees would reduce their bond purchases		Mr. Percyser - Comptroller
Anderson-Prichard Oil Corporation, Subsidiaries, Oklahoma City, Oklahoma	520	100.0	10.0-11.0	None	Reduction in bond purchases approximating amount of tax		T. H. Marshall - Secretary Seale Boyd - Tax Accountant
Associated Shipbuilders, Seattle, Washington	4,000-5,500	50.0	4.0	None	10 to 20% reduction in bond purchases		M. B. White - Office Manager Wm. H. Mitchell - Chief Accountant
Black, Sivalls and Bryson, Oklahoma City, Oklahoma	550	60.0	5.0	None	Bond purchases will be reduced by the amount of the tax		Ed Parks - Secr. - Treas.
Boeing Aircraft Company, Seattle, Washington	60,000	55.0	2.2	None	Impossible to estimate effect		H. E. Bowman - Secr. - Treas. John O. Yeating - Asst. Secr. and Treasury
Capital Steel and Iron Company, Oklahoma City, Oklahoma	200	75.0	5.0-6.0	None	50% of the 75% now buying bonds will reduce their purchases by the amount of tax		G. G. Sorenson - President Chris Kramer - Secr. - Treas.
Carolina Life Insurance Company, Columbia, South Carolina	500	12.0	1.0	None	Reduction of bond purchases during first year		Anne Halkinmager - Vice President Wallace Chabon - Secretary
Centennial Flouring Mills Company, Seattle, Washington	600	25.0	3.0	None	From 10 to 20% reduction		Wm. J. Hobbach - Auditor
Continental Oil Company, Ponca City, Oklahoma	5,000	95.0	7.0	None	Considerable effect, both on participation and amount		G. E. Jester - Payroll Accountant E. L. Bosworth - Treasurer
Dennis Mills, Greenville, South Carolina	2,000	50.0	5.0	None	10% reduction - number and amount together		Mr. J. L. Whitley - Asst. Treas.
First National Bank and Trust Company, Oklahoma City, Oklahoma	120	100.0	7.0	None	Depends on wages - if increased, no effect on purchases - if not, decrease		Mr. Igal Barnhart - Comptroller
First National Bank and Trust Company, Tulsa, Oklahoma	240	100.0	10.0	None	Reduction of at least the amount of tax		F. L. Dunn - Exec. Vice President E. W. Pollock - Cashier
Industrial Electrical Company, Seattle, Washington	80	98.0	15.0	None	Reduction by 50%		Edward E. Bayley - Office Manager Louise J. Benedict - Partner
Lake Washington Shipyard, Bingham, Washington	5,046	50.4	4.25	None	Some discontinuance, but total effort very small		Mr. Henry, CPA - Chief Accountant Mr. Watt - Division Head - Acctg. Dept.
Luxington Lumber Company, Columbia, South Carolina	128	86.7	8.0	None	Would discontinue bond purchases unless compulsory		R. A. Haffstetler - Pres. and Treas.
Seattle Car and Foundry Company, Seattle, Washington	1,920	90.0	51.8	None	Employees receiving small wages are bound to discontinue		Mr. Allen - Comptroller Mr. Leman - Chief Accountant

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Part 1. - Employers with War Bond payroll allotment plan in effect who believe such plan would be adversely affected - continued

Name of employer and address	Average number of employees on payroll in each payroll period	Percentage of employees participating in each payroll period	Percentage of total payroll now deducted for War Bonds	Effect of collection at source on War Bond payroll allotment plan		Name and title of officers interviewed
				On employer	On participation - Employer's view point	
A. W. Kelloff Company New York, New York	Not available	80.0	8.0	None	About 25 1/2% reduction	R. E. Austin - General Manager
National Sugar Refining Co. New York, New York	1,400	70.0	8.0	None	May possibly cause a decrease	A. J. Rodin, Treasurer C. G. Klaskal - Asst's Treasurer
Sage's Post Company New York, New York	800	90.0 to 95.0	4.0	None	Would either cancel or reduce pledge.	E. B. Scramm - Asst's Treasurer
Jaw. Schlitz Brewing Company Milwaukee, Wisconsin	Not available	70.0	5.0	None	25% to 35% reduction	Forney Larson - Paymaster V. E. Hermann - Accountant
United States Hoffman Machinery Corporation New York, New York	180	89.8	3.8	Yes - Volume of work might necessitate discontinuing war bonds.	A very considerable number would discontinue or reduce pledges.	C. E. Brewster - Vice President, Secretary, and Comptroller
L. E. Waterman Company New York, New York	Not available	100.0	5.07	None	Average employee would be forced to reduce if not eliminate pledge.	Richard A. Boney - Treasurer
Winthrop Chemical Company New York, New York	560	85.5	2.97	None	It may result in reduction.	John E. Malhera - Treasurer
American Thread Company New York, New York	Not available	80.5	4.5	Yes, involves complete revision of payroll system & increased clerk line. Unable to secure adequate payroll machine equipment.	Many employees will drop Bond Plan or reduce same.	A. L. Zimmerman - Treasurer
Anderson-Clayton Los Angeles, California	80	100.0	14.7	None	Some reduction. Employees on lower wages will feel effect first.	L. J. Brungs - Secretary H. L. Lemmett - Vice Pres. and Treas.
The Elmore Hotel Los Angeles, California	1,500	78.0	5.6	None	25% to 35 1/2% reduction if not entire cancellation of Bond Plan.	J. H. Jefferson - Auditor
Citizens National Trust & Savings Bank Los Angeles, California	740	57.0	2.8	None	Will cause some reduction of Bond Plan.	F. E. Alford - Cashier W. E. Pimney - Auditor
Douglas Aircraft Co., Inc. Santa Monica, California	1941-28,500 1942-80,000 (est.)	84.0	4.8	None	Reduction to a material extent	H. W. Strangman-Asst's Comptroller G. B. Barlow-Paymaster
Lockheed Aircraft Corp. Burbank, California	55,752	56.5	1.8	None	Employee will drop Bond purchase.	E. V. Sauspeon-Supervisor of reports and Statistics Paul Burger - Head of Tax Division
Kishfield Oil Corporation Los Angeles, California	5,500	87.0	6.0	None	Materially adverse affect.	M. H. Gross - Treasurer C. W. Coughlin-Mgr. of Fed. & State Tax Department
Thames Bookery Company, Inc. Los Angeles, California	180	41.0	9.0	None	50% would stop Bond plan.	Albert F. Fischer-Office Mgr. Fred H. Banks-Pres. and Gen'l. Mgr.
Dean Dress Company New York, New York	300	100.0	10.0	Yes-Increased book-keeping will force us to curtail activities.	Will cut down on Bond purchases in many cases.	E. Asher - Chief Bookkeeper
Brown and Sharpe Mfg. Co. Providence, Rhode Island	10,500	95.0	8.0	Yes-Would ease up on drive	Many would stop or cut down on Bond Plan.	J. A. Newton - Secretary F. P. Austin, Jr.-Comptroller and Assistant Treasurer
Burlington Mills Corp. of N. Y. New York City, N. Y.	1,800	99.0	12.5	None	Some reduction.	Thomas J. Mallon - Treasurer
City of New Haven New Haven, Connecticut	4,198	77.0	5.0	None	No estimate of reduction could be made.	Cecil J. Marlowe-Controller Timothy J. Foley-Deputy Controller
Galt's Patent Fire Arms Mfg. Co. Hartford, Connecticut	14,780	80.0	4.0	None	Would reduce the amount of individual subscription and probable cancellation of same.	E. Bowman - Assistant Treasurer H.O. Byrwell - Head of Accounting Department
Columbia Mills Inc. New York, New York	Not available	82.0	7.0	None	Two years taxes in one year will leave little for purchase of Bonds.	C. A. Cato - Comptroller
D. Davies and Company New Haven, Connecticut	178	77.0	7.0	None	Percentage of participation will be reduced to 55%.	G. M. A. Costello-President Paul Gates - Treasurer
Fels and Company Philadelphia, Pennsylvania	500	80.0	5.0	None work and change of records.	Too burdensome.	E. L. Meister - Treasurer
G. Fox and Company Hartford, Connecticut	2,500 to 3,000	92.5	7.5	None	Reduce employees pledges normally.	Samuel Einstein-Comptroller
Green Bird Incorporated New York, New York	100 in rush season	100.0	10.0	None	Out Bond purchase to 85%.	Max Greenfelg - President
H. F. Kirsch, Inc. New York, New York	120	99.9	10.0	None	To full extent of the allotment plan.	Milton Rosenberg - President
Malverine Tube Division Detroit, Michigan	1,000	88.0	7.0	None	Little effect-Expect some of the employees to cash in Bonds to pay 1943 income tax.	V. D. Renna-Asst's Treasurer William DeLaff-Asst's Payroll Supervisor
S. G. N. Y. 303 Lake City, Wash	84,000	96.0	5.0	None	If Inc. Tax withheld is only 85 only a few will reduce their Bond purchase. If 100 is withheld a considerable number might reduce pledges.	J. E. Ellmann - Head of Accounting Department
Mountain States Telephone and Telegraph Company Denver, Colorado	8,700	81.0	5.0	None	Many employees will reduce their purchases to offset a part of the withheld tax.	F. E. Hamilton-Gen'l. Auditor E. H. Beckman-Vice-Asst's
Mountain States Telephone and Telegraph Company Denver, Colorado	800	90.0	7.0	None	To the extent of Tax withheld by a large part of employees.	E. C. Weston-Controller

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Name of employer and address	Average number of employees on payroll in each payroll period	Percentage of employees participating	Percentage of total payroll deducted for War Bonds	Effect of collection at source on War Bond payroll allotment plan	Effect of collection at source on War Bond payroll allotment plan		Name and title of officers interviewed
					On employer	On participation - Employer's view point	
American National Bank, Nashville, Tennessee	219	95.0	5.0	None	None	Because of increased living expenses, increased income tax the average employee would discontinue the Defense Bonds - Will not affect the officers	G. Arntstead - Assistant Vice President
Atlantic Wire and Cable Co., New York, New York	8,000	79.0	5.4	Yes - Would require more personnel	None	Extent cannot be approximated, but payroll Bond Savings may be reduced	A. E. Post - Secretary & Treasurer W. J. Ritter - Office Manager
Bristol Myers Company, Hillside, New Jersey	950	80.0	2.5	None	None	Low income group might discontinue purchase of War Bonds. Probably very minimal in total amount	H. C. Todd - Chief Accountant
Burt and Company, Nashville, Tennessee	50	70.0	2.0	None	None	Any further deduction will reduce the purchase of War Bonds	Burt and Fensterwald - Partner
Coca Cola Bottling Co., Gen. Office (Partnership), Richmond, Virginia	700	92.0	8.0	-	-	50%, largely affect the employees	Fred I. Hobbs - Partner and Secretary & Treasurer
Concord Clothes, Inc., New York, New York	50	Near 100.0	8.0	None	None	Allotment to War Bonds would probably be reduced at least 50%	Benjamin Lifton - Treasurer
Conglomer - Kalm, Inc., Kearney, New Jersey	3,150	95.0	3.7	None	None	White collar worker may have to curtail purchase of War Bonds. This would have only slight effect on percentage of payroll allotment.	F. L. Ketterer - Comptroller
Crystal Block Coal and Coke Co., Huntington, West Virginia	800	85.0	4.0	None	None	Would not affect participation, but would reduce the net amount received	L. E. Wood - President J. D. Kingston - Secretary
The Fidelity and Casualty Co. of New York, New York	2,980	70.0	3.0	None	None	A contemplated collection of two years' tax would affect participation	Wm. E. Ashers - Social Security Manager Wm. H. Bass - Comptroller
Firmen's Insurance Co. and Subs. Newark, New Jersey	2,000	App. 95.0	5.5 Nov 5.5 in Aug.	None	None	Would probably affect the amount of pledged allotment rather than the participants	E. Anthony - Assistant Treasurer Mr. Potter - Payroll Dept.
Fifth Place Co., Inc., Newark, New Jersey	80	100.0	5.0	None	None	At least 25% will ask for discontinuance of War Bond deductions	G. W. Burneister - Office Manager
The Ingalls Shipbuilding Corp., Birmingham, Alabama	5,500	51.3	5.8	Yes - Employees will have to divert their time to tax information	None	Will effect the future participation and reduce present allotment to about 5% of total wages	J. B. Pollard - Comptroller and Assistant Treasurer
Manchester Board and Paper Co., Inc., Richmond, Virginia	180	35.0	2.0	None	None	Would result in fewer employees buying War Bonds	W. T. Oombar - Vice President and Secretary
Marion's Smokeless Coal Co., Huntington, West Virginia	500	55.0	5.0	None	None	Would probably reduce subscription of Bonds 53.8%	H. Y. Smith - Vice President and Comptroller
Miller and Rhoads, Inc., Richmond, Virginia	1,700	40.0	2.8	None	None	50% discontinuance of some and reduction by a large number	T. Y. Bates, Jr. Secretary-Treasurer Frank S. Gill - Personnel Director
Monroe Calculating Machine Co., Orange, New Jersey	1,500	84.7	4.2	None	None	Will not be able to participate as largely in purchase of Bonds - Employer cannot say extent of effect	Demond D. Richardson - Treasurer Miss F. M. Coda - Payroll Supervisor
National Life and Accident Ins. Co., Nashville, Tennessee	4,650	90.0	6.0	None	None	Will probably reduce war Bond purchases by 50% or 75% of the tax withheld	Harold T. Folk - Treasurer C. A. Craig - President
Newark Transformer Co., Newark, New Jersey	90	61.8	5.1	None	None	Will tend to decrease the amount of pledges	Charles Urban - Treasurer
Newport News Shipbuilding & Dry Dock Co., Newport News, Virginia	25,320	84.5	5.0	None	None	Impossible to estimate	E. I. Fletcher - Comptroller M. E. Thomas - Comptrollers' Staff
Prudential Insurance Co. of America, Newark, New Jersey	45,000	99.5	5.5	None	None	Will decrease War Bond subscriptions	W. Chodureff - Assistant Controller F. J. Flatley - Assistant Controller
Riverside and Des River Cotton Mills, Inc., Danville, Virginia	14,000	90.0	5.0	None	None	No way of making a reasonable estimate at this time	T. A. Bassin - Comptroller Paul P. Patterson - Chief Accountant
State Operating Co., Huntington, West Virginia	14	96.0	4.0	None	None	Would cause decrease in subscription to Bonds	S. J. Symm - Vice President
Wertenlyke Mfg. Co., Richmond, Virginia	150	92.5	4.5	None	None	Unable to estimate	A. L. Waldrop - Secretary
Worthington Pump and Mach'y Corp., Harrison, New Jersey	4,775	80.9	2.9	None	None	Will slow up additional participation if it does not come an actual curtailment	Charles A. Packard - Comptroller J. A. Schallenberg - Assistant Comptroller
Overseas Trust Co. of N. Y., New York, New York	5,400	100.0	5.5	None	None	Can't estimate; any deficiency on the part of lower salaried employees may be covered by higher salaried men Some would have to reduce the amount they are now buying	M. Hartines - Chief Clerk for the Bank J. E. Miller - Assistant Chief Clerk
Kline Diamond Coal Co., Knoxville, Tennessee	4,000	57.0	Don't know	None	None		J. L. Kludge - Treasurer
Boeing Airplane Co. (Wichita Division) Wichita, Kansas	14,000	80.0	5.0	None	None	Refused to discuss this point - Impossible to make a guess	Cliff Baron - Asst. Secretary & Treasurer Don Schreffler - Office Manager
Berlington Mills Corp., Greensboro, North Carolina	12,000	71.0	5.1	None	None	It would materially affect the sale of War Bonds, as to extent it is practically impossible to say since operations extend to 11 locations	W. E. Coulter - Secretary & Treasurer W. E. Burroughs - Assistant Treasurer
Cardwell Mfg. Co., Inc., South Wichita, Kansas	400	85.0	4.0	None	None	There would be a reduction in War Bonds allotments but it is impossible to determine the extent	Mrs. M. E. McKee - Secretary E. E. Denver - Electric Acct'y. Machine Supervisor
The Calumet Lamp and Shave Co., Wichita, Kansas	14,000	50.0	5.0	None	None	To extent of tax withheld	J. A. Egan - Asst. Comptroller-Asst. Secy. C. A. Williams - Asst. Accountant

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Name of employer and address	Average number of employees on payroll in each payroll period	Percentage of employees participating	Percentage of total payroll now deducted for War Bonds	None	Effect of collection at source on War Bond payroll allotment plan		Name and title of officers interviewed
					On employer	On participation - Employer's view point	
The Geo. Innes Co., Inc. Wichita, Kansas	800 to 880	90.0	8.0	None		If total of income tax and bond deductions would not be more than 5%, it would not affect payroll allotment plan.	J. A. McFriede-Superintendent
Kansas Gas & Electric Co. Wichita, Kansas	960	24.0	1.6	None		Slight reduction.	E. H. Lyman-Accountant
Rock-Judson, Voehringer Co. of N.C. Int. Greensboro, North Carolina	1,250	64.5	4.7	None		It is believed employees would reduce present payroll allotments between 25% to 50%.	R. E. Williams, Personnel Manager
Accurate Steel Treating Co. Chicago, Illinois	55	98.0	10.0	None		Some employees may be forced to reduce amount of pledge.	W. G. Hamilton - President G. Theotikas - Paymaster
General Mills Inc. Minneapolis, Minnesota	8,600	51.0	5.0	None		Some reduction.	G. C. Ballhorn - Comptroller
Great Northern Railway Co. St. Paul, Minnesota	25,000	51.5	2.5	None		No material effect while the deduction remains at 5%.	George Hess - Comptroller
Higgins Industries, Inc. New Orleans, Louisiana	8,800	66.7	6.7	None		Payroll authorization for bonds might be decreased as much as 50%.	Morris Gottesman - Secretary-Treasurer M. G. Meyrey - Head Bookkeeper
H. W. Holmes Co., Ltd., New Orleans, Louisiana	1,250	100.0	5.0	None		Some reduction.	E. Leebard - President J. F. McDonald - Controller
Howard Clothes, Inc. Brooklyn, New York	5,800	100.0	7.0	None		Employees may curtail or eliminate the bond subscription.	Louis A. Sodakoff-Assistant Treasurer
Jackson Brewing Co. New Orleans, Louisiana	815	100.0	4.0	None		Some reduction.	Jas. Pasquier - Secretary J. E. Brea - Auditor
The Liquidometer Corp. Long Island City, New York	1,000	95.0	15.0	None		Reductions to allow for the 5% correction at source.	H. A. Kuroski - Secretary-Treasurer
Lyles Bros. S. S. Co., Inc. New Orleans, Louisiana	5,000	97.0	6.0	None		Small reduction.	C. A. Palmer - Assistant Treasurer E. P. Grigg - Auditor
Mask Trucks Inc. (Parent) Long Island City, New York	11,074	Not Available	Not Available	None		Some reduction.	J. Savacool - Vice President-Comptroller H. Conklin-Auditor
Minneapolis Gas Light Co. Minneapolis, Minnesota	805	77.5	4.0	None		It will affect everyone working on a close margin.	M. D. Reed-Assistant Vice President- Assistant Treasurer
Minneapolis Honeywell Regulator Co. Minneapolis, Minnesota	5,847	89.0	4.5	None		Those operating on a close margin would drop bond subscription.	Mr. Wernicke - Comptroller
Minneapolis-Moline Power & Equipment Co., Minneapolis, Minnesota	5,200	95.0	9.25	None		Believe bonds to be cashed to pay 1942 income tax.	E. L. Angle - Treasurer
Northland Electric Company Minneapolis, Minnesota	37	90.0	9.0	None		50% couldn't afford bonds. Would affect all low wage earners.	W. H. Villet - Treasurer
F. H. Peary & Co. Minneapolis, Minnesota	665	96.0	9.9	None		Affect all on a close margin.	J. B. Tompston - Treasurer
Pillsbury Flour Mills Company Minneapolis, Minnesota	5,558	61.65	5.81	None		Reduction not ascertainable with any degree of certainty.	A. E. Rolts - Employee in charge of all tax matters
John W. Thomas & Co. Minneapolis, Minnesota	500	90.00	5.0	None		Reduction of subscriptions by 50% of employees.	E. A. Fountain - Treasurer
Times-Picayune Publishing Co. New Orleans, Louisiana	870	91.0	4.0	None		Some reduction.	H. A. Davis - Secretary
Twin City Rapid Transit Company Minneapolis, Minnesota	2,600	81.0	4.5	None		Some reduction.	S. Mac Donald - Secretary
Wesson Oil & Snowdrift Co., Inc. New Orleans, Louisiana	12,000	Not Available	Not Available	None		Possible reduction.	J. A. Ryan - Vice President
Whitney National Bank New Orleans, Louisiana	825	100.0	4.0	None		Little effect.	James Gilly - Vice President John C. Shea - Auditor
Continental Supply Company Dallas, Texas	450	75.0	8.0	None		Some reduction.	E. E. Kelly, Auditor and Ass't. Treasurer E. F. Kemp - Assistant Treasurer
Humble Oil & Refining Company Houston, Texas	12,900	45.0	5.5	Extra Work.		Some reduction.	Guy Carroll - Comptroller E. E. D'Alley - Research Supervisor
Lone Star Gas Company Dallas, Texas	5,900	90.0	7.0	None		75% cancellation.	T. J. Ohl, Secretary H. G. Cornalizer, Treasurer
The Texas & Pacific Railway Co. Dallas, Texas	9,864	65.0	5.0	None		Some reduction.	F. R. Latimer - General Auditor H. A. Phillips - Assistant General Auditor
Trinity Portland Cement Co. Dallas, Texas	700	44.7	2.78	None		Reduce purchases 50%.	C. M. Hillman - Ass't. Treasurer and Secretary
J. Walgarten, Inc. Houston, Texas	650	Approx 85.0	6.25	None		Reduce purchases 50%.	P. O. Fleet - Secretary and Treasurer

ANALYSIS OF FIELD INQUIRY ON EFFECT OF COLLECTION OF PART OF THE REGULAR INCOME TAX AT SOURCE ON PAYROLL ALLOTMENT PLANS FOR PURCHASE OF WAR BONDS

Part 1. - Employers with War Bond payroll allotment plan in effect who believe such plan would be adversely affected--Continued

Name of employer and address	Average number of employees on payroll in each payroll period	Percentage of employees participating	Percentage of total payroll now deducted for War Bonds	Effect of collection at source on War Bond payroll allotment plan		Name and title of officers interviewed
				On employer	On participation - Employer's view point	
National Valve and Mfg. Company Pittsburgh, Pennsylvania	880	85.0	9.0+	None	Some reduction in bond purchases.	G. B. Burton-Secretary-Treasurer
Nebraska Consolidated Mills Co. Omaha, Nebraska	480	80.0	7.0	None	Expect 40% of lower salaried employees to reduce purchases. Expect 20% reduction in total amount of present purchases.	Leo Tucker, Auditor Mr. J. E. Weaver - Secretary
New England Telephone & Telegraph Company Boston, Massachusetts	\$1,400	95.8	4.0	None	Expect reduction.	John Y. Conway-Public Relations Supervisor Gordon C. Stanley-Auditor of Disbursements.
Northwestern Bell Telephone Co. Omaha, Nebraska	15,700	reg. 98.17 temp. 48.61	9.44 5.27	None	Small percentage will probably find it necessary to reduce their purchases.	V. A. Hessel-Chief Accountant D. H. Mitchell-Payroll Accountant
Northwestern National Insurance Co. Milwaukee, Wisconsin	450	48.0	5.0	None	Expect reduction as social security, bonds, unemployment, etc., is too much.	Mr. R. A. Schmidt-Secretary Mr. Eugene Oesper-Manager of the Personnel Department
F. E. O'Hair Plumbing Supply Co. San Francisco, California	84	48.0	2.0	None	Unknown. Would probably continue purchases in smaller amounts.	Mr. Nelson - Comptroller
The Old Quaker Company New York, New York	1,000	95.0	5.5	None	Average wage under \$1400. Will probably be forced to reduce bond purchases.	Mr. John Bergman-Ass't. Accounting Chief Accountant Mr. J. Ratner-Aiding Chief Accountant
Omaha Cold Storage Omaha, Nebraska	1,080	81.0	5.0	None	Estimate 75% of employees would reduce bond purchases. Estimate 50% reduction of amount of present purchases.	J.M. Jewell-Vice-President and Treasurer F. E. Crowley - Secretary
Osar, Incorporated Omaha, Nebraska	8,000	80.0	6.0	None	Estimate 50% of employees will reduce bond purchases, causing average reduction of 15%.	E. L. Wadley-Assistant Treasurer
Parson and Gallagher Company Omaha, Nebraska	880	87.6	1.5	None	Reduction of at least 25%.	A. E. Salmen - Accountant
Piedmont and Northern Railway Co. Charlotte, N. C.	485	41.88	2.49	None	About 25% of payroll allotments will be cancelled.	Mr. E. B. Harding - Treasurer
Pittsburgh Coal Company Pittsburgh, Pennsylvania	9,600	97.0	5.0	None	Purchases would be substantially reduced.	John L. Ash - Comptroller Edward Haag-Manager, Tax Dept.
Queen City Cosh Company Charlotte, North Carolina	850	50.0	5.0	None	Expect employees to reduce amount of purchases by amount of tax.	Mr. H. G. Holder - Comptroller Mr. E. A. Ray - Treasurer
Washington Band, Incorporated Buffalo, New York	18,000	65.0	4.0	None	Expect small percentage of employees to reduce or cancel purchases.	A. H. Emble - Comptroller
Rochester Packing Company, Inc. Rochester, New York	480	98.0	4.5	None	Very materially. Employees would want more wages to cover tax.	Mr. John J. Burke, Treasurer Mr. Deane Erwood, Cost Accountant and Assistant Off. Mgr.
Safeway Stores, Incorporated Oakland, California	4,000	55.0	4.5	None	Some employees in lower pay group would be unable to pay both.	Thomas M. Fyne-Head, Tax Dept.
Sears, Roebuck and Company Chicago, Illinois	105,000	66.8	5.88	Would add clerical work.	Not only decrease purchases, but hardship would cease cashing of bonds purchased.	G. E. Hume-Comptroller-Secretary A. Carlson-Head of Purvot Company Accounting Department
Spencer Lens Company Buffalo, New York	2,100	55.0	2.8	None	Increased deductions would tend to decrease bond purchases.	Rymet Glenn - Treasurer
A. E. Staley Manufacturing Co. Decatur, Illinois	2,000	85.17	5.75	None	Would cause lower standard of living, as well as decrease in bond purchases.	E. E. Bass - Treasurer
Steinle Stores, Incorporated Louisville, Kentucky	870	80.0	5.0	None	Would eliminate large percentage of purchases. Expect percentage of payroll to drop from 5% to 3%.	Robert E. Lemfer - Auditor Second Office Manager
Switlik Perambate Co. (partnership) Trouton, New Jersey	800	100.0	11.5	None	Expect 25 would want to stop purchases.	Stanley Switlik, principal partner C. J. Glaser, Office Manager
Citico Service Oil Co. (Pa.) New York City, N. Y.	4,000	80.0	5.5	Yes- Would create considerable more work.	20% to 25% decrease	A. E. Jensen - Manager Personnel Department W. E. Gass - Ass't Secretary
Cohen Goldens and Company New York, New York	450	90.0	7.5	Yes- Tremendous task of keeping separate records.	20% decrease	David Rosenberg - Secretary
Consolidated Edison Co. and System Companies New York, New York	Not Available	90.0	5.5	None	Would reduce to some extent proportionate to amount of tax.	F. W. Epperlein - Manager of Social Security Tax Division F. W. O'Brien, Treasurer
Dun and Bradstreet, Inc. New York, New York	1,540	88.0	5.5	None	25% reduction	M. V. Hume - Comptroller
Goodstein Bros. and Co., Inc. New York, New York	1,000	80.0	10.0	None	Would probably cause reduction.	Morris H. Goldstein-Ass't Manager Albert Goodstein - President
Sears's Department Store, Inc. New York, New York	1,800	90.0	5.0	None	Anticipate some cancellations.	George W. Levin, Comptroller
State Insurance Company New York, New York	2,000	100.0	5.0	None	Taxes will prevent such participation in bond purchases.	Walter E. Lister - Comptroller
International Hikal Co., Inc. New York, New York	400	85.0	7.57	None	Reduce purchase allotment among low salaried persons.	Charles Leonard-Ass't to Ass't Treas. Harold Clark - Ass't Treasurer
Long Change Restaurant New York, New York	800	88.0	5.0	None	50% reduction expected.	Wallace Platt - Chief Accounting

ANALYSIS OF FIELD INQUIRY ON EFFECT OF COLLECTION OF PART OF THE REGULAR INCOME TAX AT SOURCE ON
PAYROLL ALLOTMENT PLANS FOR PURCHASE OF WAR BONDS

Part 1. - Employers with War Bond payroll allotment plan in effect who believe such plan would be adversely affected - Continued

Name of employer and address	Average number of employees on payroll in each payroll period	Percentage of employees participating	Percentage of total payroll War Bonds	Effect of collection of source on War Bond payroll allotment plan	Name and title of officers interviewed	
						On employer
Hins and Lovett Grocery Company, Jacksonville, Florida	1,000	Over 80.0	4.0	None	Lower bracket wage earners would cancel pledges	E. W. Devenough, Secretary-Treasurer
Gulf Oil Corporation, Pittsburgh, Pennsylvania	28,754	75.0	6.0	None	Some reduction	J. E. Salson - Vice-President & Treasurer E. A. Sidney, Vice-President & Comptroller
Harnischfeger Corporation, Milwaukee, Wisconsin	8,400	80.0 to 88.0	8.0 to 9.0	None	Material reduction in lower wage brackets	F. J. Harman - Asst. Treasurer
Hart, Schaffner and Marx, Chicago, Illinois	4,000	99.9	10.0	Would slow up bookkeeping and bond delivery	Would reduce purchases from present 10% to 5% or even 1/2%	T. E. Devien - Auditor
Hess-Atlas Glass Company, Wheeling, West Virginia	7,242	45.0	2.5	None	Bond purchases would increase materially if tax deduction is not made effective	F. C. Barton - Comptroller
Johns-Manville Corp. and Subs., New York, New York	15,000	98.0	5.5	None	Some reduction	Roger Mackay - Asst. Treasurer
Joseph Horne Company, Pittsburgh, Pennsylvania	2,500	98.0	4.0	A more intensive effort would have to be made to maintain present deduction	Too hard on the rank and file	W. E. O'Brien - Asst. Comptroller O. K. Hall - Paymaster and Cashier
Keteler Brothers Company, Baltimore, Maryland	2,209	80.0	6.05	None	Would buy less and probably some would buy none at all	F. F. Swann, Comptroller F. W. Zabel, Asst. to Comptroller
Arkansas Natural Gas Corp., Shreveport, Louisiana	2,980	80.0	6.0	None	10% of employees would cancel or reduce bond purchases	T. J. Beard - Secretary
Invester Aeronautical Corp., Long Island City, New York	12,880	70.0	6.0	None	Some cancellations	W. E. Farrell - Employee Tax Accountant
Cargill, Inc., Minneapolis, Minnesota	1,500	82.0	6.0	None	Low salaried employees working on a close margin	E. Semach - Controller
Detroit Wax Paper Company and five subsidiaries, River Rouge, Michigan	800	99.0	8.0	None	Some reduction	Donald Hols - Secretary John F. Cotten - Comptroller
Exposition Cotton Mills Co., Atlanta, Georgia	2,000	29.0	1.7	None	Some reduction	J. E. Dear, Jr. - Secretary and Treasurer
First Security Trust Company, Salt Lake City, Utah	72	98.0	6.0	None	Reduction equal to 80% or 80% of amount of tax withheld	T. F. Hicks - Cashier
Frost Lumber Industries, Shreveport, Louisiana	2,400	80.0	6.0	Amount of detail work might lessen inclination to push purchases of bonds	Some cancellations	E. E. Howell - Secretary-Treasurer
Fulton Bag and Cotton Mills, Atlanta, Georgia	2,700	4.0	0.5	None	Slight reduction	Norman Klase - President C. E. Chaney - Cost Accountant
Gaylord Container Company, St. Louis, Missouri	2,500	75.0+	5.0	None	Lower salaried groups will reduce purchases by amount of tax withheld	Mr. Odell - Secretary Mr. Kalkfield - Auditor
Holley Carburetor Company, Detroit, Michigan	2,200	84.0	5.0	None	Some reduction	Earl Holley - President E. Maggitt, Asst. Treasurer
Miss Hallings Cafeteria, Inc., St. Louis, Missouri	200	80.0	7.0	None	If tax too large, probable cancellation of bond purchases	O. C. Steinmetz, Auditor
International Smelting and Refining Company, Salt Lake City, Utah	900-950	90.0	6.5	None	40 to 50% reduction in pledges	Rosalyn Warburton - Chief Auditor
Ervy Packing Company, St. Louis, Missouri	1,000	40.0	2.0	None	Reduce or eliminate present purchases	C. E. Hinchel - Secretary
E. S. Lotowansky, Inc., Peoria, Illinois	2,200	95.0	6.0	None	Reduction by the amount of tax withheld	W. E. Sumner - Office Manager Marle E. Tomlin - Treas. and Controller
Louisville Cement Corporation, Speed, Indiana	800	80.0	4.0	Added personnel and equipment resulting in more expense	Marked reduction in purchases	Inland Whitney - Secretary E. W. Overly - General Auditor
The Dry Department Stores, St. Louis, Missouri	4,200	98.58	10.42	None	Large reduction	Morton J. May - President Lee J. Wack - Secretary
McLouth Steel Company, Detroit, Michigan	250	100.0	6.4	None	General reduction in pledged amounts	H. A. Oulip - Vice-Pres. & Treas. E. O. Timm - Auditor
Mississippi Glass Company, St. Louis, Missouri	1,000	80.0	4.0	None	Reduction in the amount of tax withheld	J. E. Johnson - Office Manager
Monroe Chemical Company, St. Louis, Missouri	7,287	96.54	12.0	None	10% would reduce pledge some amount as tax, but in time probably would return to same basis	F. H. Sheehan - Controller F. J. Dowd, in charge of Payroll and Pension Department
Swearing Mill Company, Salt Lake City, Utah	140	10.0	1.5	None	Talk of payroll deduction for taxes has already effected pledges - no further reduction would result	Alan J. Mann - Secretary-Treasurer
Gen. Shaw Clothing Company, Atlanta, Georgia	114	80.51	3.0	None	Between 15% and 20% cancellations	J. Harry Alexander - President A. Leon Stipe - Secretary & Controller
Old National Bank in Evansville, Evansville, Indiana	55	100.0	5.0	None	Some reduction	E. D. Watkins - President O. E. Eberhart - Asst. Cashier-Auditor
E. L. Pelt and Company, Detroit, Michigan	1,000	85.0	4.0	None	Some cancellations and reduction	A. Ervst - Comptroller W. H. Hammett - Asst. Treasurer
Progressive Welder Company, Detroit, Michigan	588	91.0	7.5	None	Some reduction	E. E. Tomlin - Office Manager

ANALYSIS OF FIELD INQUIRY ON EFFORT OF COLLECTIONS OF PART OF THE REGULAR INCOME TAX AT SOURCE OF
PAYROLL ALLOTMENT PLANS FOR PURCHASE OF WAR BONDS

Part 1. - Employers with War Bond payroll allotment plan in effect who believe such plan would be adversely affected - Continued

Name of employer and address	Average number of employees on payroll in each period	Percentage of employees participating	Percentage of total payroll now deducted for War Bonds	Effect of collection at source on War Bond payroll allotment plan		Name and title of officers interviewed
				On employer	On participation - Employer's view point	
The Maryland Drydock Company, Baltimore, Maryland	6,000	80.0	4.0	Yes - Additional Personnel & Equipment required	Would decrease amount available for war bonds and might possibly mean elimination of all sales	H. S. Jackson - Secretary
McCrack & Company, Incorporated, Baltimore, Maryland	700	100.0	7.0	None	Unknown - the psychological effect may be bad	Brocke E. Parr - Treasurer & Comptroller
New York Shipbuilding Corporation, Camden, New Jersey	27,000-30,000	80.0	10.0	None	Employees will reduce subscriptions to the extent of the proposed tax	Charles H. Dore - Comptroller Joseph F. Bradley - Head of Tabulating Division
Saugan Electric Company, Springfield, Illinois	1,875	72.0	4.2	None	About 50% reduction	Genl Clark - Comptroller
Wiam & Company, Incorporated, (Del.) Chicago, Illinois	27,000	95.0	5.5	None	Many would reduce and others would discontinue participation	George D. Hopkins - Secretary L. W. Dolly - Staff Assistant to the Vice President of Operation
Johnson Service Company, Milwaukee, Wisconsin	480	52.0	8.1	None	If larger than 25 it would affect war bonds	Louis V. Lackyasz - Cashier and Office Manager
American Bakeries Company, Atlanta, Georgia	2,000	96.0	9.1	None	A few of the smaller salaried employees would cease participation and the larger salaried employees would reduce their 50% of tax deduction	C. S. Broome - President E. J. Babry - Secretary & Treasurer
Antisauer-Busch, Incorporated, St. Louis, Missouri	5,000	Plant 60.0 Office 99.0	Plant 5.0 Office 5.0	Yes - Employer & unions to campaign August 1 for 10% subscription. Withholding tax plan would be a stumbling block	Employees would offer more resistance and result in a possible shrinkage of 40% in present subscriptions	J. E. Ritter - Assistant Secretary M. D. Waters - Tax Accountant
Atlanta Gas Light Company, Atlanta, Georgia	1,000	95.0	4.0	None	Reduction of 25% to 50% of the amount deducted for taxes	E. T. Anderson - Assistant Treasurer
Atlantic Company, Atlanta, Georgia	3,000	40.0	5.0	None	Some reduction	H. M. Snider - Treasurer E. H. Crooks - Manager Social Security
Atlantic Steel Company, Atlanta, Georgia	1,500	98.0	5.0	None	Adjustment to extent of Tax deduction	Paul Miller - Treasurer
Bundy Tinting Company, Detroit, Michigan	1,200	62.0	4.4	Yes - Additional work and time may restrict time allowed for Bonds	50% reduction in bonds now being purchased	Mr. Smith - Vice President and Comptroller
Campbell Coal Company, Atlanta, Georgia	500 to 550	90.0	2.5	None	Some reduction	G. F. Heath - Assistant Treasurer V. E. Tipton - Auditor
Caterpillar Tractor Company, Peoria, Illinois	15,400	85.0	7.0	None	About 50% reduction	E. Bernstein - Secretary
Colonial Store, Inc. (Southern Div.), Atlanta, Georgia	5,800	70.0	3.7	None	About 25% to 50% of the amount deducted for taxes	E. B. Jackson - Treasurer
Davidson Brothers, Incorporated, Detroit, Michigan	1,650	70.0	4.2	None	Only a small adverse effect	J. Davidson - President J. Abel - Controller
Jones & Laughlin Steel Corporation, Pittsburgh, Pennsylvania	37,500	95.0+	10.0+	Entail such more payroll work - separate card for each employee	About 50% of employees would reduce bond purchases by half	W. J. O'Leary - Vice President W. E. Dapka - Comptroller
Kearney & Trecker Corporation West Allis, Wisconsin	5,500	90.0+	12.9	None	Reduction of 15 to 25%	E. L. Scofield - Comptroller F. E. Duke - Cost Accountant
Kieball Laundry Company, Omaha, Nebraska	240	40.0	20.0	None	Small reduction	E. H. MacDougal - Office & Credit Manager A. J. Jacobberger - Secretary
The Kleinsch Company, Buffalo, New York	575	80.0-85.0	5.0-7.0	None	Substantial reduction	H. M. Ostick - Vice President
Loan Star Cement Company New York, N. Y.	2,200-2,500	87.0	4.1	Would need larger staff to handle additional payroll accounting	Current salary will not afford both deductions	Mr. Lemasters - Treasurer
Louisville Fabric Mill, Louisville, Kentucky	8	75.0	5.3	None	Materially affect or eliminate bond purchases	Mr. J. Lamm - Manager Miss Agnes Waltrip - Bookkeeper
Louisville Gas & Electric Company, Louisville, Kentucky	2,078	82.32	2.14	None	Bond subscriptions will be reduced or obsolete - extent cannot be determined	F. J. Pfeiffer - Secretary L. E. Ackerson - Assistant Secretary - Treasurer
The Glenn L. Martin Company, Baltimore, Maryland	46,647	35.0	1.8	If unable to make both deductions, will drop bonds, as tax compulsory	Expect many cancellations of bonds	Mr. Schenck - Comptroller Mr. Lucas - Auditor
The Hugel Company, Louisville, Kentucky	8,500	85.0-100.0	5.0-10.0	None	May cause union to demand increased wages to cover taxes, as well as decrease in bonds.	Arthur M. King - Assistant Treasurer Charles C. Peters - Head Tabulating & Payroll Dept.
W. W. Miller, Jr. V/A Miller Motor Express, Charlotte, North Carolina	180	96.0	4.0	None	Allotments will be reduced by one half amount of tax	Mr. W. C. Delaney - Chief Accountant
Wooler Company, Decatur, Illinois	1,200	61.0	7.0	None	Estimate 50% reduction	O. C. Keil - Comptroller J. W. Walls - Secretary
Wyers Brothers, Springfield, Illinois	500	90.0-95.0	2.5	None	About 25-30% reduction	C. E. Dummer - Assistant Credit Manager
National Milliners Products Corp., New York, N. Y.	4,000	65.0	1.0	Increase payroll work and require more payroll personnel	Present deductions would be materially reduced	J. F. Whalen, Assistant to Comptroller W. H. Boyce - Assistant Treasurer
National Service and Supply Company, Pittsburgh, Pennsylvania	125	85.0	4.25	None	Employees might be compelled to reduce bond subscriptions due to heavier taxes	W. J. Roderich - Assistant Secretary

ANALYSIS OF FIELD INQUIRY ON EFFECT OF COLLECTION BY PART OF THE REGULAR INCOME TAX AT SOURCE ON
PAYROLL ALLOTMENT PLANS FOR PURCHASE OF WAR BONDS

Part 1. - Employers with War Bond payroll allotment plan in effect who believe such plan would be adversely affected - continued

Name of employer and address	Average number of employees on payroll in each payroll period	Percentage of employees participating	Percentage of total payroll now deduct- ed for War Bonds	Effect of collection at source on War Bond payroll allotment plan		Name and title of officers interviewed
				On employer	On participation - Employer's view point	
Engly Manufacturing Co., Denver, Colorado	1,800	89.0	Not available	None	To the extent of Income Tax withheld	Charles Bayly - Jr. Vice President V. J. Spencer - Accountant for Company Hermon B. Cohen - Accountant for the company
Cable Raincoat Company, Boston, Massachusetts	1,800	20.0	2.0	Yes - Extent unknown	Some reduction	James E. McFallen - Controller
Colorado Fuel and Iron Corporation, Denver, Colorado.	12,000	85.0	5.0 to 6.0	None	Some reduction	E. W. Kelly - Treas. & General Auditor
The Colorado Milling and Elevator Company, Denver, Colorado	1,100	80.0	5.5	None	Large reduction in lower wage brackets	Walter Beams, Treasurer
Daniels & Fisher Stores Co., Denver, Colorado.	720	90.0	4.0	None	Large reduction	Walter A. Friend - Vice President Edmund J. Coyle - Comptroller
Friend Brothers, Inc., Melrose, Massachusetts.	480	25.0	2.0	None	Lower salaried persons would cancel Higher salaried persons would reduce	R. E. Jensen, Tax Accountant O. P. Dittman, Chief Accountant
The Great Western Sugar Company, Denver, Colorado.	3,000	72.0	7.0	None	Some reduction	H. V. Waterman - President E. R. Fell - Accounting Manager
Hendrie & Beethoff Mfg. & Supply, Denver, Colorado.	465	50.0	3.3	None	About a 5% reduction	G. F. Counts - Comptroller Mr. Ballyntine - Auditor
Ideal Cement Company, Denver, Colorado.	1,500	79.6	9.0	None	Large reduction	A. H. Yeast, V. Pres. and Cashier M. Perry - Auditor
Peoples National Bank, Seattle, Washington.	250	65.0	3.0	None	Small wage earners will discontinue Bond Subscription	R. M. Higgins - Treas. Warren Stone - Paymaster
Phillips Petroleum Co., Bartlesville, Oklahoma.	10,700	52.3	4.0	None	Reduction to extent of tax deduction	H. Nyland - Auditor and Off. Mgr.
Rhodes Department Store, Seattle, Washington.	700	60.0	12.5	None	Small wage earners will discontinue Bond Subscription	James A. Chapman - President B. F. McGerard - Sec'y.
Riverdale Mills, Spartanburg, South Carolina.	850	75.0	5.0	None	Temporary reduction	F. A. Burwell - Gen'l. Mgr.
Seattle Hardware Co., Seattle, Washington.	250	40.0	5.0	None	25% Reduction	Virgil Marshall - Gen'l Auditor E. F. Brito - Ass't. General Auditor
Shally Oil Co., Tulsa, Oklahoma.	3,500	80.0	5.0	None	Reduction to the extent of tax deduction	W. B. Edgar - Comptroller
South Carolina Electric and Gas Co., Columbia, South Carolina.	700	40.0	5.0	None	Will stop Bond Purchase temporarily	E. S. Burnside, Sec'y. and Ass't. Treas.
Taylor - Colquitt Co., Spartanburg, South Carolina.	600	5.0	2.0	None	Some reduction	Harold H. Kim - Vice President
The United States Leather Co., New York, New York.	Not available	55.0	5.0	None	Will be unable to purchase Bonds if tax deduction is made	L. Ashraef, Comptroller
John A. Brown Co., Oklahoma City, Oklahoma.	550	72	3.5	None	A large percentage of employees would cancel or reduce pledges	

ANALYSIS OF FIELD INQUIRY ON EFFECT OF COLLECTION OF PART OF THE MONTHLY INCOME TAX AT SOURCE ON
PAYROLL ALLOTMENT PLANS FOR PURCHASE OF WAR BONDS

Part 2. - Employers with War Bond payroll allotment plan in effect who do not believe such plan would be adversely affected

Name of employer and address	Average number of employees on payroll in each payroll period	Percentage of employees participating in each payroll period	Percentage of total payroll deduct- ed for War Bonds	Effect of collection at source on War Bond payroll allotment plan		Name and title of officers interviewed
				On employer	On participation - Employer's view point	
Edla M. Babst Co., Incorporated, New Orleans, Louisiana	85	8.0	10.0	None	None	Edla M. Babst, Jr. - Vice President
Flint, Sand & Gravel Co., Incorporated, New Orleans, Louisiana	80 to 80	95.0	5.0	None	None	George J. Decker - Secretary of Johnke Service, Inc. T. Murphy - Auditor
Davis-Robinson Company, Minneapolis, Minnesota	900	54.0	4.0	None	None	Arthur Morse, - Secretary
Debi, Incorporated, New York	\$25 to \$75	85.0	5.0	None	None	Adolph Hauer - Treasurer
Jim Mullins and Sons, Brooklyn, New York	240	100.0	5.0	None	None	Abe Cowen - President
Berry Manufacturing Corporation, Brooklyn, New York	679	96.0	Approx. 8.0	None	None	Francis M. Pitagorwald - Secretary
Harling Sugars, Incorporated, Franklin, Louisiana	820	60.0	4.0	None	None	C. S. Williams - Stockholder James H. Connelly - Secretary
Bodermick & Gordon - (Partnership), Denver, Colorado	2,500	99.+	12.0	None	None	A. J. Conroy - Office Manager
J. P. Morgan & Company, Incorporated, New York, N. Y.	Unavailable	100.0	5.52	None	Cause no decrease but would prevent increase	L. A. Kays - Vice President
Kerris Company, Atlanta, Georgia	140	25.0	5.0	None	None	Mr. Bustin - Treasurer
McUdell Sons & Company, New York, N. Y.	625	100.0	5.+	None	None	Charles Buchner - Comptroller of Company
Automobile Club of Southern California, Los Angeles, California	1,100	95.0	5.0	None	None	V. H. Neulton - Assistant Auditor H. J. Shea - Auditor
Southern California Gas Company, Los Angeles, California	4,500	64.0	4.8	None	None	E. M. Simmons - Comptroller L. D. Hading - Assistant Comptroller
Brigham Photo Engraving Co., Incorporated, New York, N. Y.	Not available	90.0+	Not available	None	None	Mr. Arthur A. Barnes - Office Manager
Electric Storage Battery Company, Philadelphia, Pennsylvania	4,000	90.0	5.0	None	None	Frank F. Acker, - Comptroller
Geo. A. Fuller Company, New York, N. Y.	Not available	90.0+	10.0	None	None	Henry F. Lockwood - Secretary
Jacobs Manufacturing Company, Newington, Connecticut	485	58.0	4.3	None	None	Mr. Louis B. Stone - Treasurer Mr. Robert Athern - Head Accountant
Rumsey Electric Company, Philadelphia, Pennsylvania	102	50.0	5.0	None	None	Geo. B. Trimble - Vice President
Sun Shipbuilding and Dry Dock Co., Chester, Pennsylvania	29,350	97.0	10.0+	None	None	William Greaser - Treasurer
Turner Construction Company, New York, N. Y.	Not available	87.0	8.2	None	None	A. S. Proudfoot - Assistant Treasurer A. M. Endeman - Contract Manager
Victor-Monaghan Company, Greenville, South Carolina	4,500	80.0	4.0	None	None	T. Robert Lindsey - Secretary
Bush Terminal Building Company, Brooklyn, New York	315	75.0	5.5	None	None	M. B. Varney - Assistant Treasurer Mr. Cassidy - Personnel Manager
Howard Savings Institution, Newark, New Jersey	200	95.0	5.0	None	None	O. H. Markley - Comptroller Edward Wilgueta - Assistant Treasurer
Larus & Brothers Company, Inc., Richmond, Virginia	800	100.0	5.0	None	None	Mr. Brooks George - Assistant to Vice President J. E. Thomson - Paymaster
Loy Jewelry Company, Greensboro, North Carolina	7	85.0	5.0	None	None	Mr. S. Jones - Treasurer and Manager
L. & A. Meter Service, Chicago, Illinois	5-6	100.0	2.2	None	None	Mr. Hages, husband of Snow Hages, Partner Philip Schwartz - Bookkeeper
W. A. Alexander & Company, Chicago, Illinois	230	60.0	5.0	None	None	V. A. Kyalis - Assistant Treasurer
Anderson Distributing Company, Louisville, Kentucky	13	100.0	10.0	None	None	Mr. J. B. Mackay - Office Manager
Backrach, Banderback and Company, Pittsburgh, Pennsylvania	12	100.0	10.0	None	None	H. D. Backrach, C.P.A. - Partner in partnership
Boston Elevated Railway Company, Boston, Massachusetts	6,800	65.0	2.05	None	None	Mr. Frank Ansdon - Assistant to treasurer Mr. Thomas A. Dunbar - Assistant General

ANALYSIS OF FIELD INQUIRY ON EFFECT OF COLLECTION OF PART OF THE REGULAR INCOME TAX AT SOURCE ON
PAYROLL ALLOTMENT PLANS FOR PURCHASE OF WAR BONDS

Part 2. - Employers with War Bond payroll allotment plan in effect who do not believe such plan would be adversely affected - continued

Name of employer and address	Average number of employees in each payroll period	Percentage of employees participating	Percentage of total payroll now deducted for War Bonds	Effect of collection at source on War Bond payroll allotment plan	On employer	On participation - Employer's view point	Name and title of officers interviewed
The Franklin Savings Bank in the City of New York, New York, New York	100	100.0	5.05	None	None		Henry J. Cochrane - President Stuart A. Lyman - Comptroller
Grand Quality Laundry Service, Louisville, Kentucky	50	6.0	0.8	None	None		Miss Rita McCarthy - Bookkeeper
Milwaukee-Western Fuel Company, Milwaukee, Wisconsin	255	80.0	2.5	None	None		H. J. Anderson, Sect. and Treas. W. A. Gamble, Auditor
Mutual Benefit Health and Accident Association, Omaha, Nebraska	520	100.0	10.0+	None	None		C. E. Forbes, Secretary
New York Life Insurance Company, New York, New York	7,500	92.0	4.7	None	None		Mr. Meyers - Vice Pres. and Treas. Mr. Judson - Asst. Secretary
Perkins and Squier Company, New York, New York	8	100.0	10.0	None	None		E. W. Goebel - Sect. Treas. G. Gordon Baldwin - President
Yellow Cab Company, Chicago, Illinois	5,000	60.0	4.5	None	None		R. H. Biege - Treasurer Benjamin Samuels - Vice President
The Cincinnati Milling Machine Company, Cincinnati, Ohio	7,152	92.0	11.0	None	None		Ferris M. Angevin - Secretary H. C. Bestie - Paymaster
The Cleveland Welding Company, Cleveland, Ohio	1,000	25.0	0.05	None	None		A. F. Mellinan - Treasurer
The Joseph and Peiss Company, Cleveland, Ohio	2,200	60.0	4.0	None	None		A. M. Dewey - Secretary - Treasurer E. C. Stark - Employment Supervisor
Lopel Hotels Incorporated, Jacksonville, Florida	572	100.0	7.0	None	None		Robert Kloepel - President W. C. Finlay - Auditor
Merchants Distilling Corporation, Terra Haute, Indiana	115	100.0	2.0	None	None		F. H. Lamb - Vice Pres. and Treas.
Newport Industries Incorporated, Pensacola, Florida	1,050	90.0+	5.0	None	None		F. S. Bickford - Chief Accountant John McCabe - Treasurer
Smith-Alcop Paint Company, Terra Haute, Indiana	65	98.0	15.5	None	None		Foster Miles - Secretary
The Valley Camp Coal Company, Cleveland, Ohio	5,000	80.0	5.5	None	None		Fred Thivret, Asst. Treasurer
United Fidelity Life Insurance Company, Dallas, Texas	50	100.0	11.0	None	None		Q. Weatherford, Asst. Treas.
The National Bank of Commerce, Houston, Texas	280	100.0	10.56	None	None		J. K. Fleming, Auditor
Interstate Circuit Incorporated, (Texas Consolidated Theaters), Dallas, Texas	2,500	100.0	.10	None	None		R. O. Teargarden, Asst. Auditor J. DeBoer, Auditor and Sect.
William R. Boots Manufacturing Company (Individual), Evansville, Indiana	162	100.0	6.5	None	None		William R. Boots, Owner
Hoelscher Lamp and Stamping Corporation, Evansville, Indiana	876	97.1	5.6	None	None		T. J. Morten, Jr., President Jack B. Leavell, Chief Cost Acc't.
Industrial Wire Cloth Company, Wayne, Michigan	470	82.0	6.55	None	None		C. J. Koepke - Comptroller F. A. Vollbrecht - President
Metall Credit Company, Atlanta, Georgia	4,500 to 5,000	20.0	1.0	None	None		Henry Hills - Asst. Statistician
Utah Fuel Company, Salt Lake City, Utah	1,000	50.0	4.5	None	None		R. D. Pomeroy - Auditor

ANALYSIS OF FIELD INQUIRY ON EFFECT OF COLLECTION OF PART OF THE REGULAR INCOME TAX AT SOURCE ON
PAYROLL ALLOTMENT PLANS FOR PURCHASE OF WAR BONDS

Part 5. - Employers with War Bond Payroll Allotment Plan in effect who failed to express an opinion

Name of employer and address	Average number of employees on payroll in each payroll period	Percentage of employees participating	Percentage of total payroll now deducted for War Bonds	Effect of collection at source on War Bond payroll allotment plan		Name and title of officers interviewed
				On employer	On participation - Employer's view point	
Baltimore & Ohio Railroad Co., Baltimore, Maryland.	59,000	64.2	2.6	None	Noncommittal	W. D. Owens - Ass't. Comptroller F. A. Beverell - Ass't. Comptroller in charge of Disbursements.
Duke Power Co., Charlotte, North Carolina.	5,000	51.0	2.9	-	Noncommittal	W. R. Bacher - Ass't. Treas. J. C. McGowan - Ass't. Counsel.
John Hancock Mutual Life Ins. Co., Boston, Massachusetts.	12,700	App. 88.0	Not available	None	Noncommittal	W. W. Wilson - Ass't. Secy. O. R. Brown - Tax Consultant
Virginia Stationery Co. Ins., Richmond, Virginia.	65	40.0	2.5	None	Noncommittal	T. G. Williams - Auditor and Office Director

AUG 6 1942

Dear Henry:

My attention has been called to the fact that the War Department is the only important branch of the Federal service which has not seen fit to install the uniform plan for payroll savings developed by the Interdepartmental War Savings Bond Committee appointed by the President. This is apparently for the reason that prior to the establishment of this uniform plan, the War Department, by Circular No. 77, dated March 16, 1942, had prescribed a plan of its own relating to its military personnel as well as to its civilian employees. The criticism has been made that this latter plan, while undoubtedly suitable for the enlisted personnel of the Army, encourages much lower allotments so far as civilian personnel are concerned, than should be expected of salaried employees, and of course lower than the allotments contemplated by the uniform plan referred to. The uniform plan, moreover, makes provision for a promotion campaign without which the purposes of the payroll savings plan are not likely to be accomplished, and it is understood that this feature is lacking in the plan which is in force in the War Department.

Since approximately a third of the civilian employees of the Federal Government are on the rolls of the War Department, it would be extremely helpful if steps could be taken at the earliest practicable moment to induce this personnel to participate in the payroll allotment plan to substantially the same extent as prevails in other branches of the Government and in the most of the industries throughout the country. Your cooperation in accomplishing this result would be very greatly appreciated.

Sincerely yours,

(Signed) Henry

Hon. Henry L. Stimson,
Secretary of War,
Washington, D. C.

HNG/mff

Sent by Mess. Brown
4:30 8/6/42

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE August 5, 1942

TO Secretary Morgenthau
FROM Harold N. Graves

Last night Station WHN in New York City staged a two-hour radio program featuring Red Barber selling Bonds direct to listeners. Over the air they announced that an autographed picture of the Brooklyn Dodgers would be given to each person purchasing a Bond.

Results - 1300 people purchased either in person, by telephone or through the mails approximately \$100,000 in War Savings Bonds.

Swell !!!
Mn.G.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 6, 1942

TO Secretary Morgenthau
FROM Julian Street, Jr.

The Mitchell Jamieson water-colors had been submitted to Life, who showed interest in the idea when I called them Monday in New York. They said they could not use them at this time but might want to later. I then showed them to William Chenery, the editor of Collier's, who expressed himself as very much interested. He wants to discuss their possible use with his art editor, who returns from his vacation Monday.

JSP

AUG 6 1942

My dear Mr. Bartholomew:

Please excuse my delay in replying to your letter of July 22, which, as Mr. Graves explained to you yesterday, was somehow mislaid.

I am greatly obliged to you for your suggestions regarding Professor Welch, which fully coincide with my own views, and I shall gladly undertake to persuade him to remain with us for the duration of the War.

Your own interest and helpfulness is much appreciated.

With kind regards, I am

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Marshall Bartholomew,
Director, Yale Glee Club,
1929 Yale Station,
New Haven, Connecticut.

HNG:fns

[Handwritten signature] *[Handwritten initials]*

YALE GLEE CLUB

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1929 YALE STATION, NEW HAVEN, CONN.

DUDLEY L. MILLER, '43
President
THOMAS N. FLOURNOY, '43
Manager
RUSSEL H. DOWNEY, JR., '44
Assistant Manager
JAMES WILSON, '44
Publicity



MARSHALL BARTHOLOMEW, '07 S.
Director
ARTHUR HALL, '24 Mus.
Associate Director
GEORGE D. VAILL, '35
Graduate Manager

July 22, 1942

(Copy sent August 4, 1942)

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

My dear Mr. Morgenthau:

It was a great pleasure to have had the privilege of meeting and talking with you personally yesterday with regard to the development of the singing spirit in the United States. I am sure that in this field lies a great and largely untapped reservoir of better morale and a greater spirit of unity and enthusiasm throughout our country if it is properly organized and allowed to find expression.

One very important thing, which I had no opportunity to say to you because Roy Welch was in the room throughout our conversation, was that I hope you will put every pressure upon him to remain in this job which he has undertaken at your invitation. He was talking to me yesterday in terms of returning to Princeton on September 1st. That would be a great set-back for everything you have undertaken in the field of music. In my opinion Roy Welch is an ideal person to head up this country-wide effort. He has no personal axe to grind, is not trying to build up his own name or reputation, is well and favorably known by a great many people in music and in music education. He thinks straight, handles people well, has imagination and flexibility. My first and most urgent recommendation for the development of your music program is, therefore, to nail Roy Welch down at once and for the duration. I feel sure that Princeton University will be willing to loan him to you if you make it clear to the University administration that his work is vital to the war effort.

This is no part-time job. In a conversation with Mr. Kuhn, just after leaving your office, he suggested the possibility of Mr. Welch commuting occasionally from Princeton to keep a guiding hand on this work. I feel very strongly that he should give his entire attention to your program and I hope you can persuade him on this point and thereby renew the courage and enthusiasm with which the workers in this field greeted his appointment.

Very cordially yours,

Marshall Bartholomew

MB/bg

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
4	27,023	92,055	79,964	67,046	115.1
5	25,835	117,890	126,495	98,208	93.2

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

August 6, 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 ~~the~~ 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
4	14,575	50,797	47,523	40,811		106.9
5	12,988	63,785	77,320	58,199		82.5

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

August 6, 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	16,567	28,810	21,986	17,601	131.0
4	12,448	41,258	32,441	26,235	127.2
5	12,847	54,105	49,175	40,009	110.0

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

August 6, 1942.

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

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

Sales of United States savings ~~bonds~~
 August 1 through August 5, 1942
 Compared with sales quota for same period
 (At issue price in millions of dollars)

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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
	date	date	as % of		date	date	as % of		date	date	as % of	
			quota				quota				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	14.6	50.8	61.0	83.3	12.4	41.3	29.6	139.5	27.0	92.1	90.6	101.7
5	13.0	63.8	84.0	76.0	12.8	54.1	45.4	119.2	25.8	117.9	129.4	91.1
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 6, 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.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE August 6, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Department of Commerce estimates of consumer savings
in first two quarters of 1942

At your request, I am submitting an attached table giving details of an unpublished Department of Commerce estimate of national income and consumer savings in the first two quarters of 1942, which was the subject of a news item in the Wall Street Journal of August 5. The table comes from an article on "National Income and the War Effort" by Milton Gilbert and Robert Bangs of the Department of Commerce, which has been sent us for confidential use prior to publication.

A discussion of estimated changes in consumer savings and expenditures, taken from the above article, is also attached. The conclusions are drawn that:

(1) Taxes paid by individuals through the first half of 1942 had done relatively little toward checking the sharp rise of individuals' disposable income.

(2) With war requirements curtailing the flow of consumer goods, the excess income has gone partly into greater savings, partly into drawing down inventories, and partly into higher retail prices.

(3) A sharp reduction in short-term consumer debt outstanding has been due partly to credit restrictions but more largely to the non-availability of certain durable consumer goods. The increased consumer savings have gone very largely into reducing short-term debt and buying War Bonds.

(4) Over-reliance should not be placed on an expectation of increased savings for maintaining stable commodity prices, since shortages so far have been chiefly in goods of which consumers were relatively well supplied, and the reduction in short-term debt so far has been due more largely to required debt repayments than to voluntary action on the part of individuals.

- 2 -

Comments on the estimate of savings

The Department of Commerce figures on individual savings are, of course, an estimate. Their accuracy depends on the accuracy with which various factors from which they are derived have been estimated.

The figures are computed in two steps: (1) An estimate is made of consumer expenditures for goods and services as a residual figure obtained by subtracting from the computed gross national product a figure (determined from Government expenditures) representing the amount of national production being taken for Government use, and subtracting a second figure representing the amount of national production absorbed in private capital formation -- such as new construction, durable equipment, and increased inventories -- which involve a series of estimates. (2) The net savings are computed as a residual figure by subtracting the above estimate of consumer expenditures from an estimate of disposable income of individuals (based on national income payments less personal taxes).

The savings estimate given in the attached table (revised from the figures which appeared in the Wall Street Journal) show individual savings at an annual rate of \$24.4 billions in the second quarter, as compared with \$19.3 billions in the first quarter and an average of \$12.8 billions in 1941.

Consumer expenditures for goods and services are estimated to have been reduced to \$78.8 billions (annual rate) in the second quarter, from \$80.6 billions in the first quarter. This agrees generally with current data on retail sales which show a reduction from the first quarter totals. From an inflation-control standpoint, however, the Commerce figures indicate a far from satisfactory situation, since the estimated consumer expenditures at a rate of \$78.8 billions in the second quarter continued in excess of last year's estimated average of \$75.8 billions, in the face of a drastic curtailment in the production of civilian goods. It is evident that this rate of spending would have exerted a greater upward pressure on prices had it not been for the available large inventories of consumer goods carried over from previous production.

NATIONAL INCOME BY USE OF FUNDS
(Billions of dollars)
Seasonally-adjusted annual rates

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Estimated for each quarter, 1939 through 2nd quarter 1942

	1939				1940			
	I	II	III	IV	I	II	III	IV
National income	67.9	68.6	71.6	74.9	74.8	75.6	77.2	81.2
Add: Transfer payments	2.3	2.3	2.4	2.2	2.4	2.5	2.6	2.3
Less: Corporate savings	-0.3	0.2	0.9	0.9	0.9	1.2	1.2	1.7
Employment taxes	1.9	1.9	2.0	2.1	2.1	2.1	2.1	2.2
Personal taxes - Federal	0.8	0.8	0.9	0.9	1.0	1.0	1.1	1.1
Personal taxes - State and local	1.4	1.5	1.5	1.6	1.5	1.5	1.5	1.6
Equals: Disposable income of individuals	66.4	66.5	68.7	71.6	71.7	72.3	73.9	76.9
Less: Consumer expenditures for goods and services	60.7	61.4	62.3	63.6	65.0	65.5	66.1	68.0
Equals: Net savings of individuals	5.7	5.1	6.4	8.0	6.7	6.8	7.8	8.9

	1941				1942	
	I	II	III	IV	I	II
National income	86.0	92.4	97.6	103.0	108.8	112.5
Add: Transfer payments	2.3	2.2	2.2	2.0	2.1	1.7
Less: Corporate savings	2.1	2.8	2.7	2.6	2.7	2.3
Employment taxes	2.3	2.6	2.6	2.8	2.9	3.1
Personal taxes - Federal	1.5	1.6	1.7	1.8	3.8	3.9
Personal taxes - State and local	1.4	1.6	1.6	1.7	1.6	1.7
Equals: Disposable income of individuals	81.0	86.0	91.2	96.1	99.9	103.2
Less: Consumer expenditures for goods and services	72.8	75.6	78.1	76.6	80.6	78.8
Equals: Net savings of individuals	8.2	10.4	13.1	19.5	19.3	24.4

Source: From unpublished report "National Income and the War Effort" by Milton Gilbert and Robert Bangs, U. S. Department of Commerce.

CONFIDENTIAL

"The disposition of consumers' income"^{1/}

"Combining the measurements of total income flow to individuals with certain of the streams contributing to gross national expenditure yields a summary picture of the manner in which the income of consumers is being used by the recipients.

"It may be noted in this connection that taxes paid by individuals, measured on a collections basis, had up through the first half of 1942 done relatively little toward checking the rising tide of individuals' income. Consequently the disposable income available for expenditure or saving has risen sharply. From an annual rate of 96 billion dollars in the 4th quarter of 1941, disposable income of individuals rose to a yearly rate of 103 billion by the 2nd quarter of this year, an advance of 7 percent.

"With war requirements for materials and industrial facilities cutting more and more deeply into the available flow of consumer goods, especially in the durables group, the excess disposable income has been accommodated by two general outlets. In the first place the steady advance of retail prices up to the issuance of the general maximum price regulation enabled the diminished output of consumer goods plus a probable draft on inventories of civilian goods to be equated to the larger volume of consumer spending.

"In the second place, a substantial part of the swollen income flow was temporarily sterilized by an extraordinary rise in individuals' savings. At present this savings flow can be only inadequately traced in detail, but a few enlightening facts are available. Purchases of war bonds and stamps rose from an annual rate of 2.8 billion dollars in the second quarter of 1941 to 7.1 billion in the corresponding period of this year. There is little doubt but that some of this increase represents new saving.

"A year ago, moreover, consumers were adding to their outstanding short term debt at an annual rate of 3.2 billion dollars; during the past quarter, consumer credit outstandings were being retired at a rate of 3.3 billion. This change in rate of 6.5 billion dollars is a result both of the consumer credit restrictions now in force and the nonavailability of those durable consumers' goods ordinarily in heavy demand at high levels of disposable consumer income. Of the two, the latter is doubtless by far the more important factor. The change in consumer credit together with the increase in sale of war bonds accounts for the preponderance of the total increase in savings over this period.

^{1/} From unpublished report "National Income and the War Effort" by Milton Gilbert and Robert Bangs, U. S. Department of Commerce.

"It must be emphasized that, while the rising trend of savings has to date been a powerful anti-inflationary force, over reliance upon this factor in the effort to maintain stable prices is easily possible. It is significant in this regard that the shortages of consumers' goods thus far have been largely of commodities which are purchased only at infrequent intervals and of which consumers held a relatively large and well conditioned stock. The spending-saving reaction to future shortages of non-durable goods, which are purchased day in and day out, may easily be of quite a different character. Furthermore, due to the necessity of debt repayment, a sizeable part of the increased saving has come, in a sense, automatically. It will take a much more conscious decision on the part of consumers to maintain such saving once a substantial part of this outstanding debt is liquidated. Consequently, intensification of efforts to hold prices down is apt to be necessary as the months pass, quite apart from the pressure of a steadily rising flow of income."

AUG 6 1942

My Dear Mr. Ambassador:

I wish to refer to your letter of August 5, 1942 relative to a shipment of gold valued at \$5,600,000 shipped by the Government of the Union of Soviet Socialist Republics which is to be delivered to the United States Mint in Denver for account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics and that such gold is to be applied against the amount of gold sold under the agreement of January 3, 1942. I also wish to refer to your additional letter of August 5, 1942 requesting that general insurance (insurance against all risks) for \$5,600,000 plus the insurance expenses be placed on this shipment of gold from the Bay of Providence, Soviet Far Eastern Coast to the United States Mint, Denver, Colorado.

The Treasury has had a conference of the insurance underwriters in New York relative to the placing of this insurance, and it has been advised by the Federal Reserve Bank of New York that it will not be possible to obtain insurance in the amount desired. In view of the difficulty in obtaining insurance, the Secretary of the Treasury will take delivery of this shipment of gold at Nome, Alaska, and insure it for his own account under the "Government License in Shipment Act" from the time of delivery to the Treasury representative at Nome, Alaska, to the United States Mint in Denver, Colorado.

I wish to bring to your attention that while the gold shipment is on board the S.S. *EMERALD* en route from the Bay of Providence, Soviet Far Eastern Coast to Nome, Alaska, it will not be covered by insurance, and I assume that you will wish to advise your Government accordingly.

Sincerely yours,

(Signed) D. W. BELL

Acting Secretary of the Treasury.

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

(Initialed) YD JED EB

YD:ls:8/6/42

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TREASURY DEPARTMENT
United States Mint Service
New York, N. Y.

August 6, 1942

Secretary of the Treasury
Treasury Department
Washington, D. C.

Att: Mr. Frank Dietrich

Honorable Sir:

Referring to your letter of July 28 relative to 28 cases of gold to be deposited by the Federal Reserve Bank of New York for the account of the Secretary of the Treasury of the United States, Special Account, we herewith enclose 10 copies of Form 42-R, covering this deposit.

Respectfully,

/s/ E. R. Lynch

Acting Superintendent.

L/H

Encs.

Copy:vw:8-7-42

NOTE - This Report is for the information of the depositors, and is of no other value.

FOREIGN

MEMO. REPORT ON ^{GOLD}_{SILVER} BULLION deposited at the Assay Office of the United States at New York
JULY 30th 1932, by FEDERAL RESERVE BANK OF NEW YORK, Credit of Secty of the Treasury Spec.
By Order Govt. U.S.S.R.

DESCRIPTION OF BULLION.	WEIGHT.				GOLD.			SILVER.			CHARGES.		NET VALUE.		
	BEFORE MELTING.		AFTER MELTING.		FINENESS. 1,000ths.	VALUE.		FINENESS. 1,000ths.	VALUE AT 34 Cents per fine oz.		Dollars.	Cts.	Dollars.	Cts.	
	Ounces.	Dec.	Ounces.	Dec.		Dollars.	Cts.		Dollars.	Cts.					
INDONESIA			7 905 27		999.7										
			7 473 05		999.7										
INDONESIA			7 977 45		999.7										
			7 904 46		999.7										
INDONESIA			7 666 33		999.7										
			7 546 04		999.7										
	54 239 70		7 765 06		999.7										
						1,897 748 60						4,798 67		1,892 949 93	
			Five Ounces	54 221 388											

Net value of the above deposit is payable as follows:

~~BY CHECK~~ . . . \$ 54.30 Melting Chg.
~~BY CHECK~~ . . . \$ 4,744.37 Handlg. Chg.
~~BY CHECK~~ . . . \$ 4,798.67 Total Charge
 BY CHECK, . . . \$1,892,949.93

Geo. W. ...
For the Superintendent.

Silver, ozs. fine

222

Treasury Department
Division of Monetary Research

Date... Aug. 6, 1942 9

To: Mrs. McHugh

This letter had been held up pending receipt of agreement with the Lend-Lease authorities as to their willingness to lend-lease silver for exchange purposes.

The letter was not sent in view of the reluctance of the Lend-Lease authorities to acquiesce with that portion of the program.

Mr. D. W. Bell
Mr. B. Bernstein

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

THE SECRETARY OF THE TREASURY
WASHINGTON



My dear Senator:

At a recent meeting of the Senate Special Silver Committee I told the Committee that the Treasury has received requests from friendly countries for aid in acquiring silver for coinage and essential war purposes. These requests have come from the United Kingdom, Australia, Iran, and the Dominican Republic. I understand that two other friendly countries, Ecuador and El Salvador, are also seeking silver for coinage purposes.

In some of these areas the need for additional silver coinage is directly related to the presence of the armed forces of the United States and the transportation of war supplies for the United Nations. In every instance the provision of silver would be an aid directly or indirectly to the war effort of the United Nations. The Department of State has informed us that it is interested in having made "available to friendly foreign governments for essential coinage needs some of the silver now held by the United States Treasury."

In a recent telephone conversation with Senator McCarran I told him that it was necessary to come to an early decision on the lending of silver to friendly governments to be returned after the war on an ounce-for-ounce basis. I now find that the need of friendly governments for silver is immediate and urgent, and I am proceeding to discuss the necessary arrangements with the interested agencies.

Very truly yours,

Henry P. Wirth, Jr.
Secretary of the Treasury.

DEFENSE



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

FEDERAL RESERVE BANK
OF NEW YORK

Fiscal Agent of the United States

August 6, 1942.

S i r : Attention: Mr. Frank Dietrich

Reference is made to our letter dated July 28, 1942, relative to the 28 cases of gold received per U.S.S. Washington and deposited by us, as fiscal agent of the United States, in accordance with the Treasury Department's telegram dated July 27, 1942, in the United States Assay Office at New York on July 27, 1942, for account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics.

We are pleased to inform you that we received a United States Assay Office check today in the amount of \$1,897,694.30 drawn to the order of the Federal Reserve Bank of New York for credit of the Secretary of the Treasury, Special Account in payment for the gold and that pursuant to our telephone conversation of today, we have credited the Secretary of the Treasury, Special Account on our books \$1,897,694.30 and have made appropriate entries in the transcript of the Secretary of the Treasury, Special Account to reflect the 1/4 of one per cent charge of \$4,744.37 as a handling charge on gold.

In connection with the transportation of this gold cartage expenses amounting to \$56.95 were incurred by us and have been paid to the United States Trucking Corporation and charged to the account of the State Bank of the U.S.S.R. A copy of the receipted bill is enclosed for your files.

Respectfully,

/s/ H. L. Sanford

H. L. Sanford,
Manager, Foreign Department.

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

Enc.

Copy: vw: 8-7-42

COPY

UNITED STATES TRUCKING CORPORATION

ARMORED CAR DEPARTMENT

No. 751544 Beaver Street
New York, N.Y.

July 28, 1942

Federal Reserve Bank
44 Maiden Lane,
New York, New York.

Att: Mr. Jardine

To United States Trucking Corporation, Dr.
Armored Car Department

July 27 - \$1,898,200.	28 cs. gold	@34	\$56.95
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PAID
W.S. TRUCKING CORP.
Aug. 6- 1942
ARMORED CAR DEPT.
per C.S. Murray

COPY: lap-8/7/42

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 6, 1942

TO Secretary Morgenthau
FROM Mr. White
Subject: British Sale of Dollar Securities

Official sales of British-owned dollar securities under the various vesting orders have been small and sporadic since December 8, 1941. In the eight months that we have been at war, the total sales of vested British-owned dollar securities have amounted to only \$38,450. No sales whatever have taken place since February 13, 1942, except for a single \$500 bond which was sold on March 12th. The total sales of vested securities from February 22, 1940 to July 11, 1942 are \$319,332,979.

The sale of non-vested securities continues at the rate of several hundred thousand dollars a week. In the week ending July 4, 1942, \$1,100,000 of such securities were sold. The total sales of non-vested securities from September 1, 1939 to July 4, 1942, are \$251,800,000.

Instead of submitting a weekly report on the sale of British-owned dollar securities, we shall keep you informed only when the amounts of sales are significantly large.

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO. _____

H. Morgenthau
With the compliments of British Air Commission
who enclose Statement No. 44 - Aircraft Despatched
- for week ended July 28, 1942.

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

August 6, 1942.

STATISTICAL REPORT

AIRCRAFT DISPATCHED FROM THE UNITED STATES WEEK ENDING JULY 22ND, 1942

TYPES	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT HRS.'S PER WEEK TO DATE
<u>GENCOA.</u> A.T.17.Crane IA	Canada	Canada			24
<u>CONSOLIDATED</u> FV 5 B	U.K.	Canada en route		2	
<u>FAIRCHILD</u> 22 R 6 Cornell (a) " " 24 R 9	Canada Canada Middle East	Canada Canada Suva			12 10
<u>GLASS HARTY</u> Baltimore " " B 26A Harcourer	Canada South African Middle East	Canada South Africa Middle East	14	2	1
<u>LOCKHEED</u> A.28 Hudson VI " Hudson VIIA Ventura " " " "	Middle East " " Canada U.K. South Africa	Middle East " " Canada Canada en route South Africa		4 1 4 11	1
<u>LOCKHEED</u> Vengeance	Canada	Canada			1
<u>BOEING AIRCRAFT</u> B.S.S.U.	U.K.	U.K.		2	
TOTALS			14	14	40

(a) Were exported week ending July 21, but were not reported.

British Air Commission
August 1st, 1942.

20
24
4.9
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a 3

Treasury Department 229
Division of Monetary Research

Date..... Aug. 6, 1942 19

Miss Chauncey

This was taken up orally
with the Secretary and he approved
the proposal.

to Mr. D. W. Bell

MR. WHITE
Branch 2058 - Room 214½

TREASURY DEPARTMENT

230

INTER OFFICE COMMUNICATION

DATE August 3, 1942

TO Secretary Morgenthau

FROM H. D. White

1. We have been able to get most of the Latin American countries to establish local controls designed to cooperate with us in our effort to prevent the Axis from obtaining benefits from United States currency looted abroad.

2. In the case of Mexico, cooperative arrangements require special treatment because of the border situation where thousands of persons daily cross to and from work or in the conduct of their business, and a large number of tourists move back and forth. Currency controls of Mexico are particularly important since we have received information that large amounts of currency may be moving from Argentina to Mexico.

3. The Mexican Government has indicated her willingness to cooperate in every way in this effort, and that she is prepared to carry out the following program:

(a) Mexico, as other Latin American republics have already done, will prohibit the holding and dealing in United States currency after a certain date, before which date present holders may present their currency to the authorities.

(b) An exception will be made permitting the holding and dealing in silver dollars and subsidiary coins, and the \$2 bill. Since the \$2 bill was rarely used outside of the United States, this arrangement will be equivalent to the special issue of United States currency for Mexico. In this way we can practically eliminate the possibility of United States currency acquired by the Axis coming into the United States through Mexico and at the same time provide Mexico with a form of dollar currency which will satisfy the needs of the border situation.

(c) The United States will prohibit the export of United States currency into Mexico with the exception of the \$2 bill, and United States coinage. Facilities will be provided along the border for exchange of bills of large denominations into travelers' checks, \$2 bills, and coins.

4. The Dallas and San Francisco Federal Reserve Banks and leading representatives of the banking community along the border have stated that such a plan is workable and will satisfy all legitimate needs of border traffic.

If you approve we will indicate to Mexico our agreement to this program.

TREASURY DEPARTMENT

231

INTER OFFICE COMMUNICATION

DATE

August 6, 1942.

TO Secretary Morgenthau.
FROM Randolph Paul.

(1) This is in reference to your memorandum of August 4, 1942, concerning the request of Van Kleffens, the Minister for Foreign Affairs of the Netherlands, that we turn over to the Netherlands Government the Dutch privately-owned assets in this country. I have already discussed this matter with you orally and you stated that you wished the decision held up until after you returned from your vacation.

(2) On the merits of the request, it is our view that this Government should not take affirmative action to transfer the private Dutch assets to the Netherlands Government at this time because

(a) The future is so uncertain as to the problems we will face during the period of occupation, peace talks, and the post-war situation, that we should not take any steps which would commit us or tie our hands in any way, unless a very powerful and overwhelming reason were present for doing so. We do not feel that such a reason is present now.

(b) The desire of the Dutch Government to reinvest and move around the Dutch assets in the United States can only have a petty significance which is unrelated to the war effort.

(c) The Dutch Government does not need the funds for its present activities. It has more than ample funds (in excess of \$600 million) available now for anything that it is doing or might do in the foreseeable future.

(d) If the Dutch Government has any specific proposal as to what it wants done with the funds now under our control, we would be very happy to receive such suggestions and we may be able to act in much the same way that they might act if they had control.

- 2 -

For example, if the Dutch Government desires to have the private funds invested in United States Government bonds, we can try to accomplish this under existing authority without turning the funds over to the Dutch Government.

(e) To turn over to the present Dutch Government the control of about one billion dollars' worth of assets belonging to Dutch nationals now in Holland will enormously strengthen the position of the present Dutch Government, vis-a-vis its own subjects. We have no information that such action would be good or bad from the point of view of the morale of the people now in Holland and the contribution that they might make to the war effort. Nor can we tell at this time that in the post-war period the people of Holland will want the hands of the present Dutch Government thus strengthened.

(f) If it were desirable to transfer the assets, we could do so only by following the procedure of

(i) vesting the assets in the name of the United States Government and then transferring the title and control of the assets to the Dutch Government; or

(ii) affirmatively directing that the assets be turned over to the Dutch Government.

Our extraordinary powers on such a matter should be used only if the action were an important element in our war effort, which it is not at this time.

(3) The question has come up at this time because of a decision issued by the New York Court of Appeals which recognizes the Netherlands decree as valid and holds in effect that title to the particular private Dutch assets involved in that case is vested in the Dutch Government. The New York banks are fighting the application of this decree to United States assets and will continue to fight unless the United States Government intervenes and takes affirmative action to transfer the assets to the Dutch Government.

- 3 -

(4) We recommend the following course of action with respect to the request of the Finance Minister of the Netherlands:

(a) We can encourage the Dutch, and show our good will and cooperative spirit by filing statements with the courts on particular cases to indicate that this Government is, in general, in accord with the policy which recognizes the validity of the Netherlands decrees. There will, of course, be exceptions to this general rule, such as where the rights of American creditors are involved.

(b) In general, the Treasury Department will conform to the decision of the appropriate court which requires the turning over of assets from private persons to the Dutch Government.

(c) Although this Government will not take affirmative action by way of vesting or any other means to turn over the assets of the Netherlands nationals to the Netherlands Government, in any particular case in which the Dutch Government can show that it is desirable to transfer such ownership, this Government will give sympathetic consideration to the proposal submitted.

(5) It should be noted that questions similar to that presented in connection with the Netherlands Government Decree are involved in connection with the decrees issued by the refugee governments of other countries such as Belgium and Norway.

REF.

Randolph Paul
Secretary Morgenthau

August 4, 1942

The Minister for Foreign Affairs of the Netherlands, Mr. Van Kleffens, handed me this memorandum, with the request that we consider, now that the court has handed down the decision, returning to the Netherlands Government the administration of their own assets in this country.

I told him I would have to take the matter under careful consideration.

After you have talked this over with Foreign Funds, will you please come in and see me, with Bernstein and John Pehle, and talk the matter over.

*8/7 - To be taken up after
Sec. returns. See Paul's memo*

8/7 -
Attachment

"Netherlands Royal Decree
of May 24, 1940."

Randolph Paul
Secretary Morgenthau

August 4, 1948

The Minister for Foreign Affairs of the Netherlands, Mr. Van Kleffens, handed me this memorandum, with the request that we consider, now that the court has handed down the decision, returning to the Netherlands Government the administration of their own assets in this country.

I told him I would have to take the matter under careful consideration.

After you have talked this over with Foreign Funds, will you please come in and see me, with Bernstein and John Pehle, and talk the matter over.

Attachment
"Netherlands Royal Decree
of May 24, 1940."

**Netherlands Royal Decree of May 24, 1940, and
Power of Attorney issued thereunder
to the Minister of the Netherlands,
Washington, D. C.**

(Copy of letter dated June 27, 1940, from the Secretary of State to the Secretary of the Treasury setting forth the exchange of notes between the State Department and the Minister of the Netherlands relative to such Decree and Power of Attorney; and copy of English translation of such Decree, certified by the Minister of the Netherlands.)

Copy of Letter to the Secretary of the Treasury.

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
Eu 840.51 Frozen Credits/174

June 27, 1940

My dear Mr. Secretary:

Reference is made to the Department's letter to you dated May 28, 1940 with which was enclosed a copy of a note from the Netherlands Minister in Washington, regarding the promulgation of a Royal Decree dated May 24, 1940 relating to certain properties of individuals and companies resident in the Kingdom of the Netherlands. In this connection I have the honor to advise you of the following:

Under date of June 11, 1940 the Department received a telegram from the American Ambassador in London the contents of which were transmitted to Dr. Alexander Loudon, the Minister of the Netherlands in Washington in a note dated June 13, 1940, reading as follows:

"June 13, 1940

"Sir:

"I have the honor to quote for your information the following text, received through the United States Ambassador in London, of a power of attorney executed by the Royal Netherlands Government now temporarily exercising its functions in London, together with its texts of two documents annexed to such power of attorney:

"The Royal Netherlands Government, temporarily residing and exercising its functions in London, acting through the undersigned: P. S. Gerbrandy, Minister of Justice, C. H. Welter, Minister for the Colonies, E. N. Van Kleffens, Minister for Foreign Affairs, hereby authorizes the Netherlands Minister at Washington, D. C., Dr. Alexander Loudon, to operate, control and otherwise exercise complete dominion over all accounts and all other property and interests of any nature whatever in the United States of America, its territories and possessions, including the Philippine Islands and the Canal Zone, vested by the Royal Decree of May 24, 1940, in the State of the Netherlands as represented by the Royal Netherlands Government temporarily residing and exercising its functions in London. The Netherlands Minister at Washington, D. C., is further authorized to make certifications to any interested party of exemptions under the aforementioned Royal Decree. The Netherlands Minister at Washington, D. C., may from time to time delegate any or all of the authority vested in him hereunder with power of revocation or substitution. London, June 11, 1940. The Minister of Justice, (signed) P. S. Gerbrandy the Minister of the Colonies, (signed) C. H. Welter, the Minister for Foreign Affairs, (signed) E. N. Van Kleffens."

"The Ambassador reports that affixed to the above-mentioned document is a further document reading as follows:

"I, Jonkheer E. Michiels Van Verduynen, Envoy Extraordinary and Minister Plenipotentiary of Her Majesty the Queen of the Netherlands to the

Court of St. James hereby certifies that P. S. Gerbrandy, who has signed the annexed document, was at the time of signing the Minister of Justice of the Royal Netherlands Government, that C. H. Welter, who has signed the annexed document, was at the time of signing the Minister for the Colonies of the Royal Netherlands Government, that E. N. Van Kleffens, who has signed the annexed document, was at the time of signing the Minister for Foreign Affairs of the Royal Netherlands Government, and that the signatures affixed on the annexed document are the genuine signatures of the Ministers of Justice, Colonies and Foreign Affairs respectively, and that they, having countersigned the Royal Decree of May 24, 1940, Staatsblad number A (Nederlandsche Staatscourant number 151, 1940) are the competent Ministers of the Royal Netherlands Government to sign such a document on behalf of the Royal Netherlands Government, temporarily residing and exercising its function in London. London, 11th June 1940. (signed and sealed) E. Michiels Van Verduynen.'

"The Ambassador also reports that affixed to the above-mentioned documents is a third document reading as follows:

" 'Certificate of acknowledgment of execution of document Great Britain and Northern Ireland London, England, Consulate General of the United States of America, I, John J. Coyle, Vice Consul of the United States of America at London, England, duly commissioned and qualified, do hereby certify that on this eleventh day of June, 1940, before me personally appeared

" 'Jonkheer E. Michiels Van Verduynen, to me personally known, and known to me to be the individual described in, whose name is subscribed to, and who executed the annexed instrument, and being informed by me of the contents of said instrument he duly acknowledged to me that he executed the same freely and voluntarily for the uses and purposes therein mentioned. In witness whereof I have hereunto set my hand and official seal the day and year last above written. (signed and sealed) John J. Coyle, Vice Consul of the United States of America. No fee prescribed service number 4880.'

"The Ambassador reports that the foregoing documents are in his possession and will be transmitted to the Department of State by diplomatic pouch.

"Accept, Sir, the renewed assurances of my highest consideration.

"For the Secretary of State:

"A. A. BERLE, JR."

In reply to the Department's note of June 13, 1940 the Netherlands Minister addressed to the Department his note no. 4934 dated June 14, 1940, the text of which is as follows:

"ROYAL NETHERLANDS LEGATION

"No. 4934

Washington, D. C. June 14, 1940

"Sir,

"I have the honor to acknowledge the receipt of your note, dated June 13th, 1940, concerning a power of attorney which has been granted me by the Royal Netherlands Government to operate, control and otherwise exercise complete dominion over all accounts and all other property and interests of any nature whatever in the United States, and its territories and possessions, including the Philippine Islands and the Canal Zone, vested by the Royal Decree of May 24, 1940, in the State of the Netherlands as represented by the Royal Netherlands Government, temporarily residing and exercising its functions in London.

"The power of attorney in question is dated London, June 11, 1940, and is signed by P. S. Gerbrandy, the Netherlands Minister of Justice, Ch. Welter, the Minister for

the Colonies, and by E. N. van Kleffens, the Minister for Foreign Affairs. The power of attorney is authenticated by Jonkheer E. Michiels van Verduynen, Envoy Extraordinary and Minister Plenipotentiary of Her Majesty, the Queen of the Netherlands to the Court of St. James, who has thereby certified that Mr. P. S. Gerbrandy, Mr. Ch. Welter, and Mr. E. N. van Kleffens are Minister of Justice, Minister for the Colonies, and Minister for Foreign Affairs, respectively, of the Royal Netherlands Government; that the signatures affixed to the said power of attorney are the genuine signatures of the Ministers of Justice, Colonies and Foreign Affairs, respectively, and that they are the Ministers of the Royal Netherlands Government competent to sign such a document on behalf of the Royal Netherlands Government.

"I have been informed of the execution of the abovementioned power of attorney by the Royal Netherlands Foreign Office in a telegram, dated June 11th, 1940, in which it was stated that such power of attorney had been delivered to the United States Ambassador in London for transmission to the Department of State in Washington. The text of such power of attorney and the texts of the documents annexed thereto, which were received by you in a telegram from the United States Ambassador in London, and which you quoted to me in your note dated June 13th, 1940, are accepted by me as the authentic and binding texts of the said power of attorney and of its annexed documents.

"An official English translation of the Royal Decree of May 24, 1940, Staatsblad number A (Nederlandsche Staatscourant number 151, 1940) was transmitted to you with my note No. 4259 of June 1, 1940. An additional copy of the official English translation is enclosed herewith.

"Under instruction of my Government I now have the honor to certify to Your Excellency:

"(1) That the foregoing Royal Decree is a valid and binding act of the Royal Netherlands Government, and, pursuant to the terms thereof, claims, rights, property and interests referred to therein are, under the laws of the Netherlands, vested in the State of the Netherlands, as represented by the Royal Netherlands Government temporarily residing and exercising its functions in London.

"(2) That P. S. Gerbrandy, as Minister of Justice, Ch. Welter, as Minister for the Colonies, and E. N. van Kleffens, as Minister for Foreign Affairs, respectively, of the Royal Netherlands Government, are duly and legally authorized and empowered to sign documents of the nature of the above-mentioned power of attorney, and that Jonkheer E. Michiels van Verduynen is the duly accredited Envoy Extraordinary and Minister Plenipotentiary of Her Majesty, the Queen of the Netherlands to the Court of St. James, and as such has full authority to authenticate such power of attorney on behalf of the Royal Netherlands Government temporarily residing and exercising its functions in London.

"(3) That under the above described power of attorney I am duly and legally authorized and empowered to operate, control and otherwise exercise complete dominion over the accounts, property and interests referred to therein; to make certifications of exemptions under the Royal Decree of May 24, 1940; and to delegate the authority vested in me under such power of attorney, with power of revocation and substitution.

"I have the honor to request you to furnish a copy of this note to the appropriate authorities of the United States Government and to take any steps which you deem necessary to bring the contents of the Royal Decree of May 24, 1940, and of my power of attorney, to the attention of interested persons and institutions in the United States.

"Please accept, Sir, the renewed assurances of my highest consideration.

"A. LOUDON"

The enclosure mentioned in the above-quoted note from the Netherlands Minister (a copy of an official translation of the Royal Decree of May 24, 1940) is enclosed herewith.

It will be noted that the Minister states that he had been informed of the execution of the above-mentioned power of attorney by the Royal Netherlands Foreign Office in a telegram dated June 11, 1940 and that he accepts as the authentic and binding texts of the said power of attorney and of the documents annexed thereto, the texts which were communicated to him in the Department's note of June 13, 1940.

The Department of State is satisfied that the power of attorney referred to above has been delivered to its representatives in London, is in course of transmission to the Department, and presumably will reach this country in due course by diplomatic pouch from the American Embassy in London. Accordingly, such power of attorney may be treated as having been exhibited and delivered to the Government of the United States and as having such legal effect as a document so executed would have were it physically in the United States.

The Department is further satisfied that the individuals who signed such power of attorney, which, as stated above, may be treated as being now in the possession of this Department, are P. S. Gerbrandy, C. H. Welter, and E. N. van Kleffens, who are, respectively, the Minister of Justice, the Minister for the Colonies, and the Minister for Foreign Affairs, of the Royal Netherlands Government; that their signatures thereon are genuine; and that they are duly and legally authorized and empowered to sign such power of attorney on behalf of the Royal Netherlands Government. The Department is also satisfied that such power of attorney is duly authenticated by Jonkheer E. Michiels van Verduynen, the duly accredited Envoy Extraordinary and Minister Plenipotentiary of Her Majesty the Queen of the Netherlands to the Court of St. James; that his signature thereon is genuine; and that he has full authority to authenticate such power of attorney on behalf of the Royal Netherlands Government, temporarily residing and exercising its functions in London.

The Government of the United States continues to recognize as the Government of the Kingdom of the Netherlands the Royal Netherlands Government, which is temporarily residing and exercising its functions in London, and continues to recognize Dr. Alexander Loudon as the duly accredited Envoy Extraordinary and Minister Plenipotentiary of the Netherlands to the United States.

The Department of State has taken official cognizance of the Royal Decree of May 24, 1940 which has been notified to it by the duly accredited Minister of the Netherlands.

The Department of State, recognizing Dr. Alexander Loudon as the duly accredited Minister of the Netherlands to the United States, and, having in mind the documents and circumstances above set forth, accepts his authority to operate all accounts and other assets in the United States belonging to the Royal Netherlands Government.

Sincerely yours,

For the Secretary of State:

A. A. BERLE, JR.
Assistant Secretary

Enclosure:

Official translation
of the Royal Decree of
May 24, 1940.

ROYAL NETHERLANDS LEGATION

Netherlands Royal Decree of May 24, 1940

Royal Decree of May 24, 1940 (recorded in the Netherlands State Law Record of May 24, 1940) containing measures to prevent that property of and claims belonging to persons living in the Kingdom of the Netherlands, notably in the Realm in Europe, will be used in a manner which must be deemed to conflict with the interests of the country and of the inhabitants, particularly of those who remain in the territory occupied by the enemy.

We Wilhelmina, by the grace of God, Queen of the Netherlands, Princess of Orange Nassau, etc., etc., etc.

As submitted by our Ministers of Justice, of Colonies and of Foreign Affairs, on May 24, 1940 No. 1;

Considering, that it is necessary to take measures in order to prevent that property of and claims belonging to persons, residing in the Kingdom of the Netherlands, notably in the Realm in Europe, will be applied in a manner, which must be deemed to conflict with the interests of the country and of the inhabitants, particularly of those who reside in the territory occupied by the enemy; and that it is required to that end, as long as is necessary, to entrust this property and claims to the State of the Netherlands;

HAVE APPROVED AND ORDERED:

ARTICLE 1.

1. Title to claims against persons, partnerships, companies, corporations, firms, institutions and public bodies, which claims belong to natural or legal persons domiciled in the Kingdom of the Netherlands, as well as to all claims of the aforesaid persons for the delivery of gold deposited, in so far as these claims are in any form whatsoever capable of being encumbered, pledged, transferred or sold or the like, outside of the Realm in Europe, is hereby vested in the State of the Netherlands, as represented by the Royal Netherlands Government, temporarily resident in London and exercising Its functions there, subject always to the provisions of Article 5.

2. The foregoing is also applicable to all claims resulting from confirmed credits, participation in the capital of and loans to companies, corporations and firms (regardless of whether these claims are evidenced by stock certificates, bonds or other securities or commercial paper) in so far as the aforementioned claims belong to natural or legal persons within the Kingdom of the Netherlands and, in so far as these claims are in any form whatsoever capable of being encumbered, pledged, transferred or sold, or the like, outside of the Realm in Europe.

3. The proprietary rights vested in the State of the Netherlands, by virtue of the provisions of the preceding paragraphs, shall only be exercised for the conservation of the rights of the former owners.

ARTICLE 2.

1. Exempt from the transfer of ownership, mentioned in the previous article, are those claims, as previously defined, in regard to which proof is presented pursuant to Article 3 to the effect that, on May 15, 1940, they were the property of:

- a. either Netherlanders or Netherlands subjects or of subjects of powers not at war with the Kingdom;
- b. either legal persons or institutions, domiciled in the territory of the Kingdom or in the territory of powers not at war with the Kingdom,

provided always that the aforementioned natural or legal persons and institutions are or were domiciled before or on that date outside of the territory of the Kingdom now occupied by the enemy.

2. Natural persons who have left, after May 9, 1940 and before May 15, 1940, the territory of the Kingdom in Europe, otherwise than for enemy territory, as well as legal persons which in accordance with the provisions of the Act of April 26, 1940 (State Law Record No. 200), have transferred their seat to another territory of the Kingdom, shall for the application of this article be deemed to be domiciled on May 15, 1940 outside of the territory of the Kingdom occupied by the enemy, on condition that the transfer of the seat of the said legal persons has been approved beforehand by our Minister of Justice, or is subsequently ratified by the Governor General of the Netherlands Indies, by the Governor of Surinam or by the Governor of Curacao.

ARTICLE 3.

1. The Governor-General of the Netherlands Indies, the Governor of Surinam and the Governor of Curacao, each in so far as concerns the territory under his general administration, are empowered to make regulations concerning the manner in which the proof, mentioned in the previous article, must be presented.

2. In so far as not covered by the provisions in the previous paragraph, the making of these regulations shall be effected by our Minister of Justice.

ARTICLE 4.

This decree is also binding for the Netherlands Indies, Surinam and Curacao.

ARTICLE 5.

1. Three months after the present emergency conditions shall in Our judgment have ceased to exist, restitution shall be made of the claims mentioned in Article 1 to the former owners.

2. In deviation from the provisions in the previous paragraph Our Ministers of Justice and of Colonies are jointly empowered to make restitution in advance of the time mentioned in the previous paragraph to the former owners, provided it be proven to their satisfaction that direct or indirect use of these claims in behalf of the enemy is excluded.

ARTICLE 6.

This decree becomes operative beginning with the day of its recording in the State Law Record on this day, May 24, 1940.

London, May 24, 1940

WILHELMINA

The Minister of Justice
P. S. Gerbrandy

The Minister of Colonies
Ch. Welter

The Minister of Foreign Affairs
E. N. van Kleffens

Issued May twenty-four 1940

The Minister of Justice
P. S. Gerbrandy

I, Dr. Alexander Loudon, Minister for the Netherlands at Washington, D. C., certify that the above is a true translation of the official text in the Netherlands language of the Netherlands Royal Decree of May 24, 1940.

Washington, D. C.
June 1, 1940

Gezantschap
der
Nederlanden
—
Washington

A. LOUDON,
Minister for the Netherlands

237

The Secretary
We have
agreed upon
this form of
reply to Hiller's
letter.

swB
8/5

AUG 6th 1942

My dear Mr. Wallace:

This is in reply to your letter of August 3, 1942 enclosing a paraphrase of telegram No. 4258 from the American Embassy in London referring to the London Committee's discussion of post-war currency problems.

We have discussed the matter here in the Treasury and it is our suggestion that Ambassador Winant be advised that the question raised in his cable is being considered and that pending a decision, we would appreciate having an observer at the subcommittee meeting and being kept informed of the discussions. We would also like to receive any memoranda which are distributed or which have already been distributed on the subject.

Mr. Casaday, our man at the Embassy, is returning very shortly to the United States for a brief sojourn and, if you see no objection, we would like to send him the appended cable.

Sincerely yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury

The Honorable,

Sumner Wallace,

Acting Secretary of State

cc - Dr. White (set)

Sent by Mess. Bundy 12:15
8/6/42 to State Dept.

HDW
sub
1/5/42

FILE COPY

To: L. W. Casaday
American Embassy,
London, England

From: The Secretary of the Treasury

Please discuss with Ambassador Winant his cable No. 4258 of July 30, with a view to reporting to us upon your return to the United States as much of the background and developments of the matter raised in the cable referred to ^{as} that the Ambassador might feel would be helpful for the Treasury to know.

/s/ (initials) DWB

Caprio L. Call 8
240
H. L. 8/4/42



DEPARTMENT OF STATE
WASHINGTON

reply refer to
740.00113 European War 1939/443

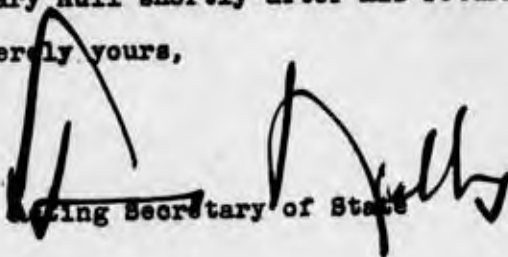
August 3, 1942

My dear Mr. Secretary:

I enclose a paraphrase of a telegram from Ambassador Winant (no. 4258 of July 30) submitting an invitation from the British Foreign Office to participate in informal meetings with Finance Ministers of Governments of the United Nations domiciled in London to discuss post-war currency problems of those countries and related questions.

This matter has obvious relevance to the question raised in your letter of July 20 regarding provisions of currency for use in territories reconquered by United Nations forces, which I understand you are to discuss with Secretary Hull shortly after his return.

Sincerely yours,


Cordell Hull
Secretary of State

Enclosure:

Paraphrase of telegram no. 4258,
American Embassy, London, July 30, 1942.

The Honorable,

Henry Morgenthau, Jr.,

Secretary of the Treasury.



PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London.

DATED: July 30, 9p.m.

NO: 4258

Through Ronald the Embassy has received information of the Foreign Office that an informal meeting of appropriate United Kingdom Government authorities, representatives of Dominions, and Finance Ministers of Allied Governments regarding the question of issuing a statement warning against acquisition of property seized in enemy occupied territories, resulted in the appointment of a subcommittee on another matter. Ronald asked on behalf of the Foreign Office whether the United States would be disposed to associate itself in any way with the subcommittee and its informal meetings.

The following explanation of the purpose of the subcommittee was given. It has appeared from informal talks with the Ministers of Finance of several Allied Governments which are now established in London that they attached great importance to the currency situation of their countries after the war. It was their feeling that confusion would result unless advanced considerations were given to the currency problems that would immediately arise as soon as their territories were clear of the enemy forces. The British Government has found that the Allied Governments domiciled in London were looking to it to give technical advice on questions such as, for example, what amount of currency would be appropriate to the needs in their countries after the war. The British Government fully appreciated the importance of these problems and fully recognizes their complexity. It therefore invited the Financial Ministers of these countries to submit memoranda of any views they might have from the points of view of their own countries on these post-war currency problems. It was further suggested that there might be a meeting for informal discussions on the basis of these memoranda.

The

-2-

The above-mentioned meeting of July 24 discussed this subject and decided that the United States and the Soviet Union (through Maisky) should be informally advised by the British Government of what was contemplated and should be asked whether they wished to be associated with the informal subcommittee in any way.

Pursuant to this decision Ambassador Maisky has been fully informed of the matter by Under Secretary Law, who asked whether the Soviet Union would like to send an observer or a representative to participate. Should the Government not wish to do either of these things, all memoranda dealing with the informal subcommittee work would be supplied to the Union.

At the meeting on July 24 Keynes summed up the economic aspect of the discussion which had been had. In so doing he paid a tribute to the memoranda which the Allied Finance Ministers had submitted. He remarked on the striking fact that the note issue in none of the countries concerned had reached astronomical levels as was the case in the First World War. It was shown by the memoranda that shortage of goods was much more responsible than superabundance of currency for the inflation now occurring in Europe. It would therefore be necessary to consider the volume of goods as well as the volume of currency and to have some sort of uniformity in policy. He thought that the uniformity between the problems and the solution of problems in the different European countries was striking. There would have to be some unification of the currency. In some cases this would require new units, and in other cases it would require the adaptation of existing currency unit. He referred to warnings that there was great potential possibility of immediate post-war inflation, and said that he thought that in the earlier period it would be necessary to maintain price controls. The subcommittee, he said, could also usefully discuss a series of other problems not identical in the different countries but similar enough to be discussed in the subcommittee.

He said that the British had given much thought to the international aspects of currency problems and, he thought, had made much progress but it was their feeling, in which he thought the Allied Governments would concur, that it would be wise for the British to discuss this matter first of all with their American friends, who would be so greatly concerned with it.

The

-3-

The Embassy will obtain and transmit with a brief summary analysis the memoranda submitted to the British for the July 24 meeting.

Does the Department wish the Embassy to be represented at the informal meetings of the subcommittee, and if so, how, or does it wish only to be completely informed in detail of the subcommittee's proceedings and of any memoranda which are submitted to the subcommittee through the British Government? Please instruct.

It is assumed that the Treasury will be informed hereof by the Department.

FD: FL: JD

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE
August 6, 1942

TO Secretary Morgenthau
FROM Randolph Paul

There is under consideration by the various allied Governments in London the issuance of a joint declaration by all of the Governments of the United Nations which will give formal warning to all persons concerned, and in particular to the neutral governments, that the Governments of the United Nations reserve the right to declare invalid all transfers of property rights and interests situated in territory occupied or controlled by the Axis powers, regardless of the form which such transfers may take.

Applying this, for example, to the case of the Philippine Islands, it would be the announced policy of this Government that we reserve the right to examine into and declare invalid any transfer of any property right or interest situated in the Philippine Islands, which was made during Japanese occupation of the Philippine Islands.

The declaration will also invite the neutral governments to take all possible steps to warn their nationals against any purchases of any such property from the Axis powers or Axis nationals.

That this should be the policy of our Government seems clear. Furthermore, the formal announcement of such a policy at this time by this Government, in conjunction with the other Governments of the United Nations, can do no harm and may do some good. Thus, it may discourage the purchase from the Axis by the neutrals of property situated in the occupied countries.

If you approve, we will advise the State Department of our approval of such a joint declaration.

REP.

(Dictated by Donald Hiss - 8/5/42 - 5:10 p.m.)

Second paragraph -

Neutral governments are invited to take all possible steps to warn their nationals against any such purchases from Axis powers or their nationals or agents, whether directly or indirectly, of such property which at the date of invasion or occupation of any territory of any one of the above-mentioned governments belonged to nationals or persons wherever resident.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

August 6, 1942.

TO Secretary Morgenthau.
FROM Randolph Paul.

Re: Moratorium on Philippine Indebtedness
in the United States.

Certain Philippine companies having publicly held bonds outstanding in the United States are, as a result of the war, not able to meet either the interest or the principal on such funded indebtedness. As a result, it is probable that these companies will be forced to default on their obligations in the United States unless some action is taken. The three principal companies involved had a small portion of their funds in the United States when the Philippine Islands were frozen which they were permitted to use to make current interest payments, but at the present time, the companies are in such a financial position, inasmuch as the bulk of their assets are in the Philippine Islands, that they are unable to make any further interest payments.

Since Philippine funds have been frozen, no payments can be made by Philippine companies without license from the Treasury Department. It is now proposed to supplement and clarify such freezing control by a general ruling which will specifically prohibit except under license all persons within the United States from enforcing any obligation of any Philippine company. This would prevent any creditor from forcing any of these Philippine companies into bankruptcy or receivership.

It should also be noted that certain of the Philippine companies are subsidiaries of United States holding

I Manila Gas Corporation, Manila Electric Corporation, and Philippine Long Distance Telephone Company.

- 2 -

companies such as Associated Gas & Electric Company, Consolidated Electric & Gas Company and Associated Telephone & Telegraph Company. These holding companies have funded debt outstanding with the public in the United States; and the indentures securing such funded debt contain provisions which would put such holding companies into default were the subsidiary Philippine companies to go into default on their funded debt. The proposed general ruling will prevent any creditor from forcing these holding companies into bankruptcy or receivership due to the inability of the Philippine companies to meet their obligations.

It seems appropriate at this time to endeavor to protect these companies and their security-holders in the United States. As it will be impossible until the end of the war to determine the condition or value of the property which these companies have in the Philippines, the proposed general ruling will be to the benefit of all interested parties since it will freeze the situation until such time as an accurate appraisal of the facts can be had.

This program has the approval of the Department of the Interior and the Securities and Exchange Commission and, if you approve, we propose to issue the attached general ruling and press release after clearing the same with the Philippine Government.

Attachments.

TREASURY DEPARTMENT
Washington, D. C.

Press Service
No.

FOR IMMEDIATE RELEASE

The Treasury Department today announced a moratorium on obligations owed in the United States by Philippine companies.

Pursuant to General Ruling No. 10-A issued today under the Presidential freezing orders no Philippine company may make any payment on an obligation owed in the United States and no person may enforce any claim or obligation against a Philippine company. Such payments can be made and such claims can be enforced only if a Foreign Funds Control license is first obtained.

Treasury officials stated that today's action was intended to make it clear that the assets of Philippine companies in the United States were fully frozen so that the interests of all the parties involved could be fully and properly protected. It was pointed out that some of these Philippine companies had assets in the Philippines worth many millions of dollars before the war and only a relatively small amount of funded indebtedness. The companies do not have assets in the United States at this time to meet maturing obligations and since no one knows or could know, the present condition or value of property in the Philippines, it is, at the present time, impossible to deal fairly with the respective rights of stockholders, bondholders and other creditors. Under today's ruling the situation will be frozen until it is possible to ascertain the facts.

- 2 -

It was pointed out by Treasury representatives that Philippine companies would not be permitted to use today's ruling to avoid paying their obligations in any case where funds were available and such payments could be made on an equitable basis. In such cases the Treasury will license payments upon appropriate application by interested parties. Moreover, the Treasury expects Philippine companies to furnish their creditors upon demand with information concerning their present ability to pay their obligations. Any failure to furnish such information will be dealt with appropriately by the Treasury.

TREASURY DEPARTMENT,
Office of the Secretary,

GENERAL RULING NO. 10-A

UNDER EXECUTIVE ORDER NO. 8389, AS AMENDED,
EXECUTIVE ORDER NO. 9193, SECTIONS 3(a) AND 5(b) OF THE
TRADING WITH THE ENEMY ACT, AS AMENDED BY THE FIRST WAR
POWERS ACT, 1941, RELATING TO FOREIGN FUNDS CONTROL.

(1) Unless authorized by a license expressly referring to this
general ruling:

(a) No Philippine company shall make any payment, or perform
any covenant, duty, condition or service within the United States
on, or with respect to, any direct or indirect obligation or
security of, or claim against, such company.

(b) No person shall exercise within the United States any
right, remedy, power or privilege with respect to, or directly or
indirectly arising out of or in connection with, any obligation
or security of, or claim against, any Philippine company, including
any right, remedy, power or privilege with respect to any guaranty,
covenant or agreement that such Philippine company will perform
any covenant, duty, condition, or service.

*Part 132; - Sec. 5(b), 40 Stat. 415 and 966; Sec. 2, 48 Stat. 1; 54 Stat.
179; Public No. 354, 77th Congress, 55 Stat. 838; Ex. Order 8389, April 10,
1940, as amended by Ex. Order 8785, June 14, 1941, Ex. Order 8832, July 26,
1941, Ex. Order 8963, December 9, 1941, Ex. Order 8998, December 26, 1941,
and Ex. Order 9193, July 6, 1942; Regulations, April 10, 1940, as amended
June 14, 1941, and July 26, 1941.

- 2 -

(2) Unless otherwise provided, an appropriate license or other authorization issued by the Secretary of the Treasury shall remove all the restrictions, disabilities and other limitations imposed by this general ruling to the same extent as such restrictions, disabilities and other limitations have been imposed by this general ruling.

(3) This general ruling shall not be deemed to prohibit or otherwise restrict the ordinary purchase, sale, transfer, pledge, or hypothecation of, or similar dealing in, securities which are issued by, or the obligation of, any Philippine company or to prohibit or restrict transactions incidental thereto.

(4) As used in this general ruling, the term "Philippine company" shall mean:

(i) Any partnership, association, corporation or other organization organized under the laws of the Philippine Islands and which prior to January 1, 1942, derived its principal income from the Philippine Islands;

(ii) Any sole proprietorship which prior to January 1, 1942, derived its principal income from, and was primarily engaged in business in, the Philippine Islands; and

(iii) Any agent, trustee, transfer or paying agent, or other representative of or for any Philippine company to the extent that it acts as such.

Secretary of the Treasury

Treasury Department
Division of Monetary Research

22

Date August 6, 1942 19

To: Secretary Morgenthau

From: Mr. White

Subject: Germany - France - Occupation Costs
German Fortification of Western
Europe

Couve de Murville, who is in charge of the foreign business of the French Treasury, has informed the American Embassy that French payments to Germany for "occupation costs" are now about 305 million francs daily.

He said that Germany was actually now spending greatly more than 305 million francs per day in France. He estimated that in June Germany spent approximately 500 million francs per day in France. This money, he writes, was spent largely on fortifying the French coast in the occupied zone. He reported that the first defensive line on coast is practically finished and that construction on other fortifications in the rear is being expedited.

Couve de Murville denied that France was making gold available to Germany via Lisbon or in any other way. However he agreed that the Germans are buying gold and dollar currency wherever they can. He believes that this currency is, in part, being given to captains of German submarines for delivery to Axis agents in the western hemisphere.

Richy, No. 1127, August 3, 1942

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Vichy, France.

DATE: August 3, 1942, 5 p.m.

NO.: 1127.

The following is a strictly confidential message.

Mr. Couve de Murville, who returned this morning from Paris, was asked by us whether he could confirm the information that 350 million francs per day is being paid to the Germans by France. Mr. de Murville said that 350 million francs was not a strictly accurate figure because actual daily costs of occupation are now 300 million francs in addition to the cost of lodging German troops. He estimates that billeting German troops is not much in excess of 5 million francs daily. De Murville made the statement that at first the expenses of the Germans in France had amounted to 200 million francs daily and that this amount was substantially less than the German receipts from the Government of France. However, ever since the Germans started building defensive fortifications in Occupied-France, their expenditures mounted steadily. The greater part of Germany's June expenditures, which averaged approximately 500 million francs per day, was spent on these fortifications. Information received from de Murville is that the first defensive line on the coast is practically finished and that construction on other fortifications in the rear is being expedited.

He categorically denied a rumor we mentioned that gold had been made available to Germany in Portugal by France. During the month of May, he said, he traveled to Lisbon with several million dollars worth of gold which was for expenditures of the French Legation there; and for French purchases in Portugal, and not for German account. He added that the German economic delegation had not liked the idea and that German approval to export this gold had been obtained by his Government only with considerable difficulty.

Our informant, who also visited Switzerland recently, said that the Germans are continuing their purchases of dollar bills and gold wherever they can. He said that he has good reason to believe that this currency in part is being given to captains of German submarines for delivery to agents of the Axis in Central America, South America and in the United States.

THOMPSON

Copy: lms: 8/5/42

Treasury Department
Division of Monetary Research

254

Date August 8, 1942 19

To: Secretary Morgenthau

From: Mr. White

The enclosed figures on exports to Russia are by weeks from December 29, 1941 to January 31, 1942 and by 10-day periods from February 1, 1942 to July 20. The figures for the ten day period ending July 20 are the latest received from Commerce Department. There is usually a lag of about one week in receiving the material from Commerce.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 6, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Exports from the United States to Russia
as reported to the Treasury Department.
December 29, 1941 - July 20, 1942
(Thousands of Dollars)

Dec. 29 - Jan. 3	3,993
Jan. 5 - Jan. 10	8,247
Jan. 12 - Jan. 17	5,874
Jan. 19 - Jan. 24	3,885
Jan. 26 - Jan. 31	9,608
Feb. 1 - Feb. 10 <u>1/</u>	13,315
Feb. 10 - Feb. 20	26,174
Feb. 20 - Feb. 28 <u>2/</u>	28,119
Mar. 1 - Mar. 10	32,509
Mar. 10 - Mar. 20	28,556
Mar. 20 - Mar. 31 <u>3/</u>	42,435
Apr. 1 - Apr. 10	51,698
Apr. 11 - Apr. 20	66,906
Apr. 21 - Apr. 30	50,958
May 1 - May 10 <u>4/</u>	28,652
May 11 - May 20	18,000
May 21 - May 31 <u>3/</u>	26,180
June 1 - June 10	12,764
June 11 - June 20	53,799
June 21 - June 30	49,919
July 1 - July 10	35,657
July 11 - July 20	<u>33,940</u>
Total	\$631,188

1/ Beginning with February 1, figures are given for 10-day period, except where otherwise indicated.

2/ 8-day period.

3/ 11-day period.

4/ Due to changes in reporting procedure by the Department of Commerce this report was incomplete for the period indicated.

AUG 6TH 1942

My dear Mr. President:

I am enclosing report on our exports to some selected countries for the period ending July 20, 1942.

Faithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The President,
The White House.

Enclosure.

Sent by SS Agent 8/6/42
4:45

HDM/efe
8/1/42

HDW

FILE COPY

*cc. Diary
cc. Dr. White*

August 1, 1942

Exports to Russia, Free China, Burma, France and other blocked countries, as reported to the Treasury Department during the ten-day period ending July 20, 1942.

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending July 20, 1942 amounted to about \$34,000,000. Among the military equipment exported were 54 light tanks, 90 medium tanks and 18 medium bombers. (See Appendix G.)

2. Exports to Free China and Burma

Exports to Free China as reported during the ten-day period under review amounted to \$590,000 as compared with \$7,900,000 during the previous ten-day period. Military equipment accounted for more than 75 percent of the total. (See Appendix D.)

No exports to Burma were reported during the period under review.

3. Exports to France

No exports to France were reported during the period under review.

4. Exports to other blocked countries.

Exports to other blocked countries were negligible during the ten-day period under review. (See Appendix A.)

ISF/ofs
8/1/42

SUMMARY OF UNITED STATES
DOMESTIC EXPORTS TO SELECTED COUNTRIES
AS REPORTED TO THE TREASURY DEPARTMENT
FROM EXPORT DECLARATIONS RECEIVED
DURING THE PERIOD INDICATED 1/

July 28, 1941 to July 20, 1942

(In thousands of dollars)

	July 28 to June 30	Period ended July 10	Period ended July 20	Total Domestic Exports
U. S. R.	\$637,791	\$35,618	\$33,940	\$707,349
Free China	86,164	7,900	990	94,654
Burma 2/	12,435	45	—	12,480
France 3/	56	5/	—	56
Holland	2,849	—	5/	2,849
Netherlands	11,301	93	1	11,395
Sweden	17,780	82	—	17,862
Portugal	9,201	162	28	9,391
French North Africa 4/	6,283	—	—	6,283

Treasury Department, Division of Monetary Research

July 21, 1942

Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period. The longer the period covered, the closer will these figures come to Department of Commerce revised figures.

From September 11, 1941 to date — it is presumed that a large percentage of material listed here, consigned to Burma, is destined for Free China.

Includes both Occupied and Unoccupied France — no breakdown is obtainable from Department of Commerce.

Includes Morocco, Algeria, and Tunisia.

Less than \$500.

1/gra
20/42

APPENDIX B

Exports from the U. S. to Free China, Burma and U.S.S.R. as reported to the Treasury Department July 28, 1941 - July 20, 1942 1/ (Thousands of Dollars)

	<u>Exports to Free China</u>	<u>Exports to Burma 3/</u>	<u>Exports to U.S.S.R.</u>
July 28 - Aug. 2	395		4,525
Aug. 4 - Aug. 9	-		551
Aug. 11 - Aug. 16	309		966
Aug. 18 - Aug. 23	2		2,735
Aug. 25 - Aug. 30	1		1,025
Sept. 2 - Sept. 6	204		4,280
Sept. 8 - Sept. 13	2,281		5,217
Sept. 15 - Sept. 20	3,822		752
Sept. 22 - Sept. 27	110		2,555
Sept. 29 - Oct. 4	1,225	619	325
Oct. 6 - Oct. 11	5,312	1,157	6,815
Oct. 13 - Oct. 18	5	35	1,924
Oct. 20 - Oct. 25	269	405	5,625
Oct. 27 - Nov. 1	4,772	58	4,484
Nov. 3 - Nov. 8	1,672	362	4,552
Nov. 10 - Nov. 15	2,851	88	2,677
Nov. 17 - Nov. 22	1,228	1,021	3,581
Nov. 24 - Nov. 29	3,259	1,364	2,436
Dec. 1 - Dec. 6	791	64	3,609
Dec. 8 - Dec. 13	2,557	18	12,010
Dec. 15 - Dec. 20	111	8	4,580
Dec. 22 - Dec. 27	1	196	1,829
Dec. 29 - Jan. 3	35	2	3,995
Jan. 5 - Jan. 10	91	1,073	8,217
Jan. 12 - Jan. 17	1,695	447	5,874
Jan. 19 - Jan. 24	-	-	3,895
Jan. 26 - Jan. 31	6,958	923	9,608
Feb. 1 - Feb. 10	4,889	1,054	15,315
Feb. 10 - Feb. 20	4,855	583	25,174
Feb. 20 - Feb. 28	2,921	-	28,119
Mar. 1 - Mar. 10	2,879	23	32,509
Mar. 10 - Mar. 20	8,058	2	28,555
Mar. 20 - Mar. 31	2	2	42,455
Apr. 1 - Apr. 10	4,836	447	51,698
Apr. 11 - Apr. 20	5,555	639	64,906
Apr. 21 - Apr. 30	2,827	-	50,958
May 1 - May 10	296	-	28,652
May 11 - May 20	1,872	5	18,000
May 21 - May 31	2,555	-	26,189
June 1 - June 10	3,599	234	12,764
June 11 - June 20	2,707	-	55,799
June 21 - June 30	1,664	.06	49,919
July 1 - July 10	7,900	45	55,677
July 11 - July 20	599	-	55,960
Total	\$97,257	\$11,367.06	\$708,091

APPENDIX B

Page 2

1. These figures are in part taken from copies of shipping manifests.
2. Figures for exports to Free China during these weeks include exports to Rangoon which are presumed to be destined for Free China.
3. It is presumed that a large percentage of exports to Burma are destined for Free China.
4. Beginning with February 1 figures will be given for 10-day period instead of week except where otherwise indicated.
5. 8-day period.
6. 11-day period.
7. Due to changes in reporting procedure by the Department of Commerce this report is incomplete for the period indicated.

SECRET

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APPENDIX C

Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
July 20, 1942

	Unit of <u>Quantity</u>	<u>Quantity</u>	Value (Thousands of Dollars)
TOTAL EXPORTS			\$ 33,940
Principal Items:			
Military tanks			8,210
Light tanks (M-3)	No.	54	
Medium tanks (M-3)	No.	90	
Ammunition			5,974
.30 caliber	No.	20,822,891	
.32, .38 and .45 caliber	No.	7,509,000	
.50 caliber	No.	4,197,020	
3 inch .50 caliber naval	No.	1,000	
37 mm. anti-aircraft	No.	134,270	
75 mm. armor piercing & high explosive	No.	81,232	
81 mm. mortar shells	No.	15,332	
Links and belts for small arms ammunition	No.	4,910,000	
Components for anti-aircraft ammunition	-	-	
Flares - aircraft	No.	50	
Guns			3,795
Sub-machine guns, .45 caliber	No.	11,148	
Machine guns, .50 caliber - aircraft	No.	25	
Hispaco Suiza, 20 mm. aircraft guns	No.	51	
Gun parts and accessories	-	-	
Aircraft medium bombers (2 eng. B-25)	No.	18	2,775
Pork and sausage, canned	Lb.	4,261,893	1,661
Aircraft parts and accessories	-	-	1,427
Explosives			983
Nitromannite	Lb.	290,512	
Smokeless powder	Lb.	985,336	
Trinitro toluene (T.N.T.)	Lb.	2,093,705	

Treasury Department, Division of Monetary Research

July 31, 1942

SP/afs
/31/42

APPENDIX D

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
July 20, 1942**

(Thousands of Dollars)

TOTAL EXPORTS

\$ 590

Principal Items:

Military equipment

455

Printed matter

128

Relief supplies - surgical and hospital

6

Relief supplies - other

1

Treasury Department, Division of Monetary Research July 31, 1942

**ISF/efs
7/31/42**

Treasury Department 263
Division of Monetary Research

Date August 3 1942

To: Miss Chauncey 264

From: Mr. White

The tables for transmittal to the Secretary of State differ from those being sent to the President in that certain military figures are not broken down.

Treasury Department
Division of Monetary Research

Date ..August..3.....19 42

To: Secretary Morgenthau

From: Mr. White

264

Original of this report
appended to prepared letter to
President.

August 1, 1942

**Exports to Russia, Free China, Burma, France and other
blocked countries, as reported to the Treasury
Department during the ten-day period ending
July 20, 1942.**

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending July 20, 1942 amounted to about \$34,000,000. Among the military equipment exported were 54 light tanks, 90 medium tanks and 18 medium bombers. (See Appendix C.)

2. Exports to Free China and Burma

Exports to Free China as reported during the ten-day period under review amounted to \$590,000 as compared with \$7,900,000 during the previous ten-day period. Military equipment accounted for more than 75 percent of the total. (See Appendix D.)

No exports to Burma were reported during the period under review.

3. Exports to France

No exports to France were reported during the period under review.

4. Exports to other blocked countries.

Exports to other blocked countries were negligible during the ten-day period under review. (See Appendix A.)

ISF/efs
8/1/42

SUMMARY OF UNITED STATES
DOMESTIC EXPORTS TO SELECTED COUNTRIES
AS REPORTED TO THE TREASURY DEPARTMENT
FROM EXPORT DECLARATIONS RECEIVED
DURING THE PERIOD INDICATED 1/

July 28, 1941 to July 20, 1942

(In thousands of dollars)

	July 28 to June 30	Period ended July 10	Period ended July 20	Total Domestic Exports
U. S. S. R.	\$637,791	\$35,618	\$33,940	\$707,349
Free China	86,164	7,900	990	94,654
Burma 2/	12,435	45	—	12,480
France 3/	56	5/	—	56
Spain	2,849	—	5/	2,849
Netherlands	11,301	93	1	11,395
Sweden	17,780	82	—	17,862
Portugal	9,201	162	28	9,391
French North Africa 4/	6,283	—	—	6,283

Treasury Department, Division of Monetary Research

July 21, 1942

Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period. The longer the period covered, the closer will these figures come to Department of Commerce revised figures.

From September 11, 1941 to date — it is presumed that a large percentage of material listed here, consigned to Burma, is destined for Free China.

Includes both Occupied and Unoccupied France — no breakdown is obtainable from Department of Commerce.

Includes Morocco, Algeria, and Tunisia.

Less than \$500.

W/grs
30/42

SECRET

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APPENDIX B

Exports from the U. S. to Free China, Burma and
U.S.S.R. as reported to the Treasury Department
July 28, 1941 - July 20, 1942 1/
(Thousands of Dollars)

	Exports to Free China	Exports to Burma 3/	Exports to U.S.S.R.
July 28 - Aug. 2	395		4,523
Aug. 4 - Aug. 9	-		551
Aug. 11 - Aug. 16	309		986
Aug. 18 - Aug. 23	2		2,735
Aug. 25 - Aug. 30	1		1,025
Sept. 2 - Sept. 6	204		4,280
Sept. 8 - Sept. 13	2,281	2/	5,217
Sept. 15 - Sept. 20	3,822	2/	752
Sept. 22 - Sept. 27	110	449	2,353
Sept. 29 - Oct. 4	1,225	684	325
Oct. 6 - Oct. 11	5,312	1,157	6,845
Oct. 13 - Oct. 18	5	35	1,924
Oct. 20 - Oct. 25	269	403	5,623
Oct. 27 - Nov. 1	4,772	58	4,484
Nov. 3 - Nov. 8	1,672	342	4,552
Nov. 10 - Nov. 15	2,851	88	2,677
Nov. 17 - Nov. 22	1,228	1,021	3,581
Nov. 24 - Nov. 29	3,239	1,364	2,436
Dec. 1 - Dec. 6	791	64	3,609
Dec. 8 - Dec. 13	2,337	18	12,040
Dec. 15 - Dec. 20	111	8	4,580
Dec. 22 - Dec. 27	1	196	1,829
Dec. 29 - Jan. 3	35	2	3,993
Jan. 5 - Jan. 10	91	1,073	8,247
Jan. 12 - Jan. 17	1,695	447	5,874
Jan. 19 - Jan. 24	-	-	3,885
Jan. 26 - Jan. 31	6,938	923	9,608
Feb. 1 - Feb. 10 4/	4,889	1,054	13,315
Feb. 10 - Feb. 20	4,853	583	26,174
Feb. 20 - Feb. 28 5/	2,921	-	28,119
Mar. 1 - Mar. 10	2,879	23	32,509
Mar. 10 - Mar. 20	8,058	3	28,556
Mar. 20 - Mar. 31 6/	2	2	42,435
Apr. 1 - Apr. 10	4,836	447	51,698
Apr. 11 - Apr. 20	5,335	639	66,906
Apr. 21 - Apr. 30	2,827	-	50,958
May 1 - May 10 7/	296	-	28,652
May 11 - May 20	1,872	5	18,000
May 21 - May 31 6/	2,533	-	26,180
June 1 - June 10	3,399	234	12,764
June 11 - June 20	2,707	-	53,799
June 21 - June 30	1,644	.06	49,919
July 1 - July 10	7,900	45	35,657
July 11 - July 20	590	-	33,940
Total	\$97,257	\$11,367.06	\$708,091

APPENDIX B

Page 2

1. These figures are in part taken from copies of shipping manifests.
2. Figures for exports to Free China during these weeks include exports to Rangoon which are presumed to be destined for Free China.
3. It is presumed that a large percentage of exports to Burma are destined for Free China.
4. Beginning with February 1 figures will be given for 10-day period instead of week except where otherwise indicated.
5. 8-day period.
6. 11-day period.
7. Due to changes in reporting procedure by the Department of Commerce this report is incomplete for the period indicated.

APPENDIX C

**Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
July 20, 1942**

	<u>Unit of</u>	<u>Quantity</u>	<u>Value</u> (Thousands of Dollars)
TOTAL EXPORTS			\$ 33,940
Principal Items:			
Military tanks			8,210
Light tanks (M-3)	No.	54	
Medium tanks (M-3)	No.	90	
Ammunition			5,974
.30 caliber	No.	20,822,891	
.32, .38 and .45 caliber	No.	7,509,000	
.50 caliber	No.	4,197,020	
3 inch .50 caliber naval	No.	1,000	
37 mm. anti-aircraft	No.	134,270	
75 mm. armor piercing & high explosive	No.	81,232	
81 mm. mortar shells	No.	15,332	
Links and belts for small arms ammunition	No.	4,910,000	
Components for anti-aircraft ammunition	-	-	
Flares - aircraft	No.	50	
Guns			3,795
Sub-machine guns, .45 caliber	No.	11,148	
Machine guns, .50 caliber - aircraft	No.	25	
Hispano Suiza, 20 mm. aircraft guns	No.	51	
Gun parts and accessories	-	-	
Aircraft medium bombers (2 eng. B-25)	No.	18	2,775
Pork and sausage, canned	Lb.	4,261,893	1,661
Aircraft parts and accessories	-	-	1,427
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Trinitro toluene (T.N.T.)	Lb.	2,893,705	

Treasury Department, Division of Monetary Research

July 31, 1942

SF/efs
7/31/42

SECRET

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APPENDIX D

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
July 20, 1942**

(Thousands of Dollars)

TOTAL EXPORTS	\$ 590
Principal Items:	
Military equipment	455
Printed matter	128
Relief supplies - surgical and hospital	6
Relief supplies - other	1

Treasury Department, Division of Monetary Research July 31, 1942

**ISF/efs
7/31/42**

AUG 6 1942

My dear Mr. Secretary:

I am enclosing copy of report on our exports to some selected countries for the period ending July 20, 1942.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable,
The Secretary of State,
Washington, D. C.

Enclosure.

Sent by Mess. Brown 8/6/42
4:30

HDW
HDW/cfs
8/2/42

FILE COPY

cc - Disney
cc - Dr White

August 1, 1942

Exports to Russia, Free China, Burma, France and other blocked countries, as reported to the Treasury Department during the ten-day period ending July 20, 1942.

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending July 20, 1942 amounted to about \$34,000,000. Military equipment accounted for somewhat less than 75 percent of the total. (See Appendix C.)

2. Exports to Free China and Burma

Exports to Free China as reported during the ten-day period under review amounted to \$590,000 as compared with \$7,900,000 during the previous ten-day period. Military equipment accounted for more than 75 percent of the total. (See Appendix D.)

No exports to Burma were reported during the period under review.

3. Exports to France

No exports to France were reported during the period under review.

4. Exports to other blocked countries

Exports to other blocked countries were negligible during the ten-day period under review. (See Appendix A.)

ISF/efs
8/1/42

STRICTLY CONFIDENTIAL

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SUMMARY OF UNITED STATES
DOMESTIC EXPORTS TO SELECTED COUNTRIES
AS REPORTED TO THE TREASURY DEPARTMENT
FROM EXPORT DECLARATIONS RECEIVED
DURING THE PERIOD INDICATED 1/

July 28, 1941 to July 20, 1942.

(In thousands of dollars)

	July 28 to <u>June 30</u>	Period ended <u>July 10</u>	Period ended <u>July 20</u>	Total <u>Domestic Exports</u>
U. S. S. R.	\$637,791	\$35,618	\$33,940	\$707,349
Free China	86,164	7,900	990	94,654
Burma 2/	12,435	45	—	12,480
France 3/	56	1/	—	56
India	2,849	—	1/	2,849
Netherlands	11,301	93	1	11,395
Sweden	17,780	82	—	17,862
Portugal	9,201	162	28	9,391
French North Africa 4/	6,283	—	—	6,283

Treasury Department, Division of Monetary Research

July 21, 1942

Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period. The longer the period covered, the closer will these figures come to Department of Commerce revised figures.

From September 11, 1941 to date — it is presumed that a large percentage of material listed here, consigned to Burma, is destined for Free China.

Includes both Occupied and Unoccupied France — no breakdown is obtainable from Department of Commerce.

Includes Morocco, Algeria, and Tunisia.

Less than \$500.

Figures
10/42

Regraded Unclassified

SECRET

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APPENDIX B

Exports from the U. S. to Free China, Burma and
U.S.S.R. as reported to the Treasury Department
July 28, 1941 - July 20, 1942 ✓
(Thousands of Dollars)

	Exports to <u>Free China</u>	Exports to <u>Burma 3/</u>	Exports to <u>U.S.S.R.</u>
July 28 - Aug. 2	395		4,525
Aug. 4 - Aug. 9	-		551
Aug. 11 - Aug. 16	309		966
Aug. 18 - Aug. 23	2		2,735
Aug. 25 - Aug. 30	1		1,025
Sept. 2 - Sept. 6	204		4,285
Sept. 8 - Sept. 13	2,381	2/	5,217
Sept. 15 - Sept. 20	3,822	2/	752
Sept. 22 - Sept. 27	110	449	2,535
Sept. 29 - Oct. 4	1,225	684	5,525
Oct. 6 - Oct. 11	5,312	1,157	6,815
Oct. 13 - Oct. 18	5	55	1,224
Oct. 20 - Oct. 25	269	405	2,823
Oct. 27 - Nov. 1	4,772	58	4,184
Nov. 3 - Nov. 8	1,672	312	2,721
Nov. 10 - Nov. 15	2,831	88	2,077
Nov. 17 - Nov. 22	1,258	1,021	2,981
Nov. 24 - Nov. 29	3,239	1,344	3,134
Dec. 1 - Dec. 6	791	64	3,609
Dec. 8 - Dec. 13	2,327	18	1,066
Dec. 15 - Dec. 20	111	8	1,288
Dec. 22 - Dec. 27	1	196	1,839
Dec. 29 - Jan. 3	35	2	3,775
Jan. 5 - Jan. 10	51	1,075	2,217
Jan. 12 - Jan. 17	1,695	467	3,874
Jan. 19 - Jan. 24	-	-	3,881
Jan. 26 - Jan. 31	6,938	323	9,608
Feb. 1 - Feb. 10 ✓	4,889	1,024	13,315
Feb. 10 - Feb. 20 ✓	4,855	383	23,174
Feb. 20 - Feb. 28 ✓	2,921	-	28,119
Mar. 1 - Mar. 10 ✓	2,579	23	12,509
Mar. 10 - Mar. 20 ✓	8,048	23	28,725
Mar. 20 - Mar. 31 ✓	3	2	12,435
Apr. 1 - Apr. 10	4,836	467	11,698
Apr. 11 - Apr. 20	5,255	639	66,984
Apr. 21 - Apr. 30	2,827	-	55,938
May 1 - May 10 ✓	296	-	25,625
May 11 - May 20 ✓	1,872	5	18,088
May 21 - May 31 ✓	2,535	-	24,189
June 1 - June 10	3,339	234	12,764
June 11 - June 20	2,707	-	53,799
June 21 - June 30	1,464	-	40,919
July 1 - July 10	7,900	45	37,697
July 11 - July 20	599	-	53,260
Total	\$97,257	\$11,367.06	\$708,091

APPENDIX B

Page 2

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3. It is presumed that a large percentage of exports to Burma are destined for Free China.
4. Beginning with February 1 figures will be given for 10-day period instead of week except where otherwise indicated.
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6. 11-day period.
7. Due to changes in reporting procedure by the Department of Commerce this report is incomplete for the period indicated.

APPENDIX C

Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
July 20, 1942

(Thousands of Dollars)

TOTAL EXPORTS	\$ 33,940
Principal Items:	
Military equipment	24,576
Pork and sausage, canned	1,661
Iron and steel plates, sheets and strip	967
Sole and belting leather	570
Well drilling apparatus and parts	431
Men's boots and shoes	370
Wheat flour	359
Surgical and medical instruments	314

SECRET

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APPENDIX D

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
July 20, 1942**

(Thousands of Dollars)

TOTAL EXPORTS	\$ 590
Principal Items:	
Military equipment	455
Printed matter	128
Relief supplies - surgical and hospital	6
Relief supplies - other	1

Treasury Department, Division of Monetary Research July 31, 1942

**LSF/ofs
7/31/42**

August 6, 1949

Mr. Liversy

Mr. White

Will you please send the following telegram to the American Embassy, Chungking,
China,

"For Adler from the Secretary of the Treasury".

S
O
P
Y

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TO: Adler, Chungking, China
FROM: Secretary of the Treasury

Telegram dated July 31, 1942 from Currie informs us that Hall-Patch insists that Treasury recommendation of you is not in accordance with Sino-American Agreement and that you cannot function on the Board in that capacity and that Treasury recommendation is at variance with Dr. Kung's appointment of you as acting member on July 17. It is not clear to us here why Hall-Patch is passing on any of these matters since they involve exclusively matters between China and the United States under the Sino-American Agreement of April 1, 1941 and the title to be accorded to the American representative on the Board. We are satisfied that our recommendation to Dr. Kung to designate you as "acting alternate member" and Dr. Kung's acceptance of that recommendation, as indicated in telegram from Dr. Kung to Secretary of Treasury dated July 6 and sent through Cance No. 796, make entirely legal your acting as the American representative on the Board and that there is no reason for Board meetings to be postponed or the Board's business held up by reason of the title of your designation. Kindly bring the foregoing to the attention of Dr. Kung and Dr. Chen and if you are still having difficulties please inform us as to the nature thereof.

EB:rd - 8/5/42.

Copy: vr: 8-6-42

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 269

Information received up to 7 A.M., 6th August, 1942.

1. MILITARY

RUSSIA. In the DON Bend Russian counter attacks continued but according to German reports were unsuccessful. The Russians claim repulse of Italian attacks in KLETSKAYA area. In the CAUCASUS sector, Germans appear to have reached the KUBAN River in the KROPOTKIN area. Their claim to have captured VOROSHILOVSK is unconfirmed.

2. AIR OPERATIONS

WESTERN FRONT. 5th. Spitfires attacked barges in LEYDEN and a military camp near BRUGES. Two enemy aircraft flew over YEOVIL. Damage slight.

5th/6th. Aircraft were despatched - ESSEN area 25, sea mining Northwest GERMANY and BAY OF BISCAY 58, leaflets 14. 6 aircraft missing and one crashed. As was case on night 4th/5th weather at ESSEN was bad and results probably slight. About 9 enemy aircraft operated over EAST ANGLIA and Outer THAMES ESTUARY and one over DORSET. Damage slight.

EGYPT. 3rd/4th. Bombers attacked TOBRUK HARBOUR. Fires reported on two ships, fuel cisterns and petrol installations. Naval aircraft bombed MERSA MATRUH HARBOUR. 4th. Light and fighter bombers attacked about two thousand mechanical transport in central sector and barges off BARDIA. Two Messerschmidts 109 destroyed, but 4 of our fighters missing.

MEDITERRANEAN. 4th. Our bombers attacked southbound convoy 150 miles northwest of DERNA. One large vessel probably hit.

BRITISH MOST SECRET
U.S. SECRET

OPTeL No. 275

Following is supplementary resume of operational events covering period 30th July to 6th August, 1942.

1. NAVAL

Successful night operations were carried out by our light craft in the Channel. The enemy has been routing ships via CORINTH CANAL and PIRAEUS for CRETE and onwards since the southern route via west coast GREECE is proving more dangerous. Fleet Air Arm in MIDDLE EAST maintained attacks on military objectives in the battle area. They also attacked E-boats off the coast and made two attacks on MERSA MATRUH in one of which a ship was probably sunk. Three large and 2 small Russian icebreaker in company with a British tanker are making the north east passage to meet Russian destroyers coming north about from Pacific. C. in C.E.F. with part of his force carried out a sweep in southern BAY OF BENGAL from 30th July to 4th August. No enemy was encountered but aircraft from a British carrier destroyed one enemy flying boat. There is no change in the dispositions of the main German units in northern waters. Photographic reconnaissance of GDYNIA on August 1st showed the new aircraft carrier GRAP ZEPPELIN with her main and secondary armament being installed. As this is GERMANY's first aircraft carrier it is estimated that trials and working up will take at least 3 months from the date of completion. The ship cannot therefore be in service before the late autumn. 10 German E-boats and possibly about 15 R-boats are reported to be in the BLACK SEA.

Enemy Attack on Trade. In addition to the expansion of U.S. convoys the increased use of coastal based aircraft both in the western hemisphere and home waters may be expected to drive U-boats to areas out of their reach. Present phase may be an interim period between concentrations in American waters and the development of new areas for U-boat attack. During the week ending 5th August there were 10 attacks by British surface craft on U-boats and two promising attacks by Canadian ships, also 5 attacks by U.S. surface craft. There were 17 attacks by British and U.S. aircraft in the eastern Atlantic and 10 by British and U.S. aircraft in the Western Atlantic. Shipping losses reported show a definite improvement. The main strength of the Japanese Fleet is concentrated in Home waters but some important units including 2 six-inch cruisers and a destroyer flotilla have arrived in the SINGAPORE area. 2 ships which were recently sunk in the south Atlantic by raider attack are known to have been actually sunk by E-boats carried by the raider which is said to be of about 3500 tons and in company with a 10,000 ton supply ship. Russian naval aircraft between 29th June and 24th July made 212 sorties against enemy positions in northern NORWAY during which they damaged aerodrome installations and destroyed 2 aircraft on the ground. They also claim to have sunk a tanker. Russian fighters in the extreme north made 1139 sorties and claim to have destroyed 21 enemy aircraft. 16 more are claimed by A.A. 176 ocean going ships were convoyed and 82 vessels in 4 ocean convoys arrived in home waters without loss. Imports into the U.K. in convoy during the week ending 1st August were 731,000 tons of which 253,000 tons oil.

2. MILITARY

EGYPT. Activity was confined to patrolling by both sides. The enemy appears to be consolidating on his present (7)line and strengthening his position by laying further minefields. The mines removed in the SANYET EL MITEIRIYA sector during our brief offensive have since been replaced by the enemy.

RUSSIA. No information additional to OPTeL No. 274.

JAPAN-CHINA. The situation has been quiet but there has been some activity in the vicinity of WENCHOW which remains in Japanese hands.

BURMA. In the SALWEEN the Japanese are believed to have made a slight withdrawal from LUNGLING and TENGYUEH. In the CHINDWIN a mixed Japanese and Burmese force is reported near HOMALIN.

3. AIR OPERATIONS

WESTERN FRONT. Enemy day activity over the U.K. increased and amounted to 70 sorties. Out of 130 enemy aircraft which came overland during the night 23 were destroyed including two by A.A. Bomber Command carried out one major night operation with DUSSELDORF as the objective. Weather was good, large fires were still burning the following day when photographs taken showed considerable damage. 1115 tons of bombs were dropped during the week. In operations against enemy shipping our aircraft claim to have sunk or damaged 22 thousand tons during the week. Bomber Command laid 218 sea mines and Coastal Command flew 185 sorties in A/S patrols over the BAY OF (BISCAY).

- 2 -

MEDITERRANEAN. Our air operations were reduced owing to sandstorms and the quieter ground situation. TOBRUK was attacked on 6 nights by a total of 290 Wellingtons and 39 heavy bombers. Enemy long range bombers operating from CRETE attacked our aerodromes around CAIRO. Their transport aircraft escorted by twin engined fighters continued to bring troops and supplies from CRETE to NORTH AFRICA. Our air attacks against enemy sea communications and coastal traffic were maintained.

RUSSIA. The main weight of the G.A.F. in South RUSSIA was applied to the DON BEND communications north and south of STALINGRAD. River traffic, railway ferries and railway running from ASTRAKHAN were attacked and the VOLGA was mined.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE.

DUSSELDORF. Photographs 1st August show major damage to six factories including a steel works, an engineering works and a factory specialising in magnetic mines. A chemical works was still burning. Damage to other industrial and residential property is extensive.

SAARBRUCKEN. Interpretation of photographs discloses important damage at one engineering works and extensive roof damage at an iron works. Considerable damage to buildings of the main goods station and to sheds near the main passenger station, also the residential property in three separate districts.

DUISBURG. Thyssen steel works damaged, also two other factories and warehouses on the quays. Main station hit and much damage to residential property. Ground sources report hits on Krupp and one other factory and mention that fires caused much damage at a chemical works and burnt out a tobacco factory working for the forces together with its stores depots.

HAMBURG. Photographs which do not cover the whole area nevertheless show considerable effects of fire in the centre and around the docks. It is said that domestic property suffered greatly. The most heavily burnt out area is south west of the Binnen Alster in the main shopping centre.

FLensburg. The submarine shipbuilding yards are seen to be severely damaged. One of the main shops being wrecked.

ESSEN. Two working class districts have been severely damaged, large parts being completely burnt out.

LUBECK. In the dusk attack on 16th July the power station, the main building of which is destroyed and buildings near the Benzol Recovery plant were severely damaged.

SLUISKIL. Photographs taken during a daylight attack show an incendiary bomb bursting on the centre of the roof of a chemical works.

Sea mining. Reports between 15th June and 15th July name 8 ships aggregating about 6,000 tons sunk or damaged chiefly in eastern Danish waters. It is reported that our magnetic mines now being dropped are causing much trouble both to the Swedes and Germans owing to an alteration in their mechanism which prevents their sweepers dealing with them effectively. Neither have yet discovered how to deal with this new device and the Trelleborg-Sassnitz Ferry has been stopped until a solution has been found.

5. OPERATIONAL AIRCRAFT BATTLE CASUALTIES.

Metropolitan area, British: In the air, Bombers 45, Fighters 35, Coastal 8, Total 88. Six pilots are safe. Enemy Bombers destroyed 22 (3 by A.A.), probably destroyed 5, damaged 17; Fighters: Destroyed 21, probably destroyed 4, damaged 19, miscellaneous destroyed 3, probably destroyed 1, damaged nil. Total destroyed 46; probably destroyed 10; damaged 36.

MIDDLE East including MALTA. British Bombers in the Air 11, on the ground 2, Fighters Air 26, Ground 1. Others, Air 1, ground 1. Total Air 38, ground 4. Eleven pilots and two of a bomber crew are safe. Enemy Bombers: Destroyed 6, probably destroyed nil, damaged 1. Fighters: destroyed 8, probably destroyed 5, damaged 5. Total destroyed 14, probably destroyed 5, damaged 6. Note: No account is taken of enemy aircraft destroyed on the ground in any theatre or of British Naval aircraft casualties.

- 3 -

6. HOME SECURITY

Some bombing was reported on 4 days and 6 nights. The enemy was using a higher proportion of incendiaries, but little serious damage has been done. On 30th/31st one firm in the WOLVERHAMPTON area manufacturing aircraft components received minor damage and production has been suspended. Estimated civilian casualties for week ending 6 A.M. 5th: Killed 172, seriously wounded 437, of whom 7 killed at BIRMINGHAM.

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OFFICE OF STRATEGIC SERVICES

THE WAR THIS WEEK

July 30-August 6, 1942

Printed for the Board of Analysts

Copy No. 6

The Secretary of the Treasury

JULY 30-AUGUST 6, 1942

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Office of Strategic Services

THE WAR THIS WEEK

While virtually isolated Russian forces are fighting a desperate rear-guard action in the great bend of the Don, the Germans have thrust an armored spearhead deep into the Soviet defenses in the south. The Nazis have crossed the Kuban River, reached the main east-west rail line, and are nearing the foothills of the Caucasus. Further development of this offensive would trap the Russian forces west of the German salient and yield the Nazis the Maikop oil fields and the Black Sea littoral. Meanwhile an eastward German drive south of the Don may soon become one of the prongs of a pincer aimed at Stalingrad. As the Germans swept on to new successes, Ambassador Maisky twice this week, in private statements in London, described his country's extremity in unvarnished words and summoned the Allies to create a second front.

In France a responsible Vichy official, supported by the views of other observers, foresees new German pressures leading to a possible rupture in Franco-American relations before November. Laval's success in pleasing his German masters—especially in labor recruitment—continues to be mediocre. Meanwhile he is making every effort to consolidate his position and to combat his leading rival, Doriot.

With the arrival of a German economic mission in Spain, it is reported that the Nazis are hoping to extract fresh concessions from the Spanish. On the other hand, the British are said to be gratified by the fact that the Spanish Government has made no outward change in its policy toward Britain as a result of the reverses in Libya.

In Egypt both sides continue to bring up reinforcements, as the stalemate reaches its sixth week; calm prevails among

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the civilian population of the country, despite Axis statements to the contrary. The Germans are using the velvet glove with the Turks, but it is rather generally believed that the latter are still in a frame of mind to resist excessive Nazi demands.

While official Britain reemphasized its position—that Cripps' earlier offer to India represented the maximum concession—the danger grew that the Indian National Congress would proceed with its threatened campaign of mass non-violence. Various compromise moves were in the air, however, on the eve of the Friday meeting of the Congress Committee at Bombay.

Although current German successes in Russia might be expected to invite Japanese attack on a steadily weakening Soviet, outward quiet continues to prevail in the Manchurian area.

Stalin Calls a Halt

As the German armies poured over the lower Don to cut the Stalingrad-Krasnodar railway at Proletarskaya, Salsk, and Belaya Glina, and another Nazi column drove south from Rostov along the Caucasus railway to Kushchevskaya and the Yeya River, Stalin ordered the Red Army to stand its ground. To the south, the Nazis claim to have pushed to the Sea of Azov, to have taken Tikhoretsk, Kropotkin, and Voroshilovsk, to be attacking Armavir, and to have crossed the Kuban River—the best defensive line for the Soviet army north of the foothills of the Caucasus. To the east, the Russians are stubbornly holding off the invaders around Kletskaya in the great bend of the Don. Between the Don and Sal rivers, a thrust northwest toward Stalingrad has taken Kotelnikovo on the Stalingrad-Krasnodar railway.

Stalin's order represented a distinct change in Soviet policy, in the opinion of some American military observers, and a return to the defensive strategy of last year. In 1941, the Red Army stood its ground, and suffered disastrous losses

in men and materiel. Thus far this year, Timoshenko has evidently pursued the opposite course of withdrawing before the Germans could carry out their strategy of annihilation. Stalin's change of policy, if rigidly adhered to, might spell ruin in a year when the prime consideration is to keep the Red Army in being, at whatever cost in territory abandoned to the invader.

It is of course possible that Stalin's order was essentially a piece of rhetoric, calculated to bolster the morale of the nation. And its practical implementation may vary with the different sectors of the southern front. Below the Don, the Russian troops, weakened by the losses sustained in their withdrawal south of the river, will probably be able to make only local resistance. Despite reinforcements from the Army of the Caucasus, the Soviet cavalry and mountain units in this sector face a foe distinctly superior in tanks and mechanized equipment. Already a German mechanized column has apparently reached the main line of the Caucasus railroad around Armavir and to the southeast. Here the Nazis have outflanked the Russian troops on the Kuban River and placed themselves within striking distance of the excellent airfield at Mineralnye Vody. In the Don bend, however, the defenders of the Kletskaya line—apparently cut off from all avenues of supply or relief—have little choice but to fight it out to the end. Up to now, Russian attempts to establish a bridgehead west of the river for the relief of the troops in this area have met with failure.

German Goals

The present Nazi offensive now seems to have two chief goals. In the first place, the continuing day and night air attacks on the Stalingrad rail net and on Volga River shipping would suggest an impending operation against Stalingrad itself—perhaps in two prongs, the one a bridgehead across

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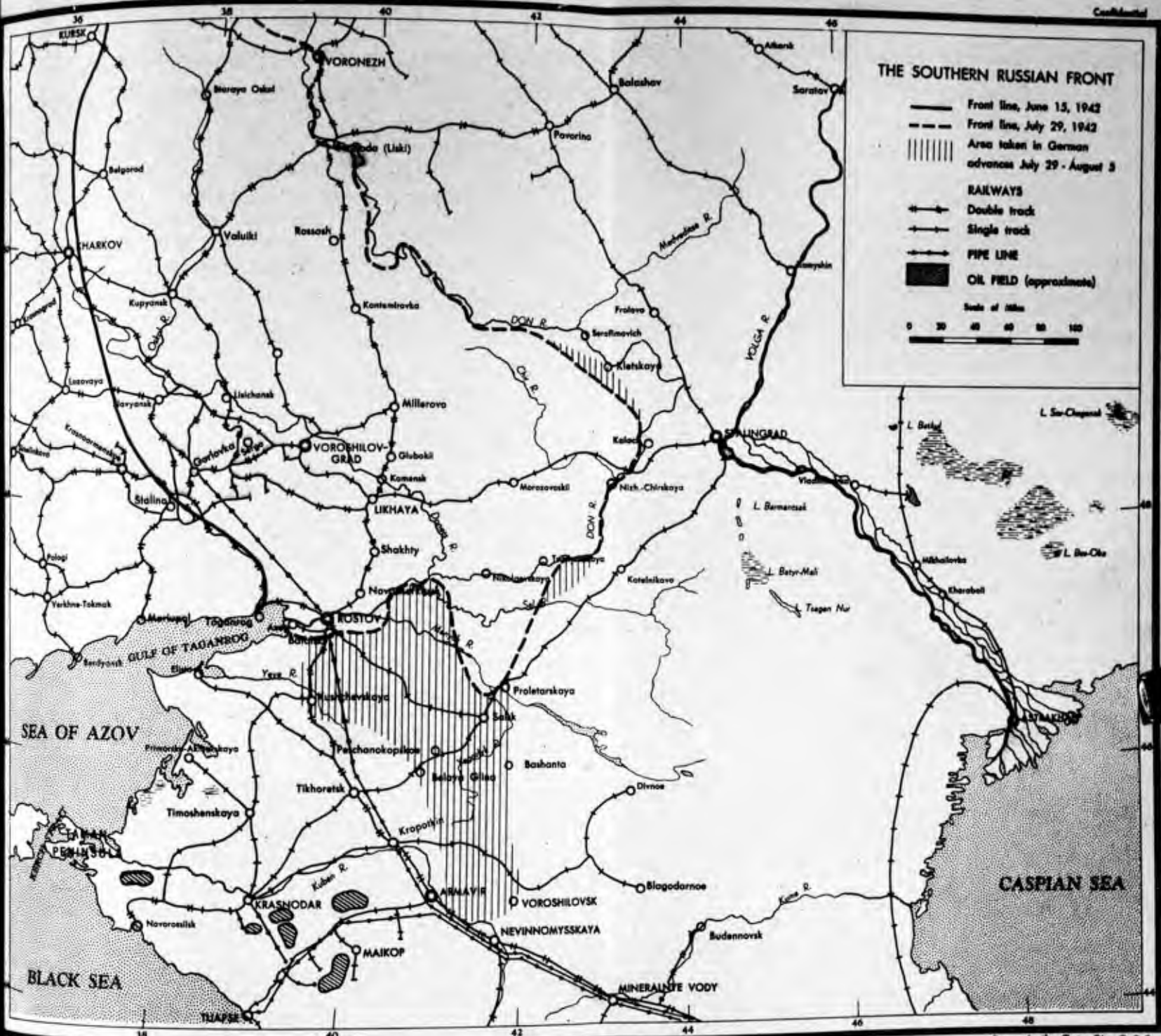
the Don bend northwest of the city, the other a drive from the southwest up the railway from Salsk. The recent German seizure of Kotelnikovo doubtless represents the beginning of such an attack. Around Stalingrad, however, the Nazis would probably meet Timoshenko's strongest reserves.

In the second place, the continued advance of German mobile columns to the south probably indicates an effort to trap the defenders of the Kuban area by seizing the rail junctions of Tikhoretsk, Armavir, and Nevinnomisskaya. This operation, already underway, may be accompanied by a combined attack across the Kerch Strait against the Taman peninsula or south toward the Soviet naval base at Novorossiisk. These two drives, coupled with a third already in progress in the Yeya River area, would doubtless aim to annihilate the Russian forces northwest of the Caucasus, while cutting off the Red Army from the oil of the Maikop fields. In this event, the only avenue of escape left to the Russians would be the single track railroad and highway south from Tuapse along the Black Sea coast.

Thus far, Soviet attempts at a counter-offensive have apparently met with only limited success. The Russian operations around Voronezh and their large-scale attacks in the Rzhev sector have failed to relieve pressure on the southern front. To the north, the Nazi bombing of the Murmansk area has evidently heralded an attack on the Kola Peninsula. One drive has apparently started from Petsamo in the direction of Murmansk, while another one further south is progressing in the Louhi area at the base of the peninsula.

Maisky Speaks Out

In Russia's hour of peril, high officials of the Soviet Union have made no effort to minimize her desperate position. Rather they have spoken out, bluntly demanding a second



THE SOUTHERN RUSSIAN FRONT

- Front line, June 15, 1942
 - - - Front line, July 29, 1942
 - ▨ Area taken in German advances July 29 - August 3
 - RAILWAYS**
 - ⇄ Double track
 - Single track
 - PIPE LINE
 - OIL FIELD (approximate)
- Scale of Miles
0 20 40 60 80 100

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front from Britain and the United States. Perhaps the frankest of these statements have been the remarks of Ambassador Maisky, first to a private gathering of 300 members of Parliament, and then off the record to 21 leading British newspaper editors. These statements, in the opinion of one highly placed American authority, represent the Soviet envoy's honest view of the situation, and are in no sense an effort to paint the picture blacker than it really is.

With losses in killed, wounded, and captured estimated at five million, the military power of the Soviet Union has probably reached its peak and by 1943 will be lower than today, Ambassador Maisky stated. The loss of the Ukraine and the threatened loss of the Kuban granary will leave Russia with a serious food problem for next year. About half the Soviet Union's steel and pig iron production, and three-quarters of her aluminum output are gone. Furthermore, the loss of a wide net of railways has increased the mobility of the German Army while comparably reducing the net available to the Soviet forces. To escape encirclement and annihilation, the Ambassador continued, the only course left to the Russian armies has been a steady withdrawal; only thus have they retained their fighting power and cohesion.

The answer to these rapidly mounting difficulties, in Maisky's opinion, is a second front. Britain and the United States must get over the dangerously complacent view that a preponderance in national wealth, industrial resources, and population will assure them the final victory. On the contrary, they must realize that with each month the balance is changing more and more in favor of the enemy. Unless the Allies concentrate a preponderance of their forces at a decisive place, no figures will save them.

There is a tendency, the Ambassador said, to postpone the second front until the spring of 1943. But in 1943 Germany

may be able to decrease the number of troops she must keep in the Soviet Union and to transfer large forces to the west. In that event, instead of meeting the second and third rate German divisions now located there, the British and American invading forces would meet first class, seasoned troops. In other words, the weakened condition of the Soviet Union would counterbalance the increased strength of the Anglo-Saxon powers; every division landed on the Continent this year would be worth two or three next year. Should the Red Army and the Soviet people be disappointed by their Allies, the Ambassador concluded ominously, that experience would live long in their memories.

Postscript on Russian Manganese

The German advance toward the Caucasus and the Volga threatens to deny to the Soviet Union not only its principal supply of oil, but also its supply of manganese. Germany has already adequately filled her own manganese needs through the acquisition of the mines at Nikopol on the Dnieper (*The War This Week*, July 23-30, pp. 5-6). She now threatens the principal remaining Soviet source of manganese at Chiaturi on the southwestern edge of the Caucasus. In recent years, manganese production at Chiaturi exceeded even that at Nikopol; the two deposits together yielded about one-half the world's output.

Other Soviet sources of manganese in western Siberia, the Urals, and Bashkiria might possibly produce about 280,000 tons of ore which, by German or even American standards, would possibly suffice for the limited steel output of unoccupied Russia. But the Russian rate of use of manganese per ton of steel is, apparently, much higher than the German or American. Stock piles are unknown, but are probably very large. It is possible, then, that with the loss of the Caucasus,

Russia's long-run manganese position would become seriously strained.

Nazi Policy in France and North Africa

A responsible Vichy official has again expressed the belief that there may be a rupture in the relations of Vichy and the United States before November. Our informant—supported by other Vichy observers—thinks that Germany's objections to the activities of American representatives in North Africa have come to outweigh the advantages of maintaining Vichy-American relations; and that the Nazis will therefore either secure further concessions from Laval as the price of his staying in power, or establish their own puppet at Vichy. Should the Nazis thus force a break in our relations with Vichy, Laval may be expected to make every effort to throw the blame on the United States, for fear of the reaction in France.

Both Vichy and the Nazis show some nervousness about the security of France against internal and external attack. While Vichy has announced precautions against a terrorist campaign, Germany is reported to have added a division of SS police troops to her forces in France, and to have organized small, mobile combat units (*Jagden*) to deal with parachutists, commandos, or internal opposition. There are also reports of a Panzer division and other forces arriving in France. A possible reason for German concern is the report that, of a group of officers whom Laval queried, an overwhelming number expressed their unwillingness to fight on Hitler's side.

Meanwhile Ribbentrop's personal envoy at Vichy recently made a trip to North Africa and was reported to have returned with another list of French officials whose sympathies were not sufficiently pro-German, and whose removal was therefore requested. This move coincided with an uncon-

firmed report that munitions for the Axis were being loaded at Marseille. On the other hand the French appeared to be resisting sending cobalt and vegetable oils from Africa to the Reich.

Laval's Internal Problems

Laval is apparently determined not to allow internal opposition again to squeeze him out of office, as was done in December, 1940. Since his return to power, he has therefore made every effort to get personal control of the instruments of force available. Having gained a firm hold on the administration and having brought the *Gendarmerie* under his immediate authority, he has now provided a governmental subsidy for the Tricolor Legion of 10 million francs—an obvious effort to win its support and undermine Doriot's influence. Laval also put through the cabinet a proposal for heavy penalties against disorders and the possession of weapons and explosives, a move aimed at circumscribing the activities of Doriot's PPF. He is likewise backing minor parties in opposition to Doriot, such as Déat's "parti unique" and, in the Unoccupied Zone, the SOL.

Laval's possible need of strong-armed support is clear. While Pétain is apparently increasingly insulated from what is being done under his name, Darlan is said to be actively enjoying Laval's difficulties. Although irritated with the Nazis for displacing him, Darlan continues to be eager for power and is believed to be ready to serve the Nazis if they give proof of winning (there is no evidence, however, that Darlan is planning to give any submarines to the Reich.) A story is also in circulation to the effect that the Banque Worms group of pro-Nazis may also be ready to desert Laval, probably in support of any move for Doriot.

Meanwhile the labor and Jewish problems persist. Laval is credited with blocking a scheme for the deportation of

10,000 foreign Jews. In the labor campaign a veiled conscription of "chosen volunteers" appears to be the only way Vichy can recruit anywhere near the number of workers Germany demands. The Nazis have agreed to free prisoners only in return for skilled labor, 50,000 of the former for 150,000 of the latter. To help the labor campaign, however, they have apparently agreed to release 1,000 prisoners after 6,000 skilled workers have arrived; but it appears that only 3,000 have thus far gone to Germany. The Nazis also are said to want 10,000 unskilled laborers from North Africa for work on Channel defenses.

Spanish Economic Negotiations

The German Economic Mission to Spain has arrived and consists of eight members supported by a group of technicians, chiefly from German industry. Preliminary conversations, it is reported, give the impression that Germany will insist upon greater Spanish cooperation in economic matters. The Spanish, in turn, are planning to demand larger delivery of German goods needed by Spain, and a guarantee that Spanish ships trading with the Americas may proceed on the high seas without being subjected to German contraband control. In the past Spanish ships appear to have enjoyed safe conduct, and, in return, have informed the Axis about all cargoes, and have conformed to an informal, but extensive, German contraband list.

A Spanish-Argentine economic agreement is reported to have been reached a few days ago, and according to this arrangement Spain will receive in the coming two years a million tons of corn and wheat from Argentina. Cuba, however, states that she is planning to terminate her relations with Spain in the next few days, with or without the pretext of Spain's expected answer to Cuba's prohibition of the sending of code messages by the Spanish Embassy.

Spain and the Belligerents

British sources report gratification over the fact that the Spanish government has made no apparent change in its policy toward Britain since the latter's reverses in Libya. The anticipated increase in pro-German sentiment has not as yet appeared, according to this source. In particular the Franco regime has shown a very satisfactory attitude with regard to the installation of German radio stations near Gibraltar. Rumors of an imminent internal crisis in Spain are discounted in London, although the future situation is viewed as highly uncertain.

From other sources, reports persist of the continuous military strengthening of Spanish Morocco, a movement that appears to be at least partially under German direction. There are also unconfirmed reports of an Axis submarine route off the northern coast of Spain, with submarines occasionally using Spanish ports for emergency repairs. On the other hand, there is no evidence of Axis air services or air bases on the small Spanish holdings of Fernando Po and Rio Muni on the Gulf of Guinea, according to diplomatic sources.

The Egyptian Stalemate

As the stalemate at El Alamein entered its sixth week, neither of the small opposing armies appeared to military observers to have sufficient advantage to launch a major offensive, although local successes were possible. The contest continued to be primarily one of reinforcement.

Ground operations were limited this week to patrols and skirmishes, following Axis recovery of the small areas seized at some cost in tanks by the British on July 27-28. Both sides were laying mines and digging in, with the bulk of enemy armored strength remaining in the central area. The principal role in this week's action was played by air forces.

Allied planes continued their intense attacks on enemy vehicles, supply lines, and concentrations in the forward area, as well as shipping and ports in Greece, Crete, and Cyrenaica. The Axis in turn raided the airport at Alexandria and struck at facilities at the airport of Heliopolis, seven miles northeast of Cairo.

The stalemate is not expected to continue indefinitely; it will probably be broken as soon as either side feels it has sufficient strength to take the initiative. The British are receiving reinforcements. At the same time about 500 Germans have been arriving daily by air, it is believed, in addition to other reinforcements coming by sea. A small number of tanks may also be reaching the forward area on barges, as a supplement to Rommel's recovery system. Although reports indicate further reinforcements are being gathered in Italy and the Aegean area, there are no immediate signs of any new campaign in the Eastern Mediterranean.

Egypt Remains Calm

Statements circulated by the Axis concerning widespread sabotage and anti-British outbursts in Egypt are almost entirely false, according to advices from Cairo. Only a few individual incidents have taken place, and to date the situation has in general remained calm. To strengthen internal stability, the Egyptian Government has made arrests among subversive elements and chronic malcontents, expanded military courts and the police duties of the army, and granted additional powers to local officials. A few prominent suspects have just recently been interned.

Germany's Relations With Turkey

In the political sphere the Germans are reported to be still in the "blandishment phase" in their relations with Turkey,

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offering generous quantities of arms and apparently actually delivering about eight locomotives and 130 freight cars (more of which are expected shortly). It may be noted that the Turks have promptly transferred most of this equipment across the Bosphorus to Asia Minor.

The Germans have not yet begun to put on the pressure, according to our report. The Turks are being modest in their requests for German aid and are still believed to be resolved to resist any excessive German pressure, although some American military observers entertain reservations on this question. The Germans were reported to have been disappointed when, after the Allied defeat in Libya, Turkey directed the deportation of seven Turkish subjects suspected of being in the pay of the Nazis. In moves which the Turkish staff suggests are being made to assure the defenses of all borders, the Turks are believed recently to have moved a total of perhaps five divisions from Thrace into the Trebizond area to the northeast.

Immediate anxiety over the Turkish wheat situation appears to have declined, although American shipment of 15,000 tons over the next two months is still urged by the Turks.

In Iran a cabinet change of minor importance has taken place. The new Premier, Ahmad Qawam As Saltanah, is a British protégé and will probably make an effort to reduce the corruption and inefficiency impeding operations in that country.

India: The British Government Hews to its Line

From the floor of the House of Commons, Leopold S. Amery, Secretary of State for India, has warned the Congress that Britain will vigorously resist any planned campaign of mass civil disobedience. Echoing the line taken by Sir Stafford Cripps last week, Amery implied that Cripps' offer

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of last winter represented the maximum in possible British concessions. And like Cripps, he maintained that the transfer of power from Britain to India envisaged in the Wardha resolution would bring about "complete and abrupt dislocation of the machinery of government in India."

If these statements represent Britain's final position, then, according to an American observer in India, nothing can avert the campaign of mass non-violence that the Congress Working Committee has threatened. Cripps' broadcast has apparently irritated all shades of opinion in India, our observer continues, and he may have forfeited the position he formerly occupied as the one British political figure whom India trusted. A simple reiteration of the proposals of last winter can satisfy nobody, since those proposals have already been rejected by all important Indian groups, he adds. Nor does the Congress contemplate a chaotic interregnum between the abdication of the British Raj and the formation of an independent government, as Amery implies.

Compromise Moves

A key to the actual sentiments of India's nationalist leaders can be found perhaps in a confidential interview with a close friend and political associate of Nehru's. In his opinion, Nehru and Gandhi are not nearly so intractable as their public statements would suggest. While the British propose to give India increased self-government but no real independence for the duration of the war, Gandhi and Nehru are more interested in the principle of independence and less concerned about the interim settlement. So long as they could show to the Indian people a concrete British declaration of Indian independence, then they would be willing to leave Britain as much power in India as would be necessary for the efficient conduct of the war. Furthermore, a disinterested third party should guarantee the whole arrangement.

Like Azad, President of the Congress, Gandhi and Nehru would welcome any concrete proposal for a temporary settlement, based on the principle of independence, our observer concludes (*The War This Week*, July 23-30, p. 18). And Azad has added that the Congress could form an interim government in 24 hours. Or, if the British preferred to entrust power to the Moslem League or the liberal Sapru group, the Congress would not object, since any native Indian government would be preferable to foreign rule.

Meantime Sir Tej Sapru himself has proposed a compromise plan, which may win some moderate support. But since this plan envisages no more self-government than the Cripps proposals of last winter, it will scarcely find favor with any major political groups. The one feasible part of the scheme, in the opinion of our New Delhi observer, is the suggestion that the leaders of India's chief political parties should hold a conference to work out an interim settlement. This suggestion has received the support of Rajagopalachariar, who has apparently made some headway in arranging a meeting between Gandhi and Jinnah, President of the Moslem League.

With at least two compromise proposals now in the air, the time for compromise is running out. On Friday the Congress Committee meets at Bombay to discuss the Wardha resolution (proposing a campaign of mass civil disobedience). Furthermore, the Indian Communists, despite the favor recently shown them by the Government, have called on their British comrades to induce the Government to come to terms with the Congress. Finally, in areas like Bengal, the scarcity and rising cost of salt, sugar, and rice have created such discontent that a campaign of mass civil disobedience once launched, might eventuate in violent outbreaks.

A Misleading Revival of an Earlier Stand by Gandhi

In an effort to brand the Mahatma as an appeaser, the Government of India has published Gandhi's draft resolution for the Allahabad meeting of the Congress Working Committee of last April, calling for resistance to the invader by nonviolence alone—a resolution that the American press has promptly reprinted. In the view of an American observer on the spot, this document should be related to the context of events in which it was written.

The Mahatma composed the resolution in a moment of disillusionment. In his opinion, the debacle in Burma and the failure of the Cripps mission revealed an unwillingness and an inability on the part of the British to defend India. The war, he believed, was not a people's struggle, but an imperialist conflict in which the British were not permitting the Indians to fight as free men. He even suspected that the British would prefer to give India to the Japanese rather than to the Indians themselves. In these circumstances, he concluded, non-violence was the only course of resistance left open to the people of India.

Gandhi's statements have often been enigmatic and contradictory. The recently published draft is no exception to the rule. But it is of some importance that in April the Congress Working Committee accepted, in place of Gandhi's controversial text, a more moderate statement written by Nehru. Furthermore, the Mahatma's Allahabad draft is no longer representative even of his own views. Gandhi's recent statements clearly indicate that, like the majority of the Congress Working Committee, he now favors armed resistance to the invader. On the eve of the meeting of the full Congress Committee at Bombay, the Working Committee has once again defined its position, demanding the "withdrawal of British power so as to enable India to become an ally of the United Nations and fight aggressors" (on the organization and history of the Congress see Appendix II).

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Japanese Initiative in the Southwest Pacific

Steadily maintaining the initiative despite Allied counter strokes in the air, small Japanese forces continue to expand their positions in the islands northeast and northwest of Australia. In the Banda Sea area, they have occupied Tual in the Kei Islands and are believed to have landed some troops at Dobo in the Aru Islands. Allied airmen attacked a light naval force (one light cruiser and four destroyers) operating in the Banda Sea area, but with unknown results. In the Solomons, new landings apparently have been made on Malaita Island. On nearby Guadalcanal Island, air facilities for land-based planes apparently are nearing completion, presaging possible future air attacks on Noumea, the American base in New Caledonia, less than 1,000 miles to the south.

On the Papuan peninsula, where more than a week ago patrol clashes had occurred near Kokoda, the situation remains relatively static. Nevertheless a small contingent of Japanese troops has landed at Katuna, 10 miles north of Gona, and the appearance of numerous transports and cargo vessels in the Rabaul-New Ireland area indicates that further reinforcements are arriving, screened by Japanese fighter planes based at Rabaul, Gasmata (New Ireland), Lae, and Salamaua.

Aleutian Activity Continues Unabated

The United States has now established a unified command for the Aleutian area under a naval officer, and is maintaining aerial raids and reconnaissance. Japanese activity continues, being greatest on Kiska Island where there are now two camps and, in preparation, a landing strip for planes and numerous large emplacements for anti-aircraft guns. Reconnaissance has now revealed such emplacements on Little Sitkin Island, but periodic searches have revealed no Japanese activity north of the Aleutians, i. e., on the Pribilof

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Islands, Hall Island, or St. Lawrence Island. However, the Japanese occupational force is estimated as including at least 10,000 men, including civilians (construction laborers, etc.).

Continued Quiet in Manchuria

The Japanese radio, unlike its procedure before Pearl Harbor when it was belaboring the natives in the southwestern Pacific and had to justify to its own people hostility towards the United States, is now very non-committal on relations with Russia. No Japanese propaganda could affect the Russian attitude and none is needed to convince the Japanese that Russia is their enemy. Premier Tojo also said not a single word about Russia when opening recently a series of rallies timed to coincide with the first anniversary of our "economic blockade" of Japan, although he is reported to have stressed the European Axis' victories over the other Allies. It is unlikely that Tokyo, if it plans to invade Siberia, will dilute the element of surprise by advance publicity from which it has nothing to gain.

As for Yamashita's supposed presence in Manchuria, a more detailed report states that he left Singapore July 12 for Manchuria by way of Tokyo and has received the designation of Commander of the First Front Army. At the same time Tokyo is reported to have recalled eight high ranking military and naval officers from the southwest Pacific.

The rumors of Japanese reinforcements for Manchuria have continued. The Chinese, as is their wont, claim vast transfers both past and current; British sources specify two additional infantry divisions (possibly the divisions in the recent convoy); but there is no adequate confirmation of any arrivals since those last noted in this publication. A report from Tokyo that a new Japanese minister is proceeding to his post at Kabul, Afghanistan, by way of Asiatic Russia might signify that Japan contemplates no immediate action.

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Army Air Operations in China

The American air force in China has continued offensive operations with a sharp raid on Fu-chou, Japanese-held town in Kiangsi (not to be confused with the larger coastal city of Foochow in Fukien), and it has successfully defended itself against intensified Japanese efforts to knock out the American air base at Heng-yang in Hunan. During its first month of operations in China, this unit carried out successfully more than ten raids, all of them made without deaths or loss of planes in combat. Cities raided included Canton and Hankow, and the chief targets were air bases, river boats along the Yangtze, various Japanese headquarters, and supply depots. American air officers are reported to be optimistic over the excellent results which have been achieved.

Land Fronts in China Remain Quiet

Along the Chekiang-Kiangsi railroad there has been relatively little activity. The Japanese are repairing the railroad between Hangchow and Kihwa (Chin-hua) and may possibly resume operations westward at a later date, according to reports from the Chinese intelligence service. There continue to be reports, as yet not verified, that the Japanese are undertaking a serious drive against areas held by the Chinese Communists in northeastern and southeastern Shansi, and some reports say that the Japanese have already achieved definite results. These operations, if successful, would help to insure the Japanese against possible pressure on their flank in case of an attack on the U. S. S. R.

Sabotage in Korea?

Accounts of sabotage in Korea which have recently been given prominence in the *New York Times* and other American newspapers have emanated from Mr. Kilsoo Haan, Korean

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propagandist, and self-proclaimed recipient of Korean espionage reports. Haan claims that attacks were made in February and March upon airplanes and hangers at Heijo and on Saishu Island, oil tanks and tankers at Gensan and Yuki, naval and military ammunition dumps and warehouses in various places, and railroad cars loaded with military articles and troops at Shingishu and Tumen. Police stations and Japanese residences were also reportedly attacked, and a hydro-electric power project dynamited.

These reports are not in themselves incredible. Korea is known to be hostile to Japanese rule and the sweeping changes made since May in the Japanese colonial administration might indicate that there has been trouble and unrest. Three key officials have been replaced: the Governor-General, the Civil Administrator, and the head of the Spiritual Mobilization Department. The new incumbents of these posts, General Kuniaki Koiso, Takeo Tanaka, and Lieutenant General Bunzaburo Teraguchi, are all noted for their severity.

On the other hand, however, the credibility of these reports of sabotage depends upon the reliability of Mr. Haan. Korean-born and Hawaii-bred, Haan has been a Salvation Army officer and an employee of the Japanese consulate in Honolulu and is now the leader and spokesman of the radical minority group of Korean Nationalists. His sources, according to his own account, are Korean agents in South America who masquerade as Japanese, secure information of activities in Japan and Korea, and relay it to him through third parties. The vagueness of these supposed channels of information, coupled with the obvious interest which Mr. Haan has in securing publicity for Korea, have generated some skepticism among authoritative sources concerning his reliability.

APPENDIX I

JAPANESE AGRICULTURAL GAINS IN THE PHILIPPINES

Conquest of the Philippines—essentially an agricultural area—gives Japan control at once of important surpluses of copra and coconut oil, hemp and cordage, sugar and alcohol. Since the Philippines can readily be rendered self-sufficient in foods, these surpluses can be made available without imposing appreciable hardships upon the Filipinos. The Japanese gains, therefore, are not offset by corresponding economic liabilities, according to a current analysis by the Economics Division of the Office of Strategic Services.

The precise importance of these agricultural acquisitions to Japan's war effort are, however, more difficult to measure. In vegetable oils and sugar, the Japanese Empire has long been self-sufficient. Coconut oil can be used to provide glycerin for the manufacture of explosives. But we do not yet know how much use Japan makes of nitroglycerin, nor the extent to which such requirements are fulfilled. Sugar can readily be converted into alcohol for fuel. But the importance of alcohol as fuel again will depend on the rapidity with which the Japanese are able to exploit conquered oil-producing areas.

Japan's need of hemp and cordage, however, is clear. Her navy, merchant marine, and fishing fleet have always been deficient in cordage, and imports were of relatively poor quality. In the abaca and maguay surpluses of the Philippines, Japan has acquired ample sources of cordage of superior quality. Finally, Philippine exports of tobacco will make some contribution toward supplementing Japanese supplies, the bulk of which formerly came from the United States.

Immediate and Long-run Gains

Some supplies of all these Philippine commodities were available to Japan early in 1942: in part from the 1941-1942 harvest, but mostly from stocks (the totals involved are shown in column 1 of Table I). The Japanese campaign in the Philippines coincided with the period when most 1941-1942 Philippine crops were being harvested. As a result, with the exception of sugar (which is harvested earlier), yields were reduced. On the whole, therefore, significant supplies will not be forthcoming until early 1943.

The magnitude of future surpluses of export crops available to the Japanese, beginning with 1943 harvests, will depend largely upon the way in which the Philippine food problems are solved. Maximum future surpluses can be obtained by a reduction in Philippine domestic consumption, combined with maintenance and intensification of export crop production. The estimate in column 2 of the accompanying table assumes such a policy. But it is unlikely that this policy can prevail for long, if it is instituted at all. Increases in the acreage under food crops will soon be necessary. If we assume certain land use adjustments to this end, an estimate of the reduced export surpluses available to the Japanese is presented in column 3. The change-over to the new situation, however, will take

more than a year; consequently the 1943 surpluses probably will be somewhere between the two estimates.

TABLE I.—*Japanese agricultural gains from the Philippines*
(metric tons)

Commodity	Immediate Acquisition	Surpluses in the Near Future	
	(1)	Maximum (2)	Most Probable (3)
Copra.....	145,000	325,000	315,000
Coconut oil.....	50,000	297,000	163,000
Converted to oil.....	141,000	412,000	360,000
Sugar.....	800,000	900,000	600,000
Molasses.....	120,000	315,000	95,000
Converted to alcohol (gals.)....	106,000,000	122,000,000	81,000,000
Abaca.....	75,000	200,000	165,000
Maguay.....	10,000	20,000	13,000
Cordage.....	4,500	13,000	10,000
Tobacco.....	4,000	12,000	8,000

Impact of the Japanese Conquest on the Philippine Agricultural Economy

Since the Philippine Islands are normally almost self-sufficient in foodstuffs, the necessary internal adjustments can be made readily. The chief imports formerly were rice, together with smaller quantities of fruits, vegetables, meat, and dairy products. Study of the land use capabilities of the Philippines suggests that acreage devoted to coconut, sugar, and tobacco crops will be reduced and turned instead to the production of rice, corn, and root crops. Rice acreage can be increased relatively soon by about 6 percent, corn by some 15 percent, and root crops by about 60 percent.

With such adjustments, domestic requirements in these three groups of commodities (which supply more than 50 percent of consumption, on a weight basis) can be met comfortably. This is seen in the minimum estimates of the following table.

TABLE II.—*Minimum production and consumption of important foods*
(adjusted basis)

	Adjusted area (hectares)	Production (metric tons)	Consumption requirements (metric tons)
Rice.....	2,200,000	1,520,000	1,500,000
Corn (and related products)....	1,050,000	661,000	576,000
Root Crops.....	290,000	985,000	625,000

The surpluses of corn and root crops will facilitate livestock production, which had earlier been neglected in the emphasis upon export crops. More chickens and hogs, and more dairy cattle will contribute, over a period of years, to remedying present deficiencies in these products.

Japanese Hopes for Philippine Cotton Production

Another and more direct way in which the Japanese expect to influence Philippine agricultural policy concerns the production of cotton. Japanese spokesmen say they expect production of this much needed commodity in the Philippines to start almost immediately. However, there is little likelihood of any significant output in the near future. Negligible quantities are now produced, but there are still problems to be solved in developing cotton varieties adapted to the soil and climate of the Philippines. Moreover, production of cotton will encounter serious problems of agricultural labor supply. The Japanese hope to shift half the sugar cane acreage to cotton, but, acre for acre, much more labor is needed for cotton than for sugar cane. The change-over is not to be accomplished overnight. Although all these problems can be solved, years of experimentation and adaptation will be necessary. Long before then, Japan may have encountered important cotton deficiencies, both at home and abroad.

APPENDIX II

THE INDIAN NATIONAL CONGRESS

With the current threat of mass civil disobedience in India, attention has focused once again on the Indian National Congress. The Congress is a political party, not an organ or department of the government. According to its constitution, as amended by the All-India Congress Committee in June, 1939, its object is "the attainment by the people of India of *purna swarajya* ('complete independence') by all legitimate and peaceful means."

Organization of the Congress

To be a member of Congress, a person must be 18 years or more of age, make and sign a declaration of belief in its objectives, and pay annual dues of eight annas (7½ cents). Such a person is called a "primary member." The total number of members varies greatly from year to year; the highest number ever claimed has been 4,500,000. In 1938, Congress stated that it had 3,102,113. Today it claims to have about four million, although its enemies say it has only a million and a half. The membership is almost entirely Hindu. The number of Moslems at present is supposed to be about 100,000 (the highest figure ever claimed was about 250,000). There are Sikh members as well. Although Congress draws chiefly from the Hindu community, it disclaims all communal aims.

The Congress divides British India into 19 Provinces. These do not correspond with the political division of India into 11 Provinces, but rather represent the Congress' ideas of a more logical division. It is to be noted that the Indian

(native) States, are not included in the Congress' divisions, since Congress has not been allowed to establish itself in those areas.

In each of these 19 Provinces there is a Provincial Committee, elected by all primary members of 12 months or more standing. The delegates to these Committees elect one-eighth of their number to constitute the All-India Congress Committee (A. I. C. C.), consisting of about 370 members, and they likewise elect the President of the Congress.

The Congress as a whole meets in annual session, attended by the President, ex-Presidents, and elected delegates of the primary members (chosen separately from the elections to the Provincial Committees). Between sessions, the A. I. C. C. functions for the Congress. The Working Committee of the A. I. C. C., consisting of the President and thirteen members, chosen by the President, is the executive authority of the Congress. It reports its proceedings to the A. I. C. C. Being an appointive body, it tends to represent the views of Gandhi, the strongest figure in the Congress.

From Reform to Revolution

The Congress was founded in Christmas week, 1885, by A. O. Hume, and a few Europeans and Indians with westernized sociological notions. Its purpose was to discuss social reform. The first presidential address by W. C. Bonnerjee contained expressions of gratitude to Britain for the good government she had given India, the railways, the new education from the West. The second president, Mr. Naoroji, spoke feelingly of "the blessings of British rule," which he characterized as "numberless," and stated his belief that events showed that "the people of England were sincere in the declaration made more than a half century ago that India was a sacred charge entrusted to their care by Providence, and that they were bound to administer it for the good of India, to the glory of their own name, and the satisfaction of God."

The change to an actively nationalist attitude on the part of the Congress was due, primarily, to disappointment at the slow headway which its proposals were making. It criticized the "home charges," consisting of payments on the public debt owed in London, charges of administration, and pensions; it complained of unduly large military expenditures, of the close connection between the judicial and executive branches of the government, of the lack of equal opportunity for Indians as officers in the army, of the neglect of general primary education. By 1900 Congress was severely questioning the sincerity of the British professions it had accepted so enthusiastically in 1885.

In 1904 a "radical" or "left" element—weary of the failure of moderate methods—began to struggle with the conservatives for dominance within the Congress. In 1907, under the pressure of continued grievances, including the partition of Bengal by the Viceroy Lord Curzon, the Congress split into two groups—the extremists, led by Tilak, and the old-fashioned moderates. The next year Congress adopted a "creed" calling for political rights. Since then it has never ceased to be a political body first, and a social reform body second, while today its political purposes far outweigh its purely social goals.

For some years after 1907 the fortunes of Congress varied, but after the first World War, under the leadership of Gandhi, it attained a commanding position among Indian nationalists. In 1916 the "radicals" gained control of Congress.

SECRET

Since that date it has stood for reform by revolution (although not by violence) rather than by constitutional evolution. At first, Congress agitated for Dominion Status, but in 1929 it adopted an unequivocal resolution in favor of complete independence, which is today its paramount aim. In 1930 it led a bitter fight against the Simon Commission on Constitutional Reform.

Congress and the War

The new constitution embodied in the India Act of 1935 was put into operation in 1937. In the first election Congress won a majority of legislative seats in seven of India's 11 provinces, and a plurality in an eighth. It then set up ministries in the eight provinces. These ministries functioned until the end of October 1939, when Congress ordered the seven which it fully controlled to resign in protest against the declaration of war by the Government of India—an action taken without previous submission to the Legislative Assembly. The seven provinces have since been governed by executive action of the Governors under Section 93 of the constitution, except for Orissa, where a new ministry was formed in November 1941.

Leaders and Methods

The most influential member of the Congress at present is Gandhi; second to him is Nehru. The President, Azad, is a Moslem, but he is more than just a figurehead to entice Moslem support of the Congress, as enemies of Congress claim. Azad exercises a great deal of influence and takes an active part in forming policy. Rajagopalachariar, who resigned from the Working Committee in May, after the failure of the Cripps Mission, was second in importance only to Gandhi and Nehru.

At various times the Congress has been outlawed, and its leaders arrested on charges of sedition. In 1930-31 somewhere between 40,000 and 60,000 Indian political offenders, acting under Congress direction, were held for longer or shorter periods in jails and detention camps. In June 1932, it was officially announced in Parliament that nearly 49,000 persons had been confined in connection with the 1932 movement.

The extreme form of expression of Congress opposition to British rule is mass civil disobedience, or non-violent non-cooperation. Such a campaign consists of a boycott of British-owned shops and industries, the established courts, and government-owned or supervised educational institutions. Though these civil disobedience movements are supposed to be "non-violent", violence has always accompanied them. For example, during the three months from April 6 to July 7, 1930, there were literally dozens of outbreaks all over the country, including practical occupation by Congress agitators of Chittagong in eastern India and of Peshawar in the northwest. The power which Congress has shown in its previous campaigns has been out of all proportion to its membership and indicates that it has influenced large numbers of non-members to cooperate in working for its purposes.

Moroccan Speculations in Tangier

(Supplement to Reports 570, 572)

Since July 1, 1942, the Moroccan franc has suffered severely in the local money market. Following a continued and drastic drop in the value of this currency, local authorities ~~are making~~ a little effort towards some form of stabilization.

On July 22nd, new highs were established by the peseta, escudo and dollar in terms of the Moroccan franc as follows:

Peseta	730
Escudo	700
Dollar	148

Shortly after the announcement of an attempt to do something about the Moroccan franc, the following values were quoted on July 24-25.

Peseta	600
Escudo	570
Dollar	130

Rumors were circulated that the peseta would eventually be pegged at about 490, but since July 25th the Moroccan franc has again declined steadily.

In the afternoon of August 6th, the following quotations were received:

Peseta	730
Escudo	725
Dollar	155

The following remarks were received from the B.I.S. on the Fall of the Moroccan Franc in Tangier.

1. As the Germans have no use for French francs paid to them by Vichy, they are spending them in Tangier to buy up all kinds of foreign currency.
2. Francs from Paris are transferred to Casablanca and from there brought to Tangier by diplomatic bag. The Banque Commerciale du Maroc negotiates the purchase of foreign currency, dollars, sterling, pesetas, etc.
3. Naturally the Banque d'Etat du Maroc has to keep printing notes to cope with the demand for hundreds of thousands of Moroccan francs, which has resulted in inflation similar to that of the Banque de France.
4. The Spaniards' efforts to eliminate the Moroccan franc from Tangier have also contributed to the rapid fall of the franc.
5. It is suggested that the B.B.C. in its North African transmissions could warn listeners proposing to go to any foreign country, or buying from a foreign country, that the North African franc has no longer any value.

There is apparently no relief in sight at this time, and the depreciation of the Moroccan franc is working hardship on Moors and

Spanish alike, who are being paid locally in Moroccan francs.

Bernard Bernardoni
Major, Infantry
Asst. Military Attache
Tangier, Morocco

Charles E. Johnson, Jr.
Col., G.S.C. (Gov.)
Military Attache
Tangier, Morocco

From M.A. Tangier

Report No. 598

August 6, 1942

Page 3

Classification.

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT GENERAL STAFF
MILITARY ATTACHE REPORT

Tangier.
Country reported on.

SUBJECT: Monetary Exchange Complications in Tangier
(vide report No. 570)

I.G.No.5040.

SOURCE: Spanish newspaper ESPANA, published in
Tangier, of August 1, 1942.

SUMMARY: Moroccan franc and the peseta graphed on two
divergent curves;
Inflation in France and French Morocco;
Goods sent to France from French North Africa
being paid by loans on Moroccan Treasury;
Price-fixing and rationing necessary if stability
to be obtained;
Spanish peseta removed from circulation at end
of year 1936;
Spaniards not compelled to contribute to the
economic deficits of other nations.

G-2 Distribution:4
From M.A.Tangier.

5
Report No. 592.

6
August 6, 1942.

Monetary Exchange Complications in Tangier.

The following is translation from the Spanish newspaper *ESPANA*, published in Tangier, of August 1, 1942.

"THE DUALITY OF THE MONETARY SYSTEM, ORIGIN OF TANGIER'S DIFFICULTIES.)

THE CRISIS EXPERIENCED BY THE MOROCCAN FRANC IS THE RESULT OF THE FINANCIAL SITUATION IN FRANCE.

head-
lines.

HISTORY OF THE POLITICAL ECONOMY OF TANGIER.

The city of Tangier has been suffering for some time from a cycle of economic difficulties resulting from its dual monetary system.

The legality conferred equally upon two monies, which because of their inconvertibility should receive special care from the nation banking them, leaves the cost-of-living index at the mercy of all kinds of economic factors, normal and abnormal. These economic factors experience such marked changes that unless peremptory steps are taken to remove their cause, it is foreseen that a disastrous curtailment in the individual's economy will take place, as well as partial paralysis of the industrial and business organization of the city. This condition, added to the decreased income of working people, will bring about forced unemployment.

The movements of the Moroccan franc and the peseta are graphed on two different curves. While the first is suffering from the consequence of a crisis which has not yet reached its highest point, the Spanish peseta, slowly but surely, is recovering from worse penuries. The French protectorate money cannot separate itself from the economic crisis from which France is suffering. France needs the Protectorate's collaboration to ameliorate the difficult financial problems it has to face, and so, by having the Protectorate also bear the effects of inflation, is ensuring the Moroccan inhabitants' participation in the national effort. The French franc and the Moroccan franc are two parallel monies that must suffer from poverty or enjoy prosperity together.

The peseta, on the contrary, has escaped its worst times. Spanish national income is increasing, after the last war, as hundreds of thousands of men have returned to industry and have austere accepted the restrictions in consumption, so that the nation is proceeding towards its economic stability and the balancing of its budget.

It is therefore absurd to leave the economic welfare of the people of Tangier to the vagaries of the exchange between two classes of money on such divergent curves. It is rarely that an individual, who has performed some service and is rewarded therefor with an inflated money, is aware that he is paying for a forced loan launched by the State upon the holders of its currency. When in former times, before the first World War, the convertibility of paper money was insured against metallic deposits, the free exchange of goods guaranteed the stability of purchasing power in a general way. Changes in prices took place only with respect to a limited number of these commodities, some prices rising and others falling, so that the cost-of-living indexes experienced hardly any noticeable change.

The real economic troubles occasioned by that war were tackled, as regards money, by means of deflation and revaluing with a view to balancing the national income with the fiduciary currency according to the deposits held.

When a Government decides to make a law for the determination of the new conversion of its money, it does not reduce the value, but acknowledges that the currency has devaluated; this devaluation has taken place during the whole time the Government has been forced to abuse its currency, i.e. when

warfare or special circumstances of war have required it.

This is the period in which we find ourselves. The French franc is coming out of the Treasury with much more speed than it is entering that institution; the Government is continually seeking larger loans because its expenses are considerable and extraordinary. The quantity of money, which is increasing at a giddy pace, is not offset by the national income which not only has been unable to increase but has suffered a backward movement by devoting a considerable portion of its energies to uneconomical production even though in the interests of national defense. The time will come when the public will shew by new conversion figures the extraordinary sacrifice that was exacted from the nation to maintain the State.

Meanwhile, France is also seeking help in the Nation's effort from its Colonies and Protectorates. Agricultural produce from Tunis, Algeria, and Morocco is being transported to France in regular convoys in order to meet, as far as possible, its lack of food. It is the contribution requested by the Metropolis from its colonials and subjects overseas. Being unable to pay for such supplies with equivalent wealth, it is, in the same manner as it is obtaining advances from the National Bank to meet its current commitments, having recourse to the Moroccan Treasury for payment of the supplies by the issue of new notes which, by increasing the fiduciary issue of the protectorate are considered as debts due by the French Treasury. It is useless to try to withdraw the surplus of circulating money by issuing bonds or other kinds of floating debts. That will succeed only in part without the total of these loans being in any case other than part of the inflation.

As equilibrium must be obtained and the effective wealth of Morocco cannot increase at the same rate, one unit of production in the Empire's protectorate will be equivalent to a greater number of circulating money units and the standard of these units will naturally equal a fraction of the goods. This is vulgarly known as a rise in prices; it is more correct to say a decrease in the value of money.

The credit balance of Morocco's commerce with the Metropolis corresponds very nearly with the percentage inflation experienced. Generally, the losses that are being suffered by the Moroccan franc when compared with a more stable currency, represent the extent to which the holder is contributing to the support of France. Tangier is therefore continually on the subscription list because the greater part of its services are valued in the currency of that country.

The creditor rebels against this subscription and tries to restore his former buying power; he asks more monetary units for his work; he achieves this only to a slight extent because he will not always be behind events.

The only way to stop the effects of these acute inflationary movements is to fix prices and employ rationing. Otherwise, the wages received by workers would be insufficient to cover the barest necessities of life. Because of this, governments responsible for the inflation hastily try to remedy the consequences by fixing maximum prices for those articles indispensable for life, and by supervising an equitable distribution.

The colonial and protector states have always hastened to implant their money in the territories under their influence. A good many years have elapsed since Moorish money was withdrawn from the Moroccan market.

In so far-reaching and critical times as these, there is not a corner of the world that can free itself from the consequences. Tangier, apart from being no such corner, founded its economy on that of various States, by international Treaties. Its Administration, however, thought it convenient to preserve it from the consequences that might be suffered by the

city through exceptional circumstances affecting one of these States. At the end of 1936 the Administration had no qualms in removing the circulation of the peseta; it was a diseased money whose contagion should be avoided. Thus at no time has this region contributed to alleviate the economic depression of our nation. Spain, as always, adopted a lofty attitude holding that the prestige of a people is not won by the obligatory powers of agreed treaties, but by actual facts.

A "simplist" minority is trying to show that the depreciation of this money in the Tangier market implies negligence of a hidden problem. It even suggests that its economic power should be employed to re-value the other money; as if the depreciation of the franc were merely the result of exchange. The speculator is a perturbing factor, but he cannot be ascribed so much importance as is vulgarly done. What is most influencing the monetary fluctuations are classical and real factors. Its interference without a restriction in goods is very pleasant to the general public, but the people do not realize that they are being deceived by a pretence of protection by powers without governmental responsibility. They never forget the compensating reaction and the Moroccan franc is not a money particularly capable at this moment of assuming such a role. If its circulation gives it purchasing power, this power will gradually grow less and less in Tangier, provided the French Zone continues to suffer from inflation without enforcing a corresponding decrease in the circulation of the franc or increasing its wealth with a view to obtaining stability.

And let it be considered that if ethically the Spaniards and their colonials were not compelled to contribute to the economic deficits of other states, they might even insist on being freed from unprecedented burdens even though identical events took place in the past and are still fresh in the minds of all."

* * * * *

Charles R. Johnson
Colonel, G.S.C., (Gav.),
Military Attache,
Tangier, Morocco.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 6, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Summary of Military Operations

German Troop Movements

Reciprocal movements of German troops between Russia and the West continue. It is reported by the British that a steady decline is taking place in the quality of German troops in Western Europe, due to drafting for service on the Eastern front. The Germans are attempting to make up for this loss in quality by the transfer to the West of tired army divisions from Russia.

Convoys to Russia

Up to July 30, 18 convoys have sailed to Russia, consisting of 230 ships of which 39 have been lost.

Convoys to Great Britain

During the period July 23 - 30, 105 ships in four ocean convoys arrived in the United Kingdom without loss.

Turkey

Because of the increasing German threat in the Black Sea, resulting from the fall of Sevastopol, Turkey has strengthened her forces along the northern coast by three to four divisions.

New German Bombs

Three new types of bombs are now being used by the Germans:

1. A five-pound incendiary bomb containing a more powerful explosive charge which may go off up to five minutes after the bomb has landed.

2. A 110-pound incendiary bomb containing phosphorus, oil and rubber, which scatters a sticky liquid up to about thirty yards, the contents igniting spontaneously.

3. A combination high explosive and incendiary bomb weighing 110 pounds. This bomb, upon landing, throws out six pre-ignited fire pots and about sixty small metal containers, about 2-1/2 inches long, containing thermite. This is followed immediately by the explosion of a twelve-pound charge of TNT in the nose of the main bomb.

Manchuria

The British report that Japanese military preparations in Manchuria have reached an advanced stage. It is believed that, if Japan intends to attack Siberia, operations can be started at any time.

(British Operations Report, July 23 - 30, 1942)