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

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

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

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

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

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

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

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

(1) To provide the United Kingdom under Lend-Lease the component parts obviously purchased by Canada in the United States for use in the execution of British contracts;

(2) To purchase munitions, strategic materials, aluminum and ships, urgently required in the United States and for the production of which existing and potential capacity existed in Canada. It was hoped at the time the agreement was reached that these purchases would total $200 to $300 million during the first twelve months of the Arrangement and, together with the lend-leasing of component parts, would eliminate Canada's cash deficiency vis-a-vis this country.

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

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

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

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

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

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

March 2, 1943.

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

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

1. The appropriate level of the U.S. dollar exchange reserve for Canada in the light of the Hyde Park Arrangement for assistance to Canada.

2. The Hyde Park policy of continuing to lend-lease to the United Kingdom component parts obtained in the United States for Canada and required for the execution of British contracts in Canada.

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

Canada's U.S. Dollar Position

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

	(In millions)
Gold.....	$ 155
U.S. dollar balances.....	164
Total.....	$ 319

Canada has used [illegible] million of proceeds from net sales of U.S. securities and other investments to Americans since the outbreak of the war. But during this same period she has repatriated Canadian securities held in the United Kingdom to a value of over [illegible] million and has lent the British Government $630 million [illegible] billion to the $900 million gift.

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

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

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

The Canadian Proposal as to a Reasonable Reserve

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

1. Consideration be given to agreeing upon a range of $400-$430 million.

2. All U.S. dollar receipts from the net sale of securities in the United States be considered outside this reserve to be utilized to retire maturing or callable securities payable in U.S. currency.

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

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

The Conclusions of the Subcommittee

1. The range suggested by the Canadian Government would be difficult to defend in view of the following considerations:

   a. The minimum figure suggested is higher than the U.S. dollar exchange reserve of Canada at the outbreak of war. This amounted to $390 million--$260 million of gold and dollars held by the Canadian Government and $130 million of U.S. dollar balances held by private Canadian residents in excess of minimum working needs.

b. A liquid reserve of $400-$430 million is substantially more than Canada needs to prosecute the war. A liquid reserve of $300-$350 million appears to be ample for this purpose.

c. The $600-$1,000 million range decided upon for the United Kingdom would make it difficult to justify a range of $400-$430 million for Canada.

2. It does not seem inappropriate to permit Canada to repay Canadian Government obligations payable in U.S. dollars out of proceeds from net security sales. Such an arrangement would prevent further impairment of Canada's capital position vis-a-vis the United States.

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

Recommendations

1. It is recommended, in the light of present circumstances, that appropriate action be taken to maintain Canada's gold and U.S. dollar balances at not less than about $300 million and not more than about $350 million, and that the Secretary of the Treasury keep the Chairman of the American Section of the Joint War Production Committee informed as to the size of these balances and the magnitude of action needed to be taken by U.S. Government procurement agencies, through the cancelling of orders, the placing of orders and/or the making of advance payments, to maintain these holdings within the above limits.

2. It is recommended that for the present, Canada's net U.S. dollar proceeds from security sales be considered outside her U.S. dollar exchange reserve provided they are to be used within a year to redeem maturing or callable securities payable in U.S. currency and provided further there is no substantial relaxation of Canada's foreign exchange control nor a significant modification of her import policy without prior consultation with this Government.

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

H A Wallace
Vice President

Henry Morgenthau Jr.
Secretary of Treasury

Acting Secretary of State

Acting Secretary of War

E R Stettinius Jr.
Lend-Lease Administrator

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

The White House

Approved: Franklin D Roosevelt

MAR 2 - 1943

MEMORANDUM FOR THE PRESIDENT

In his memorandum, Mr. Altschul proposes that plans be developed for early stabilization of foreign exchange through some practical arrangement which can be put into operation promptly. Specifically, he proposes an agreement for exchange stabilization between the United States, representing the dollar area, and Great Britain, representing the sterling area, with subsequent adherence to this agreement by the countries of Western Europe.

The Treasury has proceeded much farther in this direction than Mr. Altschul's suggestion. You may recall that I sent you a memorandum last May outlining a study of a Stabilization Fund for the United and Associated Nations and an International Bank for Reconstruction and Development together with a proposal for the calling of a conference to be held in Washington of the Finance Ministers of the United and Associated Nations after we had worked the matter out with the interested agencies of this Government.

You indicated you were interested in the suggestion and instructed me to continue the studies in conjunction with the State Department, Board of Economic Warfare and the Export-Import Bank and to speak to you again after this had been done and after I had obtained the opinion of the State Department. Since that time, a great deal of work has been done. In cooperation with other departments and agencies, the Treasury staff has prepared a draft proposal for an International Stabilization Fund of the United and Associated Nations. The representatives of the State Department and the Treasury Department have discussed this draft proposal with the technical experts of Great Britain, and copies have been given on an informal basis to the representatives of Russia and China for consideration by their technical experts.

With the approval of the Secretary of State, I intend to write to the Ministers of Finance of other countries calling their attention to this draft proposal and inviting its critical study by their technical experts. After they have had an opportunity for study, it is our hope that their technical experts will be sent to Washington for unofficial and preliminary discussion with our experts here. This procedure has the approval of Vice President Wallace, Secretary Hull and Secretary Jones.

After there have been some discussions among the technicians, our informal committee consisting of the Vice President, Secretary Hull, Secretary Jones, Governor Eccles and myself will examine the area of agreement among the technicians of the various countries and decide whether there is enough agreement to warrant pursuing the matter further. If we are agreed that there is, I will then take up the matter with you and find out whether you wish to take the next step which would be the calling of a conference of Finance Ministers to discuss the matter formally.

I am attaching a copy of our draft proposal which you may wish to glance at. Incidentally, the British Treasury also has prepared a draft proposal covering somewhat the same ground. They have already submitted their proposal to us and, we understand, to the Governments of Russia and China and are about to distribute it to many other governments.

If you should wish to acknowledge Mr. Altschul's letter and memorandum you may find the attached letter appropriate.

(Signed) H. Morgenthau, Jr.

Attachments

HDW:dmh
3/1/43.

Del. by SS agent 3/2/43
Photo file to White
Photo file in Diary

Dear Mr. Altschul:

This is in reply to your letter of February 17, 1943, addressed to Mrs. Roosevelt, enclosing a memorandum on post-war exchange stabilization.

Your memorandum has been studied carefully by members of the Treasury staff who are working on the problems of international monetary cooperation. You may be sure that they will give careful consideration to the views you express.

As you may know, the conference of the Ministers of Foreign Affairs of the American Republics held in Rio de Janeiro from January 15 to January 28, 1942, adopted a resolution recommending that the American republics participate in a conference to consider the establishment of an international stabilization fund. The Treasury has for some time been working on a plan for international monetary cooperation through an international stabilization fund. A tentative draft of a plan has been prepared which will be submitted as a basis for discussion to the technical experts of other governments.

Sincerely yours,

Mr. Frank Altschul,
120 Broadway,
New York, New York.

HDW:dmh
2/26/43.

STRICTLY CONFIDENTIAL

MEMORANDUM

A Stabilization Fund
of the
United and Associated Nations

It is still too soon to know the precise form and magnitude of post-war monetary problems. But it is certain that we shall be confronted with the task of dealing with three inseparable monetary problems: to prevent the disruption of foreign exchanges, to avoid the collapse of some monetary systems, and to facilitate the restoration and balanced growth of international trade. Clearly, such a formidable task can be successfully handled only through international action.

The creation of instrumentalities adequate to deal with the inevitable post-war monetary problems should not be postponed until the end of hostilities. It would be ill-advised if not dangerous to leave ourselves unprepared at the end of the war for the difficult task of international monetary cooperation. We should begin now to devise an international monetary agency, for the task is certain to take many months at least. Specific and practical proposals must be formulated by the experts and must be carefully considered by the policy-shaping officials of the various countries. In each country acceptance of a definitive plan can follow only upon legislative or executive action. And even when a plan is finally adopted, much time will be consumed in gathering personnel and in establishing an organization before an international institution for monetary cooperation can begin effective work.

There is another important reason for initiating now concrete discussions of specific proposals. A plan for international monetary

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There is another important reason for initiating now concrete discussions of specific proposals. A plan for international monetary

cooperation can be a factor in winning the war. It has been suggested, and with much cogency, that the task of assuring the defeat of the Axis powers would be made easier if the victims of aggression, actual and potential, could have greater assurance that a victory of the United Nations will not mean in the economic sphere a repetition of the exchange instability and monetary collapse that followed the last war. That assurance should be given now. The people in all of the United Nations must be encouraged to feel themselves on solid ground. They must be given to understand that a victory of the United Nations will not usher in another two decades of widespread economic disruption. The people must know that we at last recognize the fundamental truth that prosperity, like peace, is indivisible.

One of the appropriate agencies to deal with international economic and monetary problems would be an international stabilization fund with resources and powers adequate to the task of helping to achieve monetary stability and to facilitate the restoration and balanced growth of international trade. A proposal drafted by American technical experts is appended. The draft presents only the essential elements of an international stabilization fund. The provisions of the proposal are in every sense tentative, intended as a basis for discussion and exchange of views. Obviously, there are many details that have been omitted and that can be better formulated after there is agreement on the general principles.

It is recognized that an international stabilization fund is only one of the instrumentalities which may be needed in the field of international economic cooperation. Other agencies are also needed to provide capital

for post-war reconstruction and development, to provide funds for rehabilitation and relief, and to promote stability in the prices of primary international commodities. There is a strong temptation to embrace within a single international agency the responsibility for dealing with these and other international economic problems. We believe, however, that international economic institutions can operate more effectively if they are not burdened with important but extraneous duties for which they have not been devised and for which they are unsuited. For example, the highly specialized nature of international monetary stabilization and the provision of long-term capital would seem to call for separate institutions each designed to deal with its distinct problems.

It should be emphasized that the appended draft deals only with an international stabilization fund. It is anticipated that there will also be submitted for consideration a preliminary draft of a proposal for an international agency whose function will be to provide capital for reconstruction and development. It is hoped that the appended draft will call forth from the experts of the United Nations, critical comment and constructive suggestions. It is our belief that a workable and acceptable plan can emerge only from the joint efforts of the United Nations.

Washington, D. C.
January, 1943.

V#
U. S. Treasury Department
January, 1943

Preliminary Draft of
Proposal for a United and Associated Nations
Stabilization Fund

I. Composition of the Fund

1. The Fund shall consist of gold, currencies of member countries, and securities of member governments, which shall be used for the purpose of stabilizing the values of the currencies of member countries with respect to each other.

2. Each of the member countries shall be given a quota which shall represent its participation in the Fund; i.e., the basis for its purchase of foreign exchange in the Fund and its undertaking to provide assets to the Fund. The aggregate quotas of the member countries shall be the equivalent of at least $5 billion.

3. The quota for each member country shall be determined by an agreed upon formula. The formula should give due weight to the important factors relevant to the determination of quotas, e.g., a country's holdings of gold and foreign exchange, the magnitude of the fluctuations in its balance of international payments, and its national income.

   Each member country shall provide the Fund with 50 percent of its quota on or before the date set by the Board of Directors of the Fund on which the Fund's operations are to begin.

4. The initial payment of each country consisting of 50 percent of its quota shall be 12.5 percent in gold, 12.5 percent in local currency, and 25 percent in its own (i.e., government) interest-bearing securities. However, any country having less than $300 million in gold need provide initially only 7.5 percent of its quota in gold, and any country having less than $100 million in gold need provide initially only 5 percent of its quota in gold, the contribution of local currency being increased correspondingly. A country may, at its option, substitute gold for its local currency or securities in meeting its quota requirement.

5. The member countries of the Fund may be called upon to make further provision toward meeting their quotas at such times, in such amounts, and in such form as the Board of Directors of the Fund may determine, provided that all countries shall meet their quotas pro rata, and provided that a four-fifths vote of the Board shall be required for subsequent calls to meet quotas.

6. Changes in the aggregate or proportionate quotas of member countries shall be made only with the approval of a four-fifths vote of the Board.

II. Powers and Operations

The Fund shall have the following powers:

1. To buy, sell, and hold gold, currencies, bills of exchange, and government bonds of member countries; to accept deposits and to earmark gold; to issue its own obligations and discount or offer them for sale in member countries; and to act as a clearing house for the settling of international movements of balances, bills of exchange, and gold.

   All member countries agree that all of the local currency holdings shall be free from any restrictions as to their use. This provision does not apply to abnormal war balances acquired in accordance with the provisions of II-9, below.

2. To fix the rates at which it will buy and sell one member's currency for another, and the rates in local currencies at which it will buy and sell gold. The guiding principle in the fixing of such rates shall be stability in exchange relationships. Changes in these rates shall be made only when essential to correction of a fundamental disequilibrium, and only with the approval of four-fifths of member votes.

3. To sell to the Treasury of any member country (or stabilization fund or central bank acting as its agent) at a rate of exchange determined by the Fund currency of any member country which the Fund holds, provided that:

   a. The foreign exchange demanded from the Fund is required to meet an adverse balance of payments on current account with the country whose currency is being demanded.

   b. The net acquisition by the Fund of the currency of any member country shall not exceed during the first year of the operation of the Fund, the quota of that country; it shall not exceed during the first two years 150 percent of such quota; and thereafter it shall not exceed 200 percent of such quota; except that upon approval by the Board of Directors, the Fund may purchase any local currency in excess of these limits, provided that:

      i. The country whose currency is being acquired by the Fund agrees to adopt and carry out measures recommended by the Fund designed to correct the disequilibrium in the country's balance of payments, or

      ii. It is believed that the anticipated balances of payments of the country whose currency is being acquired by the Fund are such as to warrant the expectation that the excess currency holdings of the Fund can be disposed of within a reasonable time.

c. When the net acquisition by the Fund of any local currency exceeds the quota for that country, the country shall deposit with the Fund a special reserve in accordance with regulations prescribed by the Board of Directors.

d. A charge at the rate of 1 percent per annum payable in gold shall be levied against any member country on the amount of its currency in the Fund in excess of the quota of that country. Abnormal war balances acquired by the Fund shall not be included in the computed balance of local currency used as a basis for the above charge.

e. When the Fund's holdings of the local currency of a member country exceed the quota of that country, upon request by the member country the Fund shall resell to the member country the Fund's excess holdings of the currency of that country for gold or acceptable foreign exchange.

4. The right of a member country to purchase foreign exchange from the Fund with its local currency to the amount of its quota for the purpose of meeting an adverse balance of payments on current account is recognized, subject to the limitation in II-7, below.

5. With the approval of four-fifths of the member votes, the Fund in exceptional circumstances may sell foreign exchange to a member country for its local currency to facilitate a transfer of capital, repayment or adjustment of a foreign debt, including debts already in default, when in the judgment of the Board such a transfer is desirable from the point of view of the general international economic situation.

6. When the Fund's holdings of any particular currency drop below 15 percent of the quota of that country, and after the Fund will have used for additional purchases of that currency,

a. Gold in an amount equal to the country's contribution of gold to the Fund, and

b. The country's interest-bearing obligations originally contributed,

the Fund has the authority and the duty to render a report to the country embodying an analysis of the causes of the depletion of its holdings of that currency, a forecast of the prospective balance of payment in the absence of special measures, and finally, recommendations designed to increase the Fund's holdings of that currency. The member of the country in question should be a member of the Fund committee appointed to draft the report. This report should be sent to all member countries and, if deemed desirable, may be made public.

Member countries agree that they will give immediate and careful attention to recommendations made by the Fund.

7. Whenever it becomes evident to the Board of Directors that the demand for any particular currency is proceeding at a rate which gives early promise of exhausting the Fund's holdings of that currency, the Board of Directors of the Fund shall inform the member countries of the probable supply of this currency and of a proposed method for its equitable distribution, together with suggestions for helping to equate the anticipated demand and supply for the currency.

The Fund shall make every effort to increase the supply of the scarce currency by acquiring that currency from the holdings of member countries. The Fund may make special arrangements with any member country for the purpose of providing an emergency supply under conditions appropriate and acceptable to both the Fund and the member country.

The privilege of any country to acquire an amount of other currencies equal to or in excess of its quota shall be limited by the necessity of assuring an appropriate distribution among the various members of any currency the supply of which is being exhausted. The Board of Directors shall determine the apportionment of sales of such scarce currency, and in such apportionment it shall be guided by the principle of satisfying the most urgent needs from the point of view of the general international economic situation, and it shall consider the special needs and resources of the particular countries making the request for the scarce currency.

8. In order to promote the most effective use of the available and accumulating supply of foreign exchange resources of member countries, each member country agrees that it will offer to sell to the Fund, for its local currency or for foreign currencies which it needs, all foreign exchange and gold it acquires in excess of the amount it possessed when joining the Fund. The Fund may accept or reject the offer.

To effectuate this objective each member country agrees to discourage the unnecessary accumulation of foreign balances by its nationals. The Fund shall inform any member country when, in its opinion, any further growth of privately-held foreign balances appears unwarranted.

9. To buy from the governments of member countries, abnormal war balances held in other countries, provided all the following conditions are met:

a. The abnormal war balances are in member countries and are reported as such (for the purpose of this provision) by the member government on date of its becoming a member.

b. The country selling the abnormal war balances to the Fund agrees to transfer these balances to the Fund and to purchase back from the Fund 40 percent of them with gold or such free currencies as the Fund may wish to accept, at the rate of 2 percent a year beginning not later than three years after the date of transfer.

c. The country in which the abnormal war balances are held agrees to transfer those balances to the Fund, and to purchase back from the Fund 40 percent of them with gold or such currencies as the Fund may wish to accept, at the rate of 2 percent a year beginning not later than 3 years after the date of transfer.

d. A charge of 1 percent, in each case payable in gold, shall be levied against the country selling its abnormal war balances and against the country in which the balances are held. In addition a charge of 1 percent payable in gold shall be levied annually against each of them on the amount of such balances remaining to be repurchased.

e. If the country selling abnormal war balances to the Fund asks for foreign exchange rather than local currency, it must need the foreign exchange for the purpose of meeting an adverse balance of payments not arising from the acquisition of gold or the accumulation of foreign balances or other capital transactions.

f. Either country can, at its option, increase the amount it repurchases annually. But, in the case of the country which sold abnormal war balances to the Fund, not more than 2 percent per annum of the original sum taken over by the Fund shall become free, and only after 3 years shall have elapsed since the sale of the balances to the Fund.

g. The Fund shall be free to dispose of any of its holdings of abnormal war balances in the form of free funds after the 23 year period is passed, or sooner, provided

   i. its holdings of the free funds of the country in which the balances are being held fall below 15 percent of its quota; or

   ii. the approval is obtained of the country in which the balances are held.

h. The country in which the abnormal war balances are held agrees not to impose any restrictions on the use of the instalments of the 40 percent portion gradually to be repurchased by the country owning such balances.

i. The Fund on its part agrees not to sell the abnormal war balances acquired under the above authority, except with the permission, or at the request of the country in which the balances are being held, but the Fund can invest these balances in regular or special government securities of that country. The Fund shall be free to sell such securities in any country provided that the approval of the issuing government is first obtained.

j. The Fund shall determine from time to time what shall be the maximum proportion of the abnormal war balances it can afford to take over under this provision.

Abnormal war balances acquired under this provision shall not be included in computing the amount of foreign exchange available to member countries under their quotas.

10. To buy and sell currencies of non-member countries, but shall not be authorized to hold such currencies beyond sixty days after date of purchase, except with the approval of four-fifths of the member votes.

11. To borrow, at such rates as the Fund may recommend, the currency of any country, provided four-fifths of the member votes approve the terms of such borrowing.

12. To sell member-country obligations owned by the Fund provided the representative of the country in which the securities are to be sold approves.

To use its holdings to obtain rediscounts or advances from the central bank of any country whose currency the Fund requires.

13. To invest any of its currency holdings in "short-term" securities -- commercial or government -- of the country of that currency provided four-fifths of the member votes approve, and provided further that the approving votes include that of the Board representative of the country in which the investment is to be made.

14. To lend to any member country local currency from the Fund for one year or less up to 75 percent of the currency of that country held by the Fund provided such loan is approved by four-fifths of the member votes. A country borrowing such funds shall pay interest to the Fund at a rate to be determined by the Board.

15. To make a service charge of 1/4 percent or more on all exchange and gold transactions.

To levy upon member countries a pro rata share of the expenses of operating the Fund, payable in local currency, not to exceed .1 percent per annum of the quota of each country. The levy may be made only when the earnings of

the Fund are inadequate to meet its current expenses and only with the approval of four-fifths of the member votes, and only to the extent necessary to meet its current expenses.

16. The Fund shall deal only with or through

a. The governments of member countries.

b. The central banks or fiscal agencies of those countries (and then only with the consent of the member of the Board representing the country in question); and

c. Any international banks owned predominantly by member governments.

An exception to the above limitation is that the Fund may, with the approval of the member of the Board representing the government of the country concerned, sell its own securities, or securities it holds, to the public or to institutions of member countries.

III. Monetary Unit of the Fund

1. The monetary unit of the Fund shall be the Unitas (UN) consisting of 137 1/7 grains of fine gold (equivalent to $10 U.S.). The accounts of the Fund shall be kept and published in terms of Unitas.

2. The value of the currency of each member country shall be fixed by the Fund in terms of gold or the Unitas and may not be altered by any member country without the approval of the Fund.

3. Deposits in terms of Unitas accepted by the Fund from member countries upon the delivery of gold or Unitas credit to the Fund shall be transferable and shall be redeemable in gold or the currency of any member country at the rate established by the Fund.

4. No change in the value of the currencies of member countries shall be permitted to alter the value in gold or Unitas of the assets of the Fund. Thus, if the currency of a participating country should depreciate (in terms of gold or the Unitas), that country must deliver to the Fund an amount of its local currency equal to the decreased value of that currency held by the Fund. Likewise, if the currency of a particular country should appreciate, the Fund must return to that country an amount (in the currency of that country) equal to the resulting increase in the gold or the Unitas value of the Fund's holdings. The same provisions shall also apply to the securities of member countries held by the Fund. However, this provision shall not apply to currencies acquired under II-9 (abnormal war balances).

IV. Management

1. The administration of the Fund shall be vested in a Board of Directors. Each government shall appoint a director and an alternate, in a manner determined by it, who shall serve for a period of three years subject to the pleasure of their government. Directors and alternates may be reappointed.

   In all voting by the Board, the director or alternate of each member country shall be entitled to cast a number of votes to be agreed upon. The distribution of voting power shall be closely related to the quotas of member countries, although not in precise proportion to the quotas. An appropriate distribution of voting power would seem to be the following: Each country shall have 100 votes plus 1 vote for the equivalent of each $1 million of its quota.

   Notwithstanding the approved formula for distributing voting power, no representative shall cast more than one-fourth of the aggregate votes regardless of the quota of his country. All decisions, except where specifically provided otherwise, shall be made by a majority of the votes cast.

2. The Board of Directors shall select a Managing Director of the Fund and one or more assistants. The Managing Director shall become ex officio a member of the Board and shall be chief of the operating staff of the Fund. The Managing Director and the assistants shall hold office for two years, shall be eligible for reelection, and may be removed for cause at any time by the Board.

   The Managing Director of the Fund shall select the operating staff in accordance with regulations established by the Board of Directors. Members of the staff shall be available upon request of member countries for consultation in connection with international economic problems and policies.

3. The Board of Directors shall appoint from among its members an Executive Committee to consist of not less than eleven members. The Chairman of the Board shall be Chairman of the Executive Committee, and the Managing Director of the Fund shall be ex officio a member of the Executive Committee.

   The Executive Committee shall be continuously available at the head office of the Fund and shall exercise the authority delegated to it by the Board. In the absence of any member of the Executive Committee, his alternate shall act in his place. Members of the Executive Committee shall receive appropriate remuneration.

4. The Board of Directors may appoint such other committees as it finds necessary for the work of the Fund. It may also appoint advisory committees chosen wholly or partially from persons not regularly employed by the Fund.

5. The Board may at any meeting, by a four-fifths vote, authorize any officers or committees of the Fund to exercise any specified powers of the Board. Such powers shall be exercised only until the next meeting of the Board and shall be exercised in a manner consistent with the general policies and practices of the Board.

The Board of Directors may not delegate, except to the Executive Committee, any authority which can be exercised only by a four-fifths vote.

6. The Board, by a four-fifths vote, may establish regulations governing the operations of the Fund, and the officers and committees of the Fund shall be bound by such regulations.

7. The Board shall hold one annual meeting and such other meetings as it may be desirable to convene. On request of member countries casting one-fourth of the votes, the chairman shall call a meeting of the Board for the purpose of considering any matters placed before it.

8. A country failing to meet its obligations to the Fund shall be declared in default and may be suspended during the period of its default provided a majority of the member votes so decide. While under suspension, a country in default shall be denied the privileges of membership but shall be subject to the same obligations as any other member of the Fund. When a country has been in default and under suspension for two years it shall automatically be dropped from membership in the Fund.

Any country may withdraw from the Fund by giving notice to that effect and its withdrawal will take effect two years from the date of such notice. During the interval between notice of withdrawal and the taking effect of the notice, such country shall be subject to the same obligations as any other member of the Fund.

A country which is dropped, or which withdraws, from membership shall have returned to it an amount in its own currency equal to its contributed quota, plus other obligations of the Fund to the country, and minus any sum due from that country to the Fund. Any realized losses of the Fund may be deducted pro rata from the contributed quota to be returned to the country dropped or withdrawing from membership. The Fund shall have five years in which to liquidate its obligation to such country. When any country withdraws or is dropped from the Fund, the rights of the Fund shall be fully safeguarded.

9. Net profits earned by the Fund shall be distributed in the following manner:

a. 50 percent to reserves until the reserves are equal to 10 percent of the aggregate contributed quotas of the Fund.

b. 50 percent to be divided each year among the members in proportion to their quotas. Dividends distributed to each country shall be paid in its own currency or in Unitas at the discretion of the Fund.

V. Policies of Member Countries

Each member country of the Fund undertakes the following:

1. To maintain by appropriate action exchange rates established by the Fund on the currencies of other countries, and not to alter exchange rates except with the consent of the Fund and only to the extent and in the direction approved by the Fund. Exchange rates of member countries may be permitted to fluctuate within a specified range fixed by the Fund.

2. To abandon, as soon as the member country decides that conditions permit, all restrictions and controls over foreign exchange transactions (other than those involving capital transfers) with other member countries, and not to impose additional restrictions without the approval of the Fund.

   The Fund may make representations to member countries that conditions are favorable for the abandonment of restrictions and controls over foreign exchange transactions, and each member country shall give consideration to the representations of the Fund.

3. To cooperate effectively with other member countries when such countries, with the approval of the Fund, adopt or continue controls for the purpose of regulating international movements of capital. Cooperation shall include, upon recommendation by the Fund, measures that can appropriately be taken:

   a. Not to accept or permit acquisition of deposits, securities, or investments by nationals of any member country imposing restrictions on the transfer of capital except with the permission of the Government of that country and the Fund.

   b. To make available to the Fund or to the Government of any member country full information on all property in the form of deposits, securities and investments of the nationals of that member country; and

   c. Such other measures as the Fund shall recommend.

4. Not to enter upon any new bilateral foreign exchange clearing arrangements except with the approval of the Fund.

5. To give consideration to the views of the Fund on any existing or proposed monetary or economic policy, the effect of which would be to bring about sooner or later a serious disequilibrium in the balance of payments of other countries.

6. To furnish the Fund with all information it needs for its operations and to furnish such reports as it may require in the form and at the times requested by the Fund.

7. To adopt appropriate legislation or decrees to carry out its undertakings to the Fund and to facilitate the activities of the Fund.

THE WHITE HOUSE
WASHINGTON

February 22, 1943

MEMORANDUM FOR

H. M. Jr.

To read and digest for me.

F. D. R.

Enclosure

FRANK ALTSCHUL
120 BROADWAY
NEW YORK CITY

February 17, 1943

Dear Mrs. Roosevelt,

In accordance with your suggestion, I shall try to summarize the views which you were kind enough to give me an opportunity of expressing to you yesterday. For the sake of brevity, I shall state these possibly somewhat too dogmatically, with little attempt to set forth the reasoning which lies behind them.

1. After the war, the possibility will exist of one of the greatest forward movements in human well-being and human liberty the world has ever experienced.

2. Whether this possibility is realized will depend in large measure upon the way we conduct ourselves in the United States of America.

3. The pattern of American post-war conduct is being set now; and it fills me with apprehension.

4. There is evident in this country a distinct drift toward extreme reaction which, unarrested, might leave us in the paradoxical position of succumbing at home to the very forces we set out to conquer abroad.

5. Such a development would be a disaster for the world as a whole no less than for the United States; and it would postpone indefinitely even the partial realization of the four freedoms.

6. The forces of extreme reaction are obtaining an increasing degree of influence in the Republican organization. They now hold a number of key positions, and they find a considerable measure of support among the more shortsighted elements in the business community. In alliance with reactionary Democrats, they have already attained a position of quite undue influence in government.

7. They do not, in my opinion, really represent the desires or aspirations of the rank and file of Republicans, but they are so placed that they may determine to a great extent the character of Party policies. They are growing increasingly confident that riding the "wave of the future", they will sooner or later land in positions of the highest authority.

8. Meanwhile, liberal Republicans with many of whom I have spoken are becoming exceedingly disturbed by this situation, without having found as yet any way of coping with it. They are unorganized, have a diminishing voice in the Party machine, and have no leader around whom to rally.

9. Under these circumstances, there is a growing danger that large numbers of men and women of good will and of liberal views may find themselves following leadership with whose real purposes, if clearly understood, they would be completely out of sympathy.

10. This danger is aggravated both by circumstances beyond and by circumstances within the control of the Administration.

In the first category are the Russian victories. Fear of the extreme Left is being used as a whip to drive people into the arms of the extreme Right.

In the second category, of many items I mention merely two which seem of some importance:

(a) Those pin prick aggravations which lend color to the cry of "bureaucratic tyranny".

There is little or no complaint about the personal sacrifices and restraints that the war involves. These are recognized as necessary. However, on all sides, there is constant grumbling about the complicated methods through which these sacrifices and restraints are imposed. As a result, the cliché "bureaucratic tyranny" is used effectively to conceal an attack which is primarily being leveled at the purposes of the Administration rather than at its methods.

(b) The failure to implement the dream of the brave new world with the development and disclosure of any practical plans for making the dream come true.

This plays into the hands of the reactionaries who make abundant political capital out of what they term the "visionary" and the "unrealistic". Concrete plans, even in limited areas, which suggest an approach to the step-by-step solution of post-war problems would meet with ready response in many quarters.

11. It appears to me that there is great danger in a policy of continuing appeasement of the extremists. I hope that, sooner rather than later, the President will find a way to isolate them from the vast majority in both Parties with whom they have in fact little in common. Possibly this could be accomplished at the proper moment by an appeal to the country for support of a certain number of concrete projects in connection with the economic organization of the post-war world. On this account, I am supplementing this letter with a tentative suggestion in one specific field, which may at least have the advantage of not requiring the approval of the Senate Foreign Relations Committee in its present temper.

With renewed thanks for your gracious reception, and apologies for a letter that has grown intolerably long, I am,

Yours faithfully,

MEMORANDUM IN REGARD TO POST-WAR EXCHANGE STABILIZATION

1. It is highly desirable that, before the end of the war, plans should be developed looking towards an early stabilization of the exchanges over as large an area of the trading world as possible.

2. There have been rumors of discussions about the establishment of a World Bank, and about some highly confidential memorandum prepared by Lord Keynes. I am not informed as to the accuracy of these rumors, and I have no information as to the nature of the plans, if any, which have been advanced. I have some misgiving about schemes which are too grandiose in their nature. What I think must be sought in the first instance, is some essentially practical arrangement which requires a minimum of public debate and of legislative sanction, and which can be put into operation promptly.

3. On this account, it seems to me desirable to limit the discussion of post-war exchange stabilization to the search for an agreement between the United States, representing the dollar area, and Great Britain, representing the sterling area. If the dollar area is considered to include broadly the Americas, and the sterling area is considered to include the British Commonwealth, with the exception of Canada, the British Empire and the Scandinavian countries, approximately 55% of the pre-war international trade would be covered. If such an agreement were subsequently adhered to by The Netherlands, Belgium and France, another 11% of pre-war international trade would be covered.

4. Unless many countries, and notably Great Britain, are to be driven in the direction of bilateral trade agreements, the basis for a prompt return to the ordinary channels of multilateral trade should be laid. It would seem as if this could best be done through a stabilization agreement between the dollar and the sterling areas.

5. In approaching the problem of such a stabilization agreement I am assuming that operations in connection with lend-lease, and operations in connection with relief and rehabilitation, which will certainly, in one instance, continue and, in the other instance, grow in importance in the early post-war world, will be dealt with outside of any stabiliza-

ion agreement. The debits arising in connection with either of these operations will ultimately have to be either funded or forgiven in whole or in part.

6. The breakdown in the system of international exchanges, which we witnessed during the period between two wars, was in large measure a result of the disturbed international political relationships which characterized the period. This produced the phenomenon of flight capital and disorganized the mechanism of international lending.

7. We must assume that the war will end in such a manner as to justify the hope of a prolonged period of world peace. Under such circumstances, there should be a tendency for large scale movements of flight capital to come to an end, and ultimately there should be a tendency for international lending to revive.

8. On the other hand, any stabilisation agreement must be protected against the impact of the repatriation of flight capital, and must be buttressed by some intergovernmental mechanism for international lending capable of responding to world requirements for a prolonged period.

9. If appropriate measures to these ends have been devised, then the problem of dollar-sterling stabilization resolves itself largely into a question of the determination of an initial rate of exchange. Only experience will show whether this initial rate was too high or too low. The best one can hope for is that experience will reasonably justify the initial determination.

10. As the purpose of exchange stabilization is to allow international trade to develop as rapidly as other factors, such as available shipping space, will permit, the initial rate should be fixed for a reasonable period ahead, possibly two or three years. At the end of this time it can be adjusted in the light of experience. If large balances - whether in sterling or in dollars - have been accumulated, the readjustment would involve of necessity a loss. Where this loss, if any, should fall must be a matter of prior agreement between the participating governments.

11. Collateral agreements between the United States and participating Nations within the dollar area, and between Great Britain and participating Nations within the sterling area, would have to be negotiated as part of a whole. In some

instances, those would involve questions of the utmost delicacy, because it is clear that frivolous domestic policies could be financed at the expense of a stabilization fund. On the assumption, however, that agreements are entered into in good faith, the damage that might be done over the two or three year period would seem relatively inconsequential; and when the renewal of the agreements entered the stage of negotiation toward the end of the trial period, any representations which circumstances seemed to warrant could appropriately be made without the appearance of using a stabilization fund to abbreviate in any degree national sovereignty. In all this, there is obviously an element of risk; but it seems to be incomparably less than the risk of failing to stabilize at all.

12. In regard to the control of the repatriation of flight capital, it would appear that this must be allowed only at such times and in such amounts as is consistent with the operations of the exchange stabilization fund. However, in so far as this repatriation took the form of the purchase of gold in the United States at $35 an ounce for account of participating Nations, such repatriation might well be encouraged, because in this manner the gold necessary to reconstitute banking and currency systems abroad could be supplied. Thus the groundwork would be laid for a gradual return to some form of gold standard, in the restoration of which the United States of America has a considerably larger stake than any other country.

13. An international lending agency should be created in which the United States and Great Britain would be the leading participants, and which other Nations adhering to the stabilization agreement could join. Such an agency would serve an exceedingly useful purpose in the post-war world. Capital would no longer move in response to the accidental appraisal by bankers of the relationship between interest rates and risks, but in response to the prudent determination by government where this capital could best be used in facilitating world expansion. If Russia and China, for example, required important sums for development, these sums could thus be made available far more readily than through the processes of private lending. Through the operations of such an instrumentality, large markets could be developed and the dream of the expanding world in measure realized. If, in America, we have come to understand that a healthy economic development in Great Britain is essential to a healthy development in the United States, then, although we would have to have the largest participation in the lending

agency itself, we might be satisfied with considerably less than our pro rata share of the orders placed by virtue of credits so granted. The diversion to Great Britain of more than its pro rata share of such orders would help to reestablish an equilibrium so largely disturbed by the impact of war.

14. As a collateral feature to the control of international lending, there would have to be a continuing control of the international movement of funds seeking investment or speculative employment. In any transition period, stable and free exchanges for ordinary commercial transactions are going to impose the necessity of continuing controls in certain non-commercial areas.

15. Those who believe that the United States should retire behind some sort of an economic Maginot Line are guided by considerations of real or fancied self-interest. If, on the basis of some well-considered program of dollar-sterling exchange stabilization, they can be shown that their real interest lies in the hopes it carries of an expanding world, even attitudes in regard to tariffs and reciprocal trade treaties might undergo a change.

16. This memorandum does not purport to be any such well-considered program. It is merely intended as suggestive of an approach to the problem.

Frank Altschul

February 17, 1943

BOARD OF ECONOMIC WARFARE
OFFICE OF EXECUTIVE DIRECTOR
WASHINGTON, D. C.

March 2, 1943

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

Enclosed are the minutes of the meetings of the Board of Economic Warfare which were held on January 28 and February 11, 1943.

If there are any corrections which you care to suggest, please let me know.

Sincerely yours,

Milo Perkins
Executive Director

Enclosures

SECRET

Minutes of the Meeting of the Board of Economic Warfare
Held January 28, 1943 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 January 28, 1943.

Those present:

The Vice President, Chairman of the Board
Mr. Dean Acheson, representing the Secretary of State
Mr. Harry White, representing the Secretary of the Treasury
Mr. Wayne Taylor, representing the Secretary of Commerce
Mr. Nelson A. Rockefeller, Coordinator of Inter-American Affairs
Mr. Bernhard Knollenberg, Lend Lease Administration

In addition, the following persons were present:

Mr. E. G. Collado, State Department
Mr. W. L. Clayton, Department of Commerce
Mr. Joe Scribner, War Production Board
Mr. John McClintock, Office of Coordinator of Inter-American Affairs
Mr. John Lockwood, Office of Coordinator of Inter-American Affairs
Mr. Harold Neff, War Department
Mr. Milo Perkins, Board of Economic Warfare
Mr. Hector Lazo, Board of Economic Warfare
Mr. E. W. Gaumnitz, Board of Economic Warfare

Cork and Bristles

There was a short discussion of the two reports, "Report on Cork" dated January 25,1943 and "Report on Bristles", dated January 25, 1943. The point was developed that even though Spain and Portugal were eliminated as sources of cork, other available sources and stocks of cork were such that there would be no material effect on the war effort for about three years, though there would need to be further restriction on the use of cork.

Progress Report of Committee on Gold Mining

Mr. Lazo, Chairman of the committee established to recommend policy with reference to the exportation of materials for gold mining, stated that his committee had met, and while certain necessary data for full determination were still lacking, had agreed tentatively that with reference to Latin America:

No export assistance should be given gold mining enterprises in Latin America after February 1, except:

1. For Nicaragua, shipment of up to 2500 tons to be allowed during the next five months, and that after July 1, 1943 no further assistance is to be given.

2. For Colombia, shipments up to 30% of estimated requirements to be allowed to July 1st, 1943, after which time no further export assistance is to be given.

Mr. Lazo also stated that it was proposed that the Coordinator's office prepare a work program for Nicaragua since preliminary estimates indicated that some 3000 employees would be concerned in the proposed change. It was also proposed that qualified persons be sent to Colombia and Nicaragua for the purpose of ascertaining certain facts not now available and also to secure estimates of the probable effects of the program proposed.

In the discussion it was clear that facts were not available as to the income derived from gold mining by the respective governments, especially the Nicaraguan, the relative importance of such income, the alternative sources of income, and the probable effects of a reduction in income. Likewise data were inconclusive as to the probable effects upon employment.

While there was general agreement as to the gold policy outlined tentatively by the committee, and the proposed procedure with reference to Nicaragua and Colombia, action was deferred primarily to secure a more comprehensive report as to the probable effects of such policy. While appraisal of effects might not change the action, it was the concensus that some consideration should be given to difficulities with which the U. S. might be faced and to possible remedial action.

Shipping

The committee on shipping (see minutes of the Board Meeting of January 14, 1943) was not yet ready to report.

The meeting was adjourned at 10:55 a. m.

SECRET

Minutes of the Meeting of the Board of Economic Warfare
Held February 11, 1943 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 February 11, 1943.

Those present

The Vice President, Chairman of the Board
Mr. Dean Acheson, representing the Secretary of State
Mr. Harry White, representing the Secretary of the Treasury
Mr. R. P. Patterson, representing the Secretary of War
The Attorney General
Mr. Adlai Stevenson, representing the Secretary of the Navy
The Secretary of Agriculture
Mr. Wayne C. Taylor, representing the Secretary of Commerce
Mr. Nelson A. Rockefeller, Coordinator of Inter-American Affairs
Mr. William Batt, representing the Chairman, War Production Board
Mr. E. R. Stettinius, Administrator, Lend-Lease Administration

In addition, the following persons were present:

Mr. W. L. Clayton, Department of Commerce
Mr. Harold Neff, War Department
Mr. John Lockwood, Office of Coordinator of Inter-Amer. Affairs
Mr. John McClintock, Office of Coordinator of Inter-Amer. Affairs
Mr. L. A. Wheeler, Department of Agriculture
Mr. John S. Hooker, Department of State
Mr. C. V. Barry, Board of Economic Warfare
Mr. Milo Perkins, Board of Economic Warfare
Mr. E. W. Gaumnitz, Board of Economic Warfare
Mr. Hector Lazo, Board of Economic Warfare

Enemy Oil

Mr. Barry pointed out that the enemy oil position report, "Summary of the Enemy Oil Position" dated January 15, 1943, indicated for Germany that during the next six months German supplies would be relatively short. Unless measures could be taken which would interrupt German programs now outlined, the position at the end of six months would be improved. He pointed out that two things were suggested in the report as being factors which might interfere with an improvement of the German oil position; the disperaion of supplies, and the bombing of sources.

Mr. Barry reported that the Japanese oil position could be summed up as a matter of transportation, transportation from the source of production to the refineries and from there to the places where it was used. He stated that reports indicated that the Japanese had about 52 or 53 tankers available for the transportation of oil and that approximately 50 would be required. Therefore any action which tended to interfere with the tanker movement would effect the oil position.

At the conclusion of the discussion of the oil, Mr. Perkins stated that similar information on a number of other commodities could be made available to the members of the Board at future meetings. Some of the reports, he stated, were made pursuant to requests originating with the Joint Chiefs of Staff through the J. I. C.

Gold

The report of the Sub-committee on Gold, "Report to the Board of Economic Warfare on Recommended Export Policy for Gold Mining in Latin America" dated February 10, 1943 had been circulated. Mr. Lara stated briefly that the committee was repeating the same recommendations which it had made at the last meeting. In effect, the committee recommended that all shipments of gold mining equipment to Latin America be discontinued except that in the case of Columbia and Nicaragua shipments should be held to around 2,000 tons each until July 1, after which no further shipments should be made, the countries to be notified of this policy. It was also recommended that for Nicaragua the Coordinator's Office be requested to initiate a work program looking to assistance in handling the unemployment situation which would result. In the case of Columbia, it was recommended that the Coordinator's Office undertake a study to determine what assistance might be necessary and appropriate.

Mr. Perkins stated that he assumed that acceptance of the report would mean that the Board would follow the policy laid down so far as exports were concerned, that the State Department would notify the affected countries, and that the Coordinator's Office would to institute such programs as were necessary, particularly in Nicaragua and Columbia.

In response to a question by the Vice President as to whether there was any disagreement with the recommendations, Mr. Patterson stated that he disagreed. It was his thought that the exports of gold mining equipment should be stopped entirely, inasmuch as gold mining had been eliminated in the United States and allowing the shipment of mining materials to other countries was inconsistent. At a time when ships and material were in short supply, he did not see how a continuation of the shipment of materials for the maintenance of gold mining was defensible.

Messrs. Taylor and Perkins stated that they agreed with the general objections stated by Mr. Patterson, but believed the committe recommendations represented a workable compromise, and stressing also the July 1, 1943 deadline on shipments.

Upon inquiry by Mr. Rockefeller, Mr. Patterson clarified his position by stating that while he was opposed to further shipment of materials for gold mining, he was in agreement with the committee recommendation with reference to such remedial measures as were necessary, including the use of funds for such purpose provided shipments of mining materials were limited as outlined.

Mr. Stevenson stated his agreement with Mr. Patterson's clarification statement.

A motion was passed accepting the committee recommendations, with Messrs. Patterson and Stevenson dissenting with reference to any further shipment of gold mining materials, but assenting to remedial measures, were shipments of gold mining materials limited as outlined.

Axis Blockade Running

The Vice President asked Mr. Perkins to report on Axis blockade running.
Mr. Perkins stated that on October 29, 1942 a secret document had been handed out at the Board Meeting indicating that Axis blockade running was going on to such an extent as to nullify the blockade in important respects. At that time reports indicated that Germany was securing by blockade running some 70,000 to 80,000 tons total, of which a significant quantity was rubber as well as fats and oils and certain other items. At the same time Japan had been receiving machine tools and other machinery. He indicated that in the twelve months ending October 1942 eleven ships had passed through the blockade from the Far East to German-held territory while six ships had made the journey in the other direction. During the last three months, however, there had been a sharp increase in the number of blockade runners stopped by naval action. Out of twelve ships known to have attempted to run the blockade only four got through, the other eight either being sunk, scuttled or so badly damaged that they were forced to return to ports for repairs.

Mr. Perkins also pointed out that there were really only a small number of Axis ships which could be used for the long blockade running voyage because of the fueling problem. Therefore, the activity of the last three months looked very promising.

Financial Policy

Mr. Rockefeller raised the question of the report of the Committee on subsidies and other matters. (See minutes of Board meetings of December 17, 1942, pages 2 - 6, and December 31, 1942, pages 6 - 8.)

Mr. Perkins reminded the members that in December a number of questions concerning export policy had been raised, the most pressing at that time being the extent of lend lease assistance as related to "dollar" balances. The "dollar" question was resolved by a special committee, the recommendations of which were approved by the President. (See Board minutes of December 31, 1942, pages 6 - 8. The recommendations were approved by the President on January 1, 1943.)

Certain other questions raised at that time were referred to a committee with Mr. Coy as Chairman, which committee had not yet met. Meanwhile certain of the problems have been handled by agreement between the agencies directly concerned.

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A motion was passed accepting the committee recommendations, with Messrs. Patterson and Stevenson dissenting with reference to any further shipment of gold mining materials, but assenting to remedial measures, were shipments of gold mining materials limited as outlined.

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Both Mr. Stettinius and Mr. Perkins indicated considerable progress in the solution of jurisdictional problems where both agencies were in the export of materials. So that other similar problems might be handled expeditiously, and all Board members fully informed, it was agreed that the Board of Economic Warfare should work with representatives of the other affected agencies to draft agreed statements for presentation to the Board as specific problems arose from time to time.

The meeting adjourned at 11:00 a. m.

MAR 2 1943

Dear Mr. Hsü:

Your letter of February 19, 1943, addressed to Secretary Morgenthau, has been referred to me for reply.

The necessary instructions have been given to transfer to the account of "The Central Bank of China, as Fiscal Agent of the Government of the Republic of China" at the Federal Reserve Bank of New York, $20 million from the credit in the name of the Government of the Republic of China with the United States Treasury, to be used for the purchase of banknotes and relative materials, as requested by Dr. Kung.

Very truly yours,

(Signed) D. W. BELL

Under Secretary of the Treasury.

Mr. Hsü To-Hsu,
Representative of the Ministry of
Finance and the Central Bank of China,
1601 V Street, N. W.,
Washington, D. C.

ISP/ofs
2/24/43

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO.69

Information received up to 7 A.M., 2nd March, 1943.

1. NAVAL

A Dutch submarine shelled and sank a Northbound laden 4000 ton ship off Penang on 21st February.

2. MILITARY

TUNISIA. 28th. First Army. Enemy attacks against the British sector in the North were continued on a reduced scale, only place where any strong enemy pressure was exerted was in Mateur-Beja area where attacks South West from Sidi Nsir by tanks and infantry were successfully held by British and French infantry. British forces have cleared much of the ground occupied by the enemy South of Medjez El Bab. Goubellat is still in enemy hands.

RUSSIA. During past few days the German fortified zone in the Demyansk Salient South of Lake Ilmen has been cleared. It is reported that a heavy thaw set in at Moscow on 27th February.

BURMA. Small Japanese forces are reported to have been advancing up the main road North of Nmopzup, also North East from Myitkyina towards Seniku and beyond and 30 miles East of Sumprabuk.

3. AIR OPERATIONS.

WESTERN FRONT. 28th/1st. ST. NAZAIRE. 1117 tons of bombs were dropped including 4 - 8000 pound and 106 - 4000 pound. Cloudless, but smoke screen, ground haze and later on smoke from fires, made detailed identification difficult, nevertheless docks clearly seen by light of fires and indicator flares. Attack accurate and concentrated. Very Large fires in town and docks area. Two large explosions reported. Moderate A.A. and about 25 searchlights but lack of co-operation between the two. Little fighter activity. Yesterday's photographs show many fires still burning and great

devastation in the Town area adjacent to U-boat pens.

1st. One JU.88 and 1 FW. 190 were shot down.

1st/2nd. 366 aircraft despatched - Berlin 302 (17 missing and 2 crashed). Mine-Laying 49 (2 missing). Ruhr 6 Intruders 5 Leaflets, 4 over Berlin. Visibility was good. Marker flares were accurately placed and bombing was concentrated. Considerable fires quickly developed which were visible 200 miles away. Crews are confident that attack was successful.

SICILY. 28th/1st. Mosquito Intruders destroyed 2 enemy aircraft.

BURMA. 27th. 24 U.S. Kittyhawks successfully bombed an enemy supply depot south east of Myitkyina. U.S. Liberators hit and probably sank one 7000 ton ship south of Moulmein.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS
Wednesday, March 3, 1943

Press Service
No. 25-55

Secretary Morgenthau today announced the creation of a United States Treasury War Finance Committee for overall direction of the Treasury's bond selling activities.

Designed to integrate the work of the War Savings Staff and the Victory Fund Committee in the sale of all Government securities, the new organization will be headed by W. M. Robbins who is taking leave from his duties as vice president of General Foods Corporation, where he has been responsible for selling and marketing activities, to join the immediate staff of the Secretary of the Treasury.

As chairman of the War Finance Committee, Mr. Robbins will function with the operating title of National Director of Sales. He will report to the Secretary through the Under Secretary. Other members of the Committee will be Harold M. Graves, Assistant to the Secretary in charge of the War Savings Staff, and George Buffington, Assistant to the Secretary in charge of the Victory Fund Committee. Additional members of the Committee may be announced later by Secretary Morgenthau.

The new organization is being set up as the Treasury prepares for its second big War financing drive, to begin April 12.

Presidents of the Federal Reserve Banks have been asked to serve as chairmen of district committees to be organized on lines similar to the War Finance Committee. These district committees will include representatives of the War Savings Staff in each State and of the Victory Fund Committee.

The Committee in Washington will act in an advisory capacity to the National Director in the formulation and execution of plans for sale of Government securities, and the committees set up in the Federal Reserve Districts will likewise act in an advisory capacity to the Presidents of the Federal Reserve Banks, who will act as chairmen of such committees, with full authority and responsibility in their respective districts to direct the drive.

The National Director of Sales is authorized to deal directly with the Federal Reserve Banks as Fiscal Agents of the United States in all matters relating to the promotion and sale of Government securities, and in this connection he has authority to utilize all the facilities of the War Savings Staff and the Victory Fund Committee, coordinating their respective activities as he may direct.

All publicity will be enlisted in the joint endeavor, and will include wherever possible the continuous promotion activities of the War Savings Staff.

Every function of the two organizations will be integrated in every productive way in preparation for and during the April campaign. The entire basket of Treasury securities, including E bonds, will be sold by all forces taking part in the drive.

In announcing the new sales organization Secretary Morgenthau said:

"The general purpose of the new organization which Mr. Robbins is to head is to coordinate more effectively the work of selling Government securities to finance the war. In this great task we shall continue to rely, as we have in the past, on the patriotic cooperation of many willing volunteers, including all those whose unselfish efforts have set such a remarkable record in the sale of War Savings Bonds and Stamps as well as those whose intensive work made possible success in the First Victory Fund drive. This makes us confident that they will meet successfully the greater tasks that lie ahead of us in this and succeeding campaigns.

"Nowhere is there better evidence that here in the United States this is a people's war than in the widespread participation in the purchase of Government securities.

"We are perfecting our organization simply to give to the American people better opportunities and facilities for putting their dollars to work for victory."

W. H. Robbins, appointed today by Secretary Morgenthau as chairman of the United States Treasury War Finance Committee, is a specialist in mass sales and distribution methods.

He has been associated with the General Foods Corporation for nearly 20 years, is now vice president of that organization and president of its distribution subsidiary, the General Foods Sales Company. He will be on leave from his company while assisting the Treasury in its securities sales program.

Mr. Robbins has for the past eighteen months served in various advisory capacities with the War Production Board. He left a position as acting Deputy Director General for Staff Operations of WPB to come to the Treasury, which he already has served since last November as a member of a committee consulting with the Secretary on securities marketing.

Mr. Robbins will have the title of Assistant to the Secretary of the Treasury.

Mr. Robbins was born in 1901, at Greenburg, Pennsylvania. He attended Hill School at Pottstown, Pennsylvania, and Yale University, where he was awarded a Bachelor of Science degree from the Sheffield Scientific School in 1924. He joined the sales staff of the Postum Company upon graduation, this company through various mergers and expansions later becoming the General Foods Corporation.

Mr. Robbins is married and has four children. The family home is at Greenwich, Connecticut. In Washington he lives at the Shoreham Hotel.

A brother of the new Assistant to the Secretary, Edward E. Robbins, is vice president of the Youngstown Steel Door Company.

Mr. Robbins' father, the late Edward E. Robbins, served in Congress during the First World War, and was a member of that body at the time of his death in 1918. Mrs. Edward E. Robbins, Sr. has continued her residence in Washington.

Pages 259-261, dated
May 3, 1943, placed
in book of that date.

United States Senate

COMMITTEE ON FINANCE

March 3, 1943

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

Dear Secretary Morgenthau:

I appreciate your letter of March 1.

It was a pleasure for me to commend the Division of Tax Research and the Office of the Tax Legislative Counsel to the Senate Appropriations Committee. I heartily believe that the Foreign Funds Control appropriation should not be reduced.

Cordially yours,

Walter F. George

MAR 1 - 1943

Dear Senator George:

Mr. Paul has told me of your appearance before the Senate Appropriations Committee in support of the appropriations being requested by Foreign Funds Control, the Division of Tax Research and the Office of the Tax Legislative Counsel.

I am writing this letter to tell you how much I appreciate your generous interest. It is particularly gratifying to me to know that the work of these Divisions is so fully appreciated by such a competent judge as yourself, and I want you to know that I am deeply grateful to you for what you have done.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Walter F. George,

United States Senate.

REP:s:mv

Other copies ret'd to Thompson's office

By Messenger Brown 4:07

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

March 3, 1943

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended February 17, 1943, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

(Init.) H.M.B.

imc:3/4/43

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FEDERAL RESERVE BANK

OF NEW YORK

March 1, 1943

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended February 17, 1943, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosure

Copy:imc:3/3/43

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended Feb. 17, 1943 — Statistics Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT) DEBITS: Total Debits	Gov't Expenditures (a)	Other Debits	CREDITS: Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)	Other Credits (c)	Net Incr. (+) or Decr. (-) in $ Funds (d)	BANK OF FRANCE DEBITS: Total Debits	Gov't Expenditures (e)	Other Debits	CREDITS: Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in $ Funds (d)
First year of war*	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	856.3(f)	416.6(f)	439.7	1,095.3(f)	900.2	195.1(f)	+239.0
War period through December, 1940	2,792.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1
Second year of war**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1
Third year of war***	1,235.6	904.8	330.8	1,361.5	21.8	5.5	1,334.2	+125.9	18.5	-	18.5	4.4	-	4.4	- 14.1
1942															
Sept. 3 - Sept. 9	56.1	37.1	19.0	81.6	-	0.5	81.1	+ 25.5	10.1	-	10.1	0.4	-	0.4	- 9.7
Oct. 1 - Oct. 28	46.7	27.4	19.3	57.5	-	-	57.5	+ 10.8	-	-	-	0.3	-	0.3	+ 0.3
Oct. 29 - Dec. 2	96.6	35.5	61.1	83.7	-	-	83.7	- 12.9	0.2	-	0.2	0.3	-	0.3	+ 0.1
Dec. 3 - Dec. 30	30.6	13.5	17.1	51.9	-	-	51.9	- 21.5	-	-	-	-	-	-	-
1943															
[illegible]	[illegible]	[illegible]	[illegible]	58.9	-	-	58.9	- 109.7	-	-	-	-	-	-	-
WEEK ENDED:															
June 2	14.3	3.9	10.4	10.1	-	-	10.1	- 4.2	-	-	-	-	-	-	-
[illegible] 3	50.7	3.0	47.7	16.2	-	-	16.2	- 32.5	-	-	-	-	-	-	-
10	24.1	5.3	18.8	53.8	-	-	53.8	+ 29.7	-	-	-	-	-	-	-
17	34.8(g)	4.5	30.3(g)	16.5(h)	-	-	16.5(h)	- 18.3	-	-	-	-	-	-	-

Average Weekly Expenditures Since Outbreak of War

France (through June 19, 1940) $19.6 million

England (through June 19, 1940) 27.6 million

England (since June 19, 1940) 32.5 million

*For monthly breakdown see tabulations prior to April 23, 1941

**For monthly breakdown see tabulations prior to October 8, 1941.

***For monthly breakdown see tabulations prior to October 14, 1942.

(See attached sheet for other footnotes)

Transfers from British Purchasing Commission to Bank of Canada for French Account

Week ended February 17, 1943 — million

Cumulation from July 6, 1940 162.7 million

(a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.

(b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to $334 million.

(c) Includes about $85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.

(d) Reflects changes in all dollar holdings payable on demand or maturing in one year.

(e) Includes payments for account of French Air Commission and French Purchasing Commission.

(f) Adjusted to eliminate the effect of $20 million paid out on June 26, 1940 and returned the following day.

(g) Reflects $27.1 million transferred to official Canadian account here.

(h) Includes $10.0 million held for credit of U. S. Army;
2.0 million deposited by British Ministry of Supply.

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended February 27, 1943 — Strictly Confidential

PERIOD	Bank of Canada (and Canadian Government) DEBITS: Total Debits	Transfers to Official British A/C	Other Debits	CREDITS: Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C: For Own A/C	For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in 3 Funds	Commonwealth Bank of Australia (and Australian Government) DEBITS: Total Debits	Transfers to Official British A/C	Other Debits	CREDITS: Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in 3 Funds
First year of war	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Third year of war***	525.8	0.3	525.5	566.3	198.6	7.7	-	360.0	+ 40.5	107.2	57.4	49.8	112.2	17.2	95.0	- 5.0
1942																
Sept. 3 - Sept. 30	46.3	-	46.3	53.6	13.2	-	-	40.4	+ 7.3	28.0	20.5	7.5	18.1	-	18.1	- 9.9
Oct. 1 - Oct. 28	44.9	-	44.9	51.5	16.6	-	-	34.9	+ 6.6	14.3	12.0	2.3	14.6	-	14.6	+ 0.3
Oct. 29 - Dec. 2	56.5	-	56.5	80.8	14.4	-	-	66.4	+ 24.3	10.2	5.5	4.7	9.4	-	9.4	- 0.8
Dec. 3 - Dec. 30	48.2	-	48.2	43.9	2.9	-	-	41.0	- 4.3	14.1	8.0	6.1	11.7	-	11.7	- 2.4
1943																
Jan. 31 - Feb. 3	54.3	-	54.2	237.2	-	145.0	-	92.1	+ 164.6	16.2	8.0	8.2	17.3	-	17.3	+ 1.1
WEEK ENDED:																
Jan. 27	[illegible]	-	[illegible]	[illegible]	-	-	-	[illegible]	[illegible]	[illegible]	-	[illegible]	[illegible]	-	[illegible]	[illegible]
Feb. 3	[illegible]	-	[illegible]	[illegible]	-	[illegible]	-	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	[illegible]	[illegible]
10	2.0	-	[illegible]	[illegible]	-	-	-	[illegible]	[illegible]	(-)	-	(-)	(a)	-	(a)	(a)
17	14.0(a)	-	[illegible]	17.9(a)	-	27.1	-	10.8(a)	[illegible]	-	-	-	12.4	-	12.4(a)	+12.4

Weekly Average of Total Debits Since Outbreak of War through February 17, 1943: 8.6 million

*For monthly breakdown see tabulations prior to April 23, 1941.
**For monthly breakdown see tabulations prior to October 8, 1941.
***For monthly breakdown see tabulations prior to October 14, 1942.
(a) Reflects changes in all dollar holdings payable on demand or maturing in one year.

(a) Does not reflect transactions in Treasury Bills.
(b) Includes $6.3 million deposited by War Supplies, Ltd.
(c) Less than $50,000.
(d) Includes $14.0 million held for credit of U. S. Army; 2.0 million credited to Australia for account of Treasurer of United States to be applied against U. S. currency and Treasury checks negotiated.

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO.71

Information received up to 7 A.M. 3rd March.

1. NAVAL.

MEDITERRANEAN. Off north coast SICILY one of H.M.Submarines sank 2 escorted westbound ships on 17th and an eastbound ship probably containing ammunition on 24th. 2nd/3rd. One of H.M. Canadian Destroyers probably sank a U-boat in Mid-Atlantic.

2. MILITARY.

TUNISIA. First. Our forces penetrated 3 miles east of Sbeitla which is in our hands. The enemy withdrew eastwards from MEDJEZ EL BAB - AROUSSA road and from about TOUKABEUR (7 miles northwest of MEDJEZ EL BAB) a total 17 enemy tanks including 1 Mark VI believed destroyed on northern sector in last few days.

3. AIR OPERATIONS.

WESTERN FRONT. 1st/2nd. 610 tons H.E. and incendiaries were dropped onBerlin. 2nd. Fighters and fighter bombers destroyed 4 locomotives and damaged 14 in Northern FRANCE AND BELGIUM. 2nd/3rd. Aircraft were despatched. Sea mining 60, RUHR 6.

MEDITERRANEAN. 28th. 46 escorted U.S. Fortresses (B.17) dropped 120 tons H.E. on CAGLIARI. 28th/1st. Halifaxes and Wellingtons dropped 28 tons on PALERMO. 1st. Nine U.S. Liberators (B.24) bombed harbour and docks area at NAPLES.

BURMA. 28th. A bridge in MYITKYINA area destroyed by U.S. Kittyhawks (P.40). 1st. Railway and sidings 80 miles south of MANDALAY damaged by U.S. Mitchells (B.25).

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

March 4, 1943

CABINET MEETING

The President opened the Cabinet Meeting by stating that he had seen in the papers where the Army had won a rather decisive naval battle over the Japanese. Patterson spoke up and said that the news was really good as they apparently put out of commission the complete force of 22 ships and shot down 55 planes, with a loss of only 4 planes on our part. The report was that we had either sunk or left in a sinking condition the entire fleet. It was estimated that there were approximately 15,000 troops in the convoy. Patterson also said that the information they had from North Africa was that the Germans were sending a great many troops with rather heavy equipment south toward the Mareth Line. Presumably they are concentrating to meet the British attack.

The President then went into the figures of Japanese planes and ships. He said that as far as they know, the Japanese only had about 5,000 combat planes at the start of the war and it is their belief that at the beginning of the year they were down to close to 4,000. He also thought they had about six million tons of shipping and that we have now depleted that to about five million. If we can keep up our present pace of attrition we will have them at the point where they can not defend the outer edges of the areas over which they now have control. This will give us a very important advantage over them.

Mr. Welles. - He presented a draft of an executive order setting up an inter-departmental committee to decide questions of policy concerning personnel to follow the Army into occupied territory and take over jobs that were not strictly military in character. Presumably he had in mind the North African situation. He said he understood that Secretary Hull had talked to the President about it, but apparently the President did not remember it. It was evident that Patterson did not like the suggestion although both War and Navy were on the committee. He said that the War Department had already done a great deal of work on this matter and had gotten together a roster of personnel, and they did not want to have any overlapping as between the two.

The President suggested that the order be in the form of a letter to the head of each Department and not be formalized as an executive order. The group could then get together and make a survey of the problem, and if it was thought advisable to have an executive order after that meeting, he would issue it.

Mr. Bell. - The only thing I had to report was the fact that we had a rule on the debt limitation bill which would permit it to be brought up on the floor of the House next Wednesday. I told the President that we had tried to get a separate vote on the Disney Amendment regarding the salary limitation but we were unable to do it. The President said that it was too bad we could not get a separate vote on it as we might have killed it that way.

Mr. Patterson. - He said there was no military news at the moment other than what was given in the papers regarding the Japanese fleet and the item he mentioned with respect to the Germans moving towards the Mareth Line.

Mr. Biddle. - He said that last Monday was a bad day in the Supreme Court for the United States Government. It lost on all counts.

Mr. Walker. - He had nothing to report.

Mr. Knox. - He had nothing to report except he commented on the fact that the Navy was becoming quite a bond salesman for the Treasury. He said that every time a ship is sunk which is named after a State or a city, he needles the local authorities to get them to put on a drive to buy bonds for the purpose of buying another ship by that name. He said it was really working quite well throughout the country.

Mr. Ickes. - He spoke about the question of deferments in the Government Service. The President said he had placed it in the hands of Mr. McReynolds and told him to be hardboiled about it, and he assumed that was the trouble. He said there was an executive order in process, which had been placed on his desk only yesterday, and he had not had a chance to read it but he thought that it would help some.

Mr. Wickard. - He had two matters. One was the drive on by "Cotton Ed" Smith to give free garden seeds to every one. There was some discussion as to how to stop it. Byrnes thought it would not get through as some of the newer members of Congress would probably oppose it as a bad precedent. The second was a move in Congress to take all control of cotton planting out of the AAA program and he thought possibly one way to relieve the pressure was to increase the allotment acreage by about 10%. Byrnes said he would like to talk to the Secretary about it and then the two of them could get together with some of the people on the Hill to discuss it to see if there was not a better way.

Mr. Jones. - He reported on the matter of inventories. He said they were declining rather fast and thought they had gone down about $1 billion in the last four or five months.

Miss Perkins. - She spoke about absenteeism in industry.

Mr. McNutt. - He said that he would like it understood that when various members of the Administration were asked to testify on the National Service Act they should present a united front. The President said he thought an executive order would be out on this in the next week and he would prefer that no one discuss the size of the Army or selective service during that period. He suggested to Jimmie Byrnes that he undertake to secure a postponement of the hearings on the National Service Act which were scheduled for Tuesday of next week.

There was a great deal of discussion regarding deferments under the National Service Act, for farm laborers in particular and skilled helpers in industry. The President thought that possibly we could give those people a button and a special card to indicate they were doing the kind of war work their Government had asked them to do. Patterson objected and said that he did not think the Army could control it and he would not like to leave the impression that these people were actually in the Army. He did not think it would do.

General Fleming and Mr. Landis had nothing.

Mr. Blandford. - He discussed the housing problem and indicated that they might want to spend as much as $1 billion next year in housing.

Mr. Byrnes and Mr. Nelson had nothing.

DWB

March 4, 1943.

MEMORANDUM FOR THE PRESIDENT:

In response to your request of March 2nd, I submit the following information:

I. Salaries of $67,000 and over

The number of individual income tax returns filed for 1941 reporting salaries and wages of $67,000 and over totalled 2,090.

The total number estimated for 1942 is 2,500.

There follows a list of the ten (eleven on a community property basis) individuals reporting the largest salaries for 1941 with related income and tax data. The salaries represent the total amount reported as salaries and other compensation for personal services from all sources during the year.

Taxpayer	Salaries and other compensation for personal services	Total income	Net income	Income tax	Net income after tax
A	$628,839	$897,920	$893,593	$650,389	$243,204
B	522,537	544,390	336,953	222,051	114,902
C	517,221	572,746	476,029	329,666	146,363
D	486,244	488,219	480,535	330,290	150,245
E	448,000	512,907	496,922	317,339	179,583
F	442,142	447,353	445,776	304,667	141,109
G	439,813	500,132	471,915	332,310	139,605
H	431,935	707,558	679,074	486,936	192,138
I	358,203	401,085	352,912	258,244	94,668
J 1/	352,213	256,895	202,408	130,174	72,233
K 1/	352,213	252,419	193,652	125,022	68,630

1/ These returns filed on a community property basis.

(SIGNED) HENRY MORGENTHAU JR

II. Effect of Rural Plan

a. All Income Groups.

The total estimated amount of income taxes to be reported by individuals on 1942 incomes is $9,815,000,000. Under the original Rural Plan, this represents the amount to be canceled in order to place all taxpayers on a pay-as-you-go basis.

The distribution by net income classes is as follows:

Table 1. Estimated number of taxpayers, net income, and taxes for 1942, by net income classes; also per cent of taxes to net income and average tax

Net income classes	Number of taxpayers (in thousands)	Net income (In millions of dollars)	Income tax	Percent of income tax to net income	Average tax per taxpayer
Under $1,000	9,385	$ 7,518	$ 318	4.23	$ 33.88
$1,000 - 2,000	17,363	25,802	2,170	8.41	124.98
$2,000 - 3,000	6,887	16,564	1,176	7.10	170.76
$3,000 - 4,000	2,697	9,349	927	9.92	343.72
$4,000 - 5,000	1,176	5,252	645	12.28	548.47
$5,000 - 10,000	943	6,178	1,024	16.57	1,085.90
$10,000 - 25,000	299	4,369	1,193	27.31	3,989.97
$25,000 - 100,000	75	3,051	1,470	48.18	19,600.00
$100,000 - 200,000	4.3	568	397	69.89	92,325.54
$200,000 - 500,000	1.2	345	275	79.71	229,166.67
$500,000 - 1,000,000	.2	147	126	85.71	630,000.00
$1,000,000 and over	.06	99	94	94.95	1,566,666.64
Total	38,831.5	$79,242	$9,815	12.39	$ 252.76

(Source: Division of Research and Statistics)

Table 2. Amount of taxes to be canceled at selected levels of net income

Married persons - No dependents

Net income before personal exemption	Amount of tax at 1942 rates 1/	Percent of tax to net income	Net income after tax
$ 1,200	$ -	-	$ 1,200
1,300	13	1.00	1,287
1,500	48	3.20	1,452
2,000	140	7.00	1,860
2,500	232	9.27	2,268
3,000	324	10.80	2,676
4,000	532	13.30	3,468
5,000	746	14.91	4,254
10,000	2,152	21.52	7,848
15,000	4,052	27.01	10,948
20,000	6,452	32.26	13,548
25,000	9,220	36.87	15,780
50,000	25,328	50.66	24,672
100,000	64,060	64.06	35,940
500,000	414,000	82.80	86,000
1,000,000	854,000	85.40	146,000
5,000,000	4,374,000	87.48	626,000

1/ Excludes Victory tax. Rates based on 1942 Revenue Act, assumes maximum earned income credit and no net long-term gains.

b. The 100 largest taxpayers

There follows a list of the 100 taxpayers who reported the largest net income for 1941. (Returns for 1942 have not as yet been received so it is not possible to set forth the 100 largest based on 1942 income.)

Taxpayer	Net income as reported 1941	Net income as reported 1940	Taxpayer	Net income as reported 1941	Net income as reported 1940
1	$5,280,923	$3,789,204	51	$987,626	$1,246,739
2	5,238,059	129,019	52	985,129	1,657,698
3	3,948,794	Loss- 264,498	53	981,005	645,054
4	3,878,047	291,013	54	972,637	246,906
5	3,861,678	4,069,178	55	969,350	953,329
6	3,737,023	5,074,832	56	965,015	1,260,734
7	3,420,855	4,021,264	57	960,525	672,878
8	2,730,076	3,140,642	58	954,376	616,211
9	2,661,148	2,074,634	59	948,448	996,809
10	2,408,556	3,483,889	60	945,461	697,475
11	2,354,277	Under 100,000	61	940,811	930,782
12	2,227,248	1,883,406	62	936,854	163,021
13	2,194,144	211,628	63	912,482	Under 100,000
14	2,193,030	2,054,765	64	909,394	826,945
15	2,106,390	2,819,498	65	908,839	851,741
16	2,039,313	3,029,144	66	908,211	584,471
17	1,873,444	1,805,384	67	893,593	Under 100,000
18	1,755,683	1,785,279	68	879,499	1,475,478
19	1,611,624	209,380	69	878,409	623,735
20	1,522,022	1,458,160	70	878,767	860,257
21	1,496,175	1,304,815	71	876,788	763,455
22	1,468,666	1,623,670	72	872,553	918,183
23	1,463,022	2,152,426	73	868,712	Under 100,000
24	1,462,627	339,754	74	868,712	Under 100,000
25	1,452,668	1,596,543	75	865,642	1,126,001
26	1,445,077	2,933,531	76	849,976	236,207
27	1,394,246	1,702,128	77	829,471	397,370
28	1,332,909	117,247	78	827,353	818,883
29	1,322,853	122,757	79	813,894	767,878
30	1,320,944	126,632	80	810,832	706,051
31	1,310,351	1,310,094	81	805,680	371,272
32	1,304,360	Under 100,000	82	804,276	763,187
33	1,273,210	1,101,090	83	803,601	269,247
34	1,241,687	Under 100,000	84	800,026	534,490
35	1,235,113	1,046,439	85	790,779	1,007,876
36	1,204,395	950,436	86	787,604	361,062
37	1,174,715	118,582	87	786,308	616,440
38	1,173,862	1,244,800	88	785,564	464,400
39	1,158,904	1,109,660	89	783,811	381,877
40	1,155,794	1,357,449	90	781,813	690,665
41	1,145,770	1,125,524	91	779,476	533,852
42	1,144,924	1,432,434	92	777,817	Under 100,000
43	1,136,365	1,138,971	93	774,600	772,073
44	1,115,949	Under 100,000	94	768,689	726,204
45	1,102,838	1,079,321	95	767,576	687,694
46	1,089,042	1,301,990	96	759,255	773,189
47	1,087,706	1,025,286	97	757,886	757,426
48	1,074,253	1,172,345	98	753,423	719,416
49	1,061,404	357,543	99	744,601	789,699
50	1,056,207	875,502	100	741,987	381,121

c. The 10 largest taxpayers

There follows a list of the 10 taxpayers who reported the largest net income for 1941, showing net income for such year in comparison with net income for the years 1936 through 1940.

The tax which would have been canceled for these taxpayers for 1942 if their incomes for this year equalled that for 1941 is as follows:

Taxpayer	Net income reported for 1936	1937	1938	1939	1940	1941	Tax which would be canceled under Ruml Plan 1/	Remaining liability
A	$2,572,176	$6,985,052	$3,524,972	$2,724,884	$3,789,204	$5,280,923	$5,478,958	None
B	Under 100,000	131,577	Under 100,000	176,310	129,010	5,238,057	None*	$2,622,351
C	Under 100,000	Under 100,000	Under 100,000	Under 100,000	Loss - 264,498	3,948,794	None*	2,259,171
D	279,821	171,590	191,167	Under 100,000	291,013	3,787,047	1,771*	1,933,719
E	3,795,070	993,210	1,861,150	3,660,641	4,059,178	3,861,678	4,074,374	None
F	2,082,133	2,431,457	1,326,571	2,973,951	5,074,832	3,737,023	2,664,029	346,557
G	3,717,763	953,461	1,797,901	3,618,283	4,021,264	3,420,855	3,670,791	None
H	2,849,225	2,533,086	1,710,156	2,925,205	3,140,642	2,730,076	2,376,467	None
I	1,594,846	2,438,328	866,168	3,309,152	2,074,634	2,661,148	1,917,244	226,321
J	3,824,064	1,388,053	93,349	1,428,178	3,483,889	2,408,556	2,089,407	2,080

1/ Capital gain and loss provisions, personal exemption, credit for dependents, and rates of 1942 Revenue Act applied to 1941 income.

* No cancellation in these cases because practically all of the income in 1941 resulted from capital gains. Under this Ruml Plan there is no forgiveness of capital gains.

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279

not used

March 4, 1943.

MEMORANDUM FOR THE PRESIDENT:

In response to your request of March 2nd, I submit the following information:

I. Salaries of $67,000 and over

The number of individual income tax returns filed for 1941 reporting salaries and wages of $67,000 and over totalled 2,090.

The total number estimated for 1942 is 2,500.

There follows a list of the ten (eleven on a community property basis) individuals reporting the largest salaries for 1941 with related income and tax data. The salaries represent the total amount reported as salaries and other compensation for personal services from all sources during the year.

Taxpayer	Salaries and other compensation for personal services	Total income	Net income	Income tax	Net income after tax
Swebilius, Carl G. & Hulda	$628,[illegible]	$897,920	$893,593	$650,389	$243,204
Grace, E.G.	522,[illegible]	544,390	336,953	222,051	114,902
Watson, T.J.	517,221	572,746	476,029	329,666	146,363
Owsley, J.C.	486,244	488,219	480,535	330,290	150,245
Hawley, J.B. Jr.	448,000	512,907	496,922	317,339	179,583
Woolman, C.S.	442,[illegible]	447,353	445,776	304,667	141,109
Countsey, F.A.	439,813	500,132	471,915	332,310	139,605
Kahn, Albert	431,935	707,558	679,074	486,936	192,138
Schenck, N.H.	358,203	401,085	352,912	258,244	94,668
Mayer, L.B. 1/	352,213	256,895	202,408	130,174	72,233
Mayer, Margaret 1/	352,213	252,419	193,652	125,022	68,630

1/ These returns filed on a community property basis.

II. Effect of Ruml Plan

a. All Income Groups.

The total estimated amount of income taxes to be reported by individuals on 1942 incomes is $9,815,000,000. Under the original Ruml Plan, this represents the amount to be canceled in order to place all taxpayers on a pay-as-you-go basis.

The distribution by net income classes is as follows:

Table 1. Estimated number of taxpayers, net income, and taxes for 1942, by net income classes; also per cent of taxes to net income and average tax

Net income classes	Number of taxpayers (in thousands)	Net income (In millions of dollars)	Income tax	Percent of income tax to net income	Average tax per taxpayer
Under $1,000	9,385	$ 7,518	$ 318	4.23	$ 33.88
$1,000 - 2,000	17,363	25,802	2,170	8.41	124.98
$2,000 - 3,000	6,887	16,564	1,176	7.10	170.76
$3,000 - 4,000	2,697	9,349	927	9.92	343.72
$4,000 - 5,000	1,17[illegible]	5,252	645	12.28	548.47
$5,000 - 10,000	[illegible]	6,178	1,024	16.57	1,085.90
$10,000 - 25,000	299	4,369	1,193	27.31	3,989.97
$25,000 - 100,000	75	3,031	1,470	48.18	19,600.00
$100,000 - 200,000	4.3	568	397	69.89	92,325.54
$200,000 - 500,000	1.2	345	275	79.71	229,166.67
$500,000 - 1,000,000	.2	147	126	85.71	630,000.00
$1,000,000 and over	.06	99	[illegible]	94.95	1,566,666.64
Total	38,831.5	$79,242	$9,815	12.39	$ 252.76

(Source: Division of Research and Statistics)

Table 2. Amount of taxes to be canceled at selected levels of net income.

Married persons - No dependents

Net income before personal exemption	Amount of tax at 1942 rates 1/	Percent of tax to net income	Net income after tax
$ 1,200	$ -	-	$ 1,200
1,300	13	1.00	1,287
1,500	48	3.20	1,452
2,000	140	7.00	1,860
2,500	232	9.27	2,268
3,000	324	10.80	2,676
4,000	532	13.30	3,468
5,000	746	14.91	4,254
10,000	2,152	21.52	7,848
15,000	4,052	27.01	10,948
20,000	6,452	32.26	13,548
25,000	9,220	36.87	15,780
50,000	25,328	50.66	24,672
100,000	64,060	64.06	35,940
500,000	414,000	82.80	86,000
1,000,000	854,000	85.40	146,000
5,000,000	4,374,000	87.48	626,000

1/ Excludes Victory Tax. Rates based on 1942 Revenue Act, assumes maximum earned income credit and no net long-term gains.

b. The 100 largest taxpayers.

There follows a list of the 100 taxpayers who reported the largest net income for 1941. (Returns for 1942 have not as yet been received so it is not possible to set forth the 100 largest based on 1942 income.)

Name	Net income as reported 1941		1940
Rockefeller, John D. Jr.	$5,280,923		$3,789,204
Dillon, Clarence	5,238,099		129,029
Richardson, S. W.	3,948,794	Loss	264,498
Fleet, Reuben H.	3,878,047		291,013
Mellon, Richard K.	3,861,678		4,069,178
Mellon, Paul	3,737,023		5,074,832
Scaife, Sarah Mellon	3,420,855		4,021,264
Hartford, George L.	2,730,076		3,140,642
Bruce, Ailsa Mellon	2,661,148		2,074,634
Ford, Edsel B.	2,408,556		3,483,889
Chaplin, Charles	2,354,277	Under	100,000
Palmer, Edgar	2,207,248		1,883,406
Milbank, Jeremiah & Katherine S.	2,194,144		211,628
Davis, Arthur V.	2,193,030		2,054,765
Hartford, John A.	2,106,390		2,819,498
Reilly, Minnie Hartford	2,039,313		3,029,144
duPont, Lammont	1,873,444		1,805,384
duPont, Jessie Ball	1,755,683		1,785,279
Noble, Edward J.	1,611,624		209,380
duPont, William Jr.	1,522,022		1,458,160
Ernst, A. C.	1,496,175		1,304,815
Mott, Charles S.	1,468,666		1,623,670
Dorrance, Ethel M.	1,463,022		2,152,426
Cannon, James H.	1,462,627		339,754
Harkness, Mary S.	1,452,668		1,596,543
Ford, Henry	1,445,077		2,933,531
duPont, Irenee	1,394,246		1,702,128
Zelcer, Felix William	1,332,909		117,247
Miranda, Ignatius J.	1,322,853		122,757
Miranda, Alfred J., Jr.	1,320,944		126,632
Biddle, Mary Duke	1,310,351		1,310,094
Ferend, Gregory	1,304,360	Under	100,000
Clark, R. Sterling	1,273,210		1,101,090
Oliphant, A. O.	1,241,687	Under	100,000
Blaine, Anita McCormick	1,235,113		1,046,439
Murphy, Walter P.	1,204,395		950,436
Bennett, Mills	1,174,715		118,582
Coe, W. R.	1,173,862		1,244,800
Copeland, Lammot duPont	1,158,904		1,109,660
Robertson, Marie H.	1,155,794		1,357,449
Carpenter, R. R. M.	1,145,770		1,125,524
Hartford, George H. 2nd.	1,144,924		1,432,434
Mendelssohn, Evelyn D.	1,136,365		1,138,971
Wood, Garfield A.	1,115,949	Under	100,000
Whitney, Helen Hay	1,102,383		1,079,321
McIntosh, Josephine H.	1,089,042		1,301,990

Name	Net income as reported 1941	1940
Scott, Marion duPont	$1,087,706	$1,025,286
Sloan, Alfred D., Jr.	1,074,253	1,172,345
Payson, Joan W.	1,061,404	357,543
duPont, A. Felix	1,056,207	875,502
Grant, William T.	987,626	1,246,739
Kress, Samuel H.	985,129	1,657,698
Lupton, Cartter	981,005	645,054
Kearney, Kila M.	972,637	246,906
duPont, Henry B.	969,350	953,829
Donahue, Jessie W.	965,015	1,260,734
Schaefer, Rudolph J. and Lucia M.	960,525	672,878
Schaefer, Frederick, M. E.	954,376	616,211
Sloan, Irene Jackson	948,448	996,809
duPont, Eugene	945,461	697,475
Bingham, Barry Payne	940,811	930,782
Smith, Alexander	936,857	163,021
Moores, Clifford	912,482	Under 100,000
O'Connor, Thomas	909,394	826,945
Davies, Marjorie Post	908,839	851,741
Butterworth, Katherine Deere	908,211	584,471
Swebilius, Carl G. and Melda	893,593	Under 100,000
Widener, Joseph E.	879,499	1,475,478
Bard, Francis N.	878,409	623,735
Wrigley, Philip K.	878,767	860,257
Harkness, Edith Hale	876,788	763,455
Brown, Donaldson	872,553	918,183
Degolyer, Everette Lee	868,712	Under 100,000
Degolyer, Mrs. Nell V.	868,712	Under 100,000
Douglas, Barclay K. and Josephine H.	865,642	1,126,001
Link, Edwin A.	849,976	236,207
Adam, George A.	829,471	397,370
Lilly, Josiah Kirby	827,353	818,883
Jackson, John Day	813,894	767,878
Pitcairn, Raymond	810,832	806,051
Moore, Edward S.	805,680	371,272
Woodruff, Robert W.	804,276	763,187
Thatcher, Mahlon D.	803,601	269,247
Rawleigh, W. T.	800,026	534,490
Sharp, H. Rodney	790,779	1,007,876
Kenan, Sarah G.	787,604	361,062
Rockefeller, Mrs. Abby Aldrich	786,308	616,440
McCormick, Stanley	785,564	464,400
Stokes, E. E.	783,811	381,877
Crossell, Doris Duke	781,813	690,665
Martin, Glenn L.	779,476	533,852

Name	Net income as reported		
	1941		1940
Moore, E. H.	777,817	Under	100,000
Inman, Walker P.	774,600		772,073
Prentice, Mrs. Alta Rockefeller	768,689		726,204
Burnett, Cora Timken	767,576		687,694
Shoenberg, Sydney M.	759,255		773,189
Lilly, Eli	757,886		757,626
Guggenheim, Leonie	753,423		719,416
Assorio, Miguel Jose, Esq.	744,601		789,699
Kenan, William R., Jr.	741,987		381,121

c. The 10 largest taxpayers

There follows a list of the 10 taxpayers who reported the largest net income for 1941, showing net income for such year in comparison with net income for the years 1936 through 1940.

The tax which would have been canceled for these taxpayers for 1942 if their incomes for this year equalled that for 1941 is as follows:

Name	Net income reported for						Tax which would be canceled under Rumel Plan 1/	Remaining liability
	1936	1937	1938	1939	1940	1941		
Rockefeller, John D., Jr.	$2,572,176	$6,985,052	$3,524,972	$2,724,884	$3,789,204	$5,280,923	$5,478,958	None
Dillon, Clarence	Under 100,000	131,577	Under 100,000	176,310	129,010	5,238,057	None*	$2,622,352
Richardson, S. K.	Under 100,000	Under 100,000	Under 100,000	Under 100,000	Loss - 264,498	3,948,794	None*	2,259,171
Fleet, R. H.	279,821	171,590	191,167	Under 100,000	291,013	3,878,067	1,771*	1,933,719
Mellon, Richard K.	3,795,070	993,210	1,861,150	3,660,641	4,069,178	3,861,678	4,074,374	None
Mellon, Paul	2,082,133	2,431,457	1,326,571	2,973,951	5,074,832	3,737,023	2,664,029	346,597
Scaife, Sarah Mellon	3,717,763	953,461	1,797,901	3,618,283	4,021,264	3,420,855	3,670,791	None
Hartford, George L.	2,849,225	2,533,086	1,710,156	2,925,205	3,140,642	2,730,076	2,376,467	None
Bruce, Ailsa Mellon	1,594,846	2,438,328	866,168	3,309,152	2,074,634	2,661,148	1,917,244	226,321
Ford, Edsel B.	3,824,064	1,388,053	93,349	1,428,178	3,483,889	2,408,556	2,089,407	2,090

1/ Capital gain and loss provision, personal exemption, credit for dependents, and rates of 1942 Revenue Act applied to 1941 income.

* No cancellation in these cases because practically all of the income in 1941 resulted from capital gains. Under this Rumel Plan there is no forgiveness of capital gains.

Photostats to Messrs. Jackson & O'Connell 3/2/43

D

THE WHITE HOUSE

WASHINGTON

March 2, 1943.

MEMORANDUM FOR

H. M., JR.

I wish you would work up two things for me.

1. A memorandum showing the number of people with salaries over $67,000 a year who will be exempted by the amendment to the debt limit bill, followed by a list of the ten largest salaried people based on last year's income tax report, showing the amount saved by them individually.

2. Start getting data on the Ruml Plan to show how it would affect:

(a) The income groups.
(b) The hundred largest taxpayers.
(c) The ten largest taxpayers.

No names, of course.

F. D. R.

March 4, 1943.

MEMORANDUM FOR THE PRESIDENT:

In response to your request of March 2nd, I submit the following information:

I. Salaries of $67,000 and over

The number of individual income tax returns filed for 1941 reporting salaries and wages of $67,000 and over totalled 2,090.

The total number estimated for 1942 is 2,500.

There follows a list of the ten (eleven on a community property basis) individuals reporting the largest salaries for 1941 with related income and tax data. The salaries represent the total amount reported as salaries and other compensation for personal services from all sources during the year.

Taxpayer	Salaries and other compensation for personal services	Total income	Net income	Income tax	Net income after tax
Swebilius, Carl G. & Hulda	$628,839	$897,920	$893,593	$650,389	$243,204
Grace, E.G.	522,537	544,390	336,953	222,051	114,902
Watson, T.J.	517,221	572,746	476,029	329,666	146,363
Owsley, J.C.	486,244	488,219	480,535	330,290	150,245
Hawley, J.B. Jr.	448,000	512,907	496,922	317,339	179,583
Woolman, C.S.	442,142	447,353	445,776	304,667	141,109
Countway, F.A.	439,813	500,132	471,915	332,310	139,605
Kahn, Albert	431,935	707,558	679,074	486,936	192,138
Schenck, N.M.	358,203	401,085	352,912	258,244	94,668
Mayer, L.B. 1/	352,213	256,895	202,408	130,174	72,233
Mayer, Margaret 1/	352,213	252,419	193,652	125,022	68,630

1/ These returns filed on a community property basis.

Sent by H M, Jr. to Pres. after deleting names
Referred to BIR for [illegible]

II. Effect of Ruml Plan

a. All Income Groups.

The total estimated amount of income taxes to be reported by individuals on 1942 incomes is $9,815,000,000. Under the original Ruml Plan, this represents the amount to be canceled in order to place all taxpayers on a pay-as-you-go basis.

The distribution by net income classes is as follows:

Table 1. Estimated number of taxpayers, net income, and taxes for 1942, by net income classes; also per cent of taxes to net income and average tax

Net income classes	Number of taxpayers (in thousands)	Net income (In millions of dollars)	Income tax	Percent of income tax to net income	Average tax per taxpayer
Under $1,000	9,385	$ 7,518	$ 318	4.23	$ 33.88
$1,000 - 2,000	17,363	25,802	2,170	8.41	124.98
$2,000 - 3,000	6,887	16,564	1,176	7.10	170.76
$3,000 - 4,000	2,697	9,349	927	9.92	343.72
$4,000 - 5,000	1,176	5,252	645	12.28	548.47
$5,000 - 10,000	943	6,178	1,024	16.57	1,085.90
$10,000 - 25,000	299	4,369	1,193	27.31	3,989.97
$25,000 - 100,000	75	3,051	1,470	48.18	19,600.00
$100,000 - 200,000	4.3	568	397	69.89	92,325.54
$200,000 - 500,000	1.2	345	275	79.71	229,166.67
$500,000 - 1,000,000	.2	147	126	85.71	630,000.00
$1,000,000 and over	.06	99	94	94.95	1,566,666.64
Total	38,831.5	$79,242	$9,815	12.39	$ 252.76

(Source: Division of Research and Statistics)

Table 2. Amount of taxes to be canceled at selected levels of net income.

Married persons - No dependents

Net income before personal exemption	Amount of tax at 1942 rates 1/	Percent of tax to net income	Net income after tax
$ 1,200	$ -	-	$ 1,200
1,300	13	1.00	1,287
1,500	48	3.20	1,452
2,000	140	7.00	1,860
2,500	232	9.27	2,268
3,000	324	10.80	2,676
4,000	532	13.30	3,468
5,000	746	14.91	4,254
10,000	2,152	21.52	7,848
15,000	4,052	27.01	10,948
20,000	6,452	32.26	13,548
25,000	9,220	36.87	15,780
50,000	25,328	50.66	24,672
100,000	64,060	64.06	35,940
500,000	414,000	82.80	86,000
1,000,000	854,000	85.40	146,000
5,000,000	4,374,000	87.48	626,000

1/ Excludes Victory Tax. Rates based on 1942 Revenue Act, assumes maximum earned income credit and no net long-term gains.

b. The 100 largest taxpayers.

There follows a list of the 100 taxpayers who reported the largest net income for 1941. (Returns for 1942 have not as yet been received so it is not possible to set forth the 100 largest based on 1942 income.)

Name	Net income as reported 1941		1940
Rockefeller, John D. Jr.	$5,280,923		$3,789,204
Dillon, Clarence	5,238,059		129,019
Richardson, S. W.	3,948,794	Loss	264,498
Fleet, Reuben H.	3,878,047		291,013
Mellon, Richard K.	3,861,678		4,069,178
Mellon, Paul	3,737,023		5,074,832
Scaife, Sarah Mellon	3,420,855		4,021,264
Hartford, George L.	2,730,076		3,140,642
Bruce, Ailsa Mellon	2,661,148		2,074,634
Ford, Edsel B.	2,408,556		3,483,889
Chaplin, Charles	2,354,277	Under	100,000
Palmer, Edgar	2,207,248		1,883,406
Milbank, Jeremiah & Katherine S.	2,194,144		211,628
Davis, Arthur V.	2,193,030		2,054,765
Hartford, John A.	2,106,390		2,819,498
Reilly, Minnie Hartford	2,039,313		3,029,144
duPont, Lammont	1,873,444		1,805,384
duPont, Jessie Ball	1,755,683		1,785,279
Noble, Edward J.	1,611,624		209,380
duPont, William Jr.	1,522,022		1,458,160
Ernst, A. C.	1,496,175		1,304,815
Mott, Charles S.	1,468,666		1,623,670
Dorrance, Ethel M.	1,463,022		2,152,426
Cannon, James H.	1,462,627		339,754
Harkness, Mary S.	1,452,668		1,596,543
Ford, Henry	1,445,077		2,933,531
duPont, Irenee	1,394,246		1,702,128
Zelcer, Felix William	1,332,909		117,247
Miranda, Ignatius J.	1,322,853		122,757
Miranda, Alfred J., Jr.	1,320,944		126,632
Biddle, Mary Duke	1,310,351		1,310,094
Ferend, Gregory	1,304,360	Under	100,000
Clark, R. Sterling	1,273,210		1,101,090
Oliphant, A. G.	1,241,687	Under	100,000
Blaine, Anita McCormick	1,235,113		1,046,439
Murphy, Walter P.	1,204,395		950,436
Bennett, Mills	1,174,715		118,582
Coe, W. R.	1,173,862		1,244,800
Copeland, Lammot duPont	1,158,904		1,109,660
Robertson, Marie H.	1,155,794		1,357,449
Carpenter, R. R. M.	1,145,770		1,125,524
Hartford, George H. 2nd.	1,144,924		1,432,434
Mendelssohn, Evelyn D.	1,136,365		1,138,971
Wood, Garfield A.	1,115,949	Under	100,000
Whitney, Helen Hay	1,102,383		1,079,321
McIntosh, Josephine H.	1,089,042		1,301,990

Name	Net income as reported 1941	1940
Scott, Marion duPont	$1,087,706	$1,025,286
Sloan, Alfred D., Jr.	1,074,253	1,172,345
Payson, Joan W.	1,061,404	357,543
duPont, A. Felix	1,056,207	875,502
Grant, William T.	987,626	1,246,739
Kress, Samuel H.	985,129	1,657,698
Lupton, Cartter	981,005	645,054
Kearney, Ella M.	972,637	246,906
duPont, Henry B.	969,350	953,829
Donahue, Jessie W.	965,015	1,260,734
Schaefer, Rudolph J. and Lucia M.	960,525	672,878
Schaefer, Frederick, M. E.	954,376	616,211
Sloan, Irene Jackson	948,448	996,809
duPont, Eugene	945,461	697,475
Bingham, Harry Payne	940,811	930,782
Smith, Alexander	936,857	163,021
Mooers, Clifford	912,482	Under 100,000
O'Connor, Thomas	909,394	826,945
Davies, Marjorie Post	908,839	851,741
Butterworth, Katherine Deere	908,211	584,471
Swebilius, Carl G. and Hulda	893,593	Under 100,000
Widener, Joseph E.	879,499	1,475,478
Bard, Francis N.	878,409	623,735
Wrigley, Philip K.	878,767	860,257
Harkness, Edith Hale	876,788	763,455
Brown, Donaldson	872,553	918,183
Degolyer, Everette Lee	868,712	Under 100,000
Degolyer, Mrs. Nell V.	868,712	Under 100,000
Douglas, Barclay K. and Josephine H.	865,642	1,126,001
Link, Edwin A.	849,976	236,207
Adam, George A.	829,471	397,370
Lilly, Josiah Kirby	827,353	818,883
Jackson, John Day	813,894	767,878
Pitcairn, Raymond	810,832	706,051
Moore, Edward S.	805,680	371,272
Woodruff, Robert W.	804,276	763,187
Thatcher, Mahlon D.	803,601	269,247
Rawleigh, W. T.	800,026	534,490
Sharp, H. Rodney	790,779	1,007,876
Kenan, Sarah G.	787,604	361,062
Rockefeller, Mrs. Abby Aldrich	786,308	616,440
McCormick, Stanley	785,564	464,400
Stokes, E. E.	783,811	381,877
Cromwell, Doris Duke	781,813	690,665
Martin, Glenn L.	779,476	533,852

Name	Net income as reported 1941		1940
Moore, E. H.	777,817	Under	100,000
Inman, Walker P.	774,600		772,073
Prentice, Mrs. Alta Rockefeller	768,689		726,204
Burnett, Cora Timken	767,576		687,694
Shoenberg, Sydney M.	759,255		773,189
Lilly, Eli	757,886		757,626
Guggenheim, Leonie	753,423		719,416
Assorio, Miguel Jose, Esq.	744,601		789,699
Kenan, William R., Jr.	741,987		381,121

c. The 10 largest taxpayers

There follows a list of the 10 taxpayers who reported the largest net income for 1941, showing net income for such year in comparison with net income for the years 1936 through 1940.

The tax which would have been canceled for these taxpayers for 1942 if their incomes for this year equalled that for 1941 is as follows:

Name	Net income reported for						Tax which would be canceled under Ruml Plan 1/	Remaining liability
	1936	1937	1938	1939	1940	1941		
Rockefeller, John D., Jr.	$2,572,176	$6,985,052	$3,524,972	$2,724,884	$3,789,204	$5,280,923	$5,478,958	None
Dillon, Clarence	Under 100,000	131,577	Under 100,000	176,310	129,010	5,238,057	None*	$2,622,351
Richardson, S. W.	Under 100,000	Under 100,000	Under 100,000	Under 100,000	Loss - 264,498	3,948,794	None*	2,259,171
Fleet, R. H.	279,821	171,590	191,167	Under 100,000	291,013	3,878,047	1,771*	1,933,719
Mellon, Richard K.	3,795,070	993,210	1,861,150	3,660,641	4,069,178	3,861,678	4,074,374	None
Mellon, Paul	2,082,133	2,431,457	1,326,571	2,973,951	5,074,832	3,737,023	2,664,029	346,557
Scaife, Sarah Mellon	3,717,763	953,461	1,797,901	3,618,283	4,021,264	3,420,855	3,670,791	None
Hartford, George L.	2,849,225	2,533,086	1,710,156	2,925,205	3,140,642	2,730,076	2,376,467	None
Bruce, Ailsa Mellon	1,594,846	2,438,328	866,168	3,309,152	2,074,634	2,661,148	1,917,244	226,321
Ford, Edsel B.	3,824,064	1,388,053	93,349	1,428,178	3,483,889	2,408,556	2,089,407	2,080

1/ Capital gain and loss provision, personal exemption, credit for dependents, and rates of 1942 Revenue Act applied to 1941 income.

* No cancellation in these cases because practically all of the income in 1941 resulted from capital gains. Under this Ruml Plan there is no forgiveness of capital gains.

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE EXECUTIVE 2020

Box 680
Benjamin Franklin Station
Washington, D. C.

March 4, 1943

SECRET

Dear Mr. White,

The gold and dollar figures for February, 1943 are as follows:

	Feb.5	Feb.12	Feb.19	Feb.27
Total Gold (incl. Belgian)	973	973	1016	1016
Official dollar balance	149	147	153	169
Total Gold and Dollars	1122	1120	1169	1185
Less: Belgian Gold	105	105	105	105
Scattered Gold	108	107	109	109
Gold Reserve e.g. last immediate liabilities	10	10	10	10
AVAILABLE GOLD AND DOLLARS	899	898	945	961

Yours sincerely,

E W Playfair

E. W. Playfair.

Dr. H. D. White
Director of Monetary Research
United States Treasury
Washington, D. C.
EWPjh

COPY NO _____

NOT TO BE RE-TRANSMITTED

[illegible] MOST SECRET
[illegible] SECRET

WTI 30.72

Information received up to 7 a.m. March 4th, 1943.

1. NAVAL.

NORTHERN WATERS. 2nd. 7 ships in convoy arrived off Archangel.

MEDITERRANEAN. One of H.M. Submarines has sunk 3 ships and 1 small craft.

2. MILITARY.

TUNISIA. Northern Sector. 2nd. Continued pressure was exerted on enemy North of BEJA and East of OUED SEDJNANE (25 miles North of BEJA) where our artillery effected considerable damage to enemy positions.

Central Sector. 2nd. Leading elements of Allied Forces pressed South and South-east of SBEITLA.

RUSSIA. Russians have captured RZHEV. North-west and South west of OREL further attacks made by Russians who have also taken LGOV and [illegible]RIEV-LGOVSKY 40 miles West and 50 miles North-west of KURSK respectively.

3. AIR OPERATIONS.

WESTERN FRONT. 3rd. Mosquitos successfully bombed KAMEN and Fighters attacked enemy transport and other targets in NORTHERN FRANCE and BELGIUM. 3/4th. Aircraft were despatched - HAMBURG 417 (10 missing) RUHR 5, Sea-Mining 26 (2 missing) Leaflets 5, Intruders 4. Weather over HAMBURG good and bombing fairly well concentrated. Two enemy raids each about 30 aircraft on LONDON area. 3 enemy aircraft destroyed, one damaged. Bombing scattered over LONDON and EASTERN COUNTIES, damage slight. Casualties by bomb about 50 but further heavy casualties caused by panic in entrance to a shelter.

TUNISIA. 1st. Enemy tanks, M.T. and Troops in BEJA and [illegible] areas attacked by 12 medium Bombers and 78 Fighters. Railway bridge 20 miles North of SFAX destroyed by 15 escorted U.S. Marauders (B.26). Enemy casualties 10, nil, 4. 2 Marauders lost.

MEDITERRANEAN. 1st and night 1st/2nd. 115 tons bombs dropped on PALERMO by Wellingtons and escorted U.S. Fortresses (B.17). One large and several small ships hit. 2nd. 18 tons dropped on MARSALA by U.S. Liberators (B.24). Enemy casualties 8, 0, 4. 2 Wellingtons crashed.

MOST SECRET

NOT TO BE RE-TRANSMITTED

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COPY NO. 18

OPTEL No. 78

Following is supplementary resume of operational events covering the period 25th February to 4th March, 1943.

1. NAVAL

One of H.M. Submarines newly completed is over-due from exercises in Home Waters and is presumed lost. The armed raider recently attacked by R.A.F. at DUNKIRK was located off CUXHAVEN on 28th. A Norwegian ship attempting to reach U.K. from Southern Norway was bombed and sunk in the NORTH SEA. A convoy of 22 ships which arrived North RUSSIA during the week was twice unsuccessfully attacked by enemy aircraft.

MEDITERRANEAN. Reports received during week of 6 ships sunk and 1 hit in addition to small craft sunk by H.M. Submarines. The 3 Littorio class battleships have been seen at SPEZIA where 2 damaged Cruisers are repairing. Axis traffic to TUNISIA increased considerably on previous week but estimated figures February show marked decline on January and December.

SUBMARINE WARFARE. Enemy strength remains concentrated in the ATLANTIC where estimated about 110 U-boats operating mostly in North, but revival of activity in other areas, e.g. against RUSSIA and North Africa convoys has developed. 28 attacks on U-boats by ships and 17 by aircraft, 7 considered promising.

SHIPPING CASUALTIES. During the week 27th February to 5th March inclusive, 23 ships reported torpedoed. 1 U.S., 1 Dutch and 2 more British tankers sunk in convoy south of MADEIRA mentioned last week. A Dutch ship torpedoed in North Atlantic convoy reported last week, but reached port. 1 U.S. and 1 Dutch ship overdue from the same convoy. 2 U.S. ships torpedoed east of CAPE FAREWELL. 1 Spanish and 2 U.S. ships sunk off BRAZIL. 1 British tanker and 1 U.S. ship in a convoy S.W.E. of ALGIERS torpedoed and towed to port. 1 U.S. ship, 1 Dutch tanker and 5 British ships torpedoed in the DURBAN area. The Dutch tanker reached port. 1 U.S. ship was torpedoed near SUVA but reached port. 1 British ship in a convoy to LYME BAY sunk by an E-boat. A Norwegian ship damaged by mine off BRIDLINGTON was taken in tow. A Belgian ship mined off BERRY HEAD. A Belgian trawler damaged by air attack off the WOLF ROCK, but reached port. 1 British, 1 Panamanian and 2 Russian ships damaged by air attack in North Russian waters. 1 Eirean ship overdue.

TRADE. Imports in convoy into U.K. week ending 27th, 594,000 tons, including 234,000 oil.

2. MILITARY

EIGHTH ARMY. Activity confined to patrolling except for limited enemy attacks in North which was not pressed. On southern flank our armoured patrols were active between HADDADA and KREDDACHE. General Leclerc's forces pushing northward to the west of FOUM TATAHOUINE reached KSAR RHILANE (20 miles south of BIR SOLTANE). Contact was limited to skirmishes with enemy armoured cars. Maintenance position progressing favourably.

FIRST ARMY. Starting on 26th enemy launched series of attacks against British positions in northern sector, all these attacks successfully held except for some ground yielded at SEDJENANE. Heavy casualties inflicted on enemy. After abandoning KASSERINE PASS and SBEITLA enemy withdrawal continued, our forces advancing slowly clearing minefields as they go. By 6th our armoured patrols had reached SIDI BOUZID area.

FAR EAST. BURMA. No change MAYU PENINSULA or RATHEDAUNG. KALADAN area now occupied by some 500 Japanese likely to operate against our forces north and south of town. In Upper BURMA 3 Japanese columns are moving north from MYITKYINA to suppress Guerilla activities of our Kachyn Levies who are withdrawing on SUPPRABUM.

3. AIR OPERATIONS

WESTERN FRONT. Day. 62 U.S. heavy bombers attacked BREST docks and 26 Venturas the raider in DUNKIRK docks. Mosquitos made 4 effective low level raids on war industries in enemy occupied territory. Night. 4 major operations. ST. NAZAIRE, very heavy, great devastation in town and docks. BERLIN, most successful attack so far on this objective. HAMBURG, heavy but extent of success doubtful. ESSEN, heavy and successful attack. Bomber Command flew 1940 sorties, 55 aircraft missing. 636 sea mines laid by 794 aircraft, 7 missing. During February, R.A.F. aircraft of Bomber Command dropped 10,957 tons of bombs - 6,374 tons on GERMANY

and ITALY, and 4,583 on enemy occupied territory, mainly FRANCE. This total exceeds by about 1,150 tons the estimated weight dropped on the U.K. in September, 1940. Total 60 enemy aircraft attempted attack LONDON as reprisal for our raid on BERLIN. 3 were destroyed. Bombing was very scattered over Eastern Counties and LONDON area. Damage slight.

MEDITERRANEAN. Our air offensive increased, especially in TUNISIA, on one day 772 sorties were flown of which 521 were by aircraft based in FRENCH NORTH AFRICA. U.S. heavy bombers made many heavy attacks on enemy ports and airfields. Our aircraft sank or destroyed 6 ships in convoy off BIZERTA, set 1 on fire north of SICILY, hit several ships in PALERMO Harbour and torpedoed and set on fire 7,000 ton ship off PALERMO. SARDINIA - heavy attacks on CAGLIARI and ELMAS. SICILY - 2 heavy attacks on PALERMO and other attacks on MESSINA, COMISO airfield and CASSABILE power station. CYRACUSE power station and seaplane base attacked by fighter bombers and NAPLES twice bombed by Liberators. In all these operations we lost 2 aircraft.

GENERAL. Of the German operational air force now engaged on the Russian, Western European and Mediterranean fronts, about 30% is in Western Europe and 25% in the MEDITERRANEAN. Thus British and U.S. Air Forces are now containing over half of the German Air Force. In addition the whole of the Italian Air Force, though of lower fighting value than the German, is also being engaged.

. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE.

BERLIN. Attack 1st/2nd. Photographs 3rd. Preliminary examination shows about 20 acres of railway workshops destroyed at TEMPLEHOF, damage at KLOCKNER, HUMBOLDT DEUTZ WORKS, many industrial buildings destroyed or damaged and some buildings still burning.

MILAN. Renewal of panic scenes and further evacuation caused temporary chaos on certain suburban lines. Official casualties 450 killed. Population disturbed that much advertised German A.A. has in no way reduced R.A.F. attacks.

DUNKIRK. Photographs show 3 oil storage tanks destroyed and 3 damaged in recent attacks.

HOME SECURITY

Only serious incident was at Bethnal Green Tube Shelter. No bombs fell in vicinity. Shelter holds 5,000, was open and only half full at time of accident. 3 fatal and 60 serious casualties. Estimated civilian casualties week ending 1 - Killed 25, seriously wounded 18.

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5. HOME SECURITY

Only serious incident was at Bethnal Green Tube Shelter. No bombs fell in vicinity. Shelter holds 5,000, was open and only half full at time of accident. 178 fatal and 60 serious casualties. Estimated civilian casualties week ending 3rd - Killed 25, seriously wounded 18.

March 5, 1943
9:30 a.m.

GROUP

Present: Mr. Bell
Mr. Gaston
Mr. Thompson
Mr. Graves
Mr. White
Mr. Haas
Mr. O'Connell
Mr. Blough
Mr. Sullivan

H.M.JR: What do you have this morning?

MR. THOMPSON: I have an appointment of an assistant General Counsel. I think Mr. Paul spoke to you about this appointment.

MR. O'CONNELL: I understand Mr. Paul cleared this case.

H.M.JR: What else?

MR. THOMPSON: Mr. Woolf has been recommended as head of the Intelligence Unit. He has been acting chief. You asked me for a memorandum on the War Savings Budget. We had quite a cut there. The Budget Bureau cut us two and a half million and the Appropriations Committee of the House cut us an additional million six hundred thousand. That is for next year's budget. We can probably get by until next fall. We can see where we stand then, and if necessary go up there again.

H.M.JR: I would like to read this (indicating memorandum entitled War Savings Bond Budget, dated March 1,1943, from Mr. Thompson) before I talk to Harold and you about it. That is a limitation, is it, in the bill of War Savings?

MR. GRAVES: No.

MR. BELL: It is just an understanding.

MR. GRAVES: You have a record of what happened, however. The committee report which he regarded would be binding--

MR. BELL: I see. In other words you don't feel you could spend more there if you made some shaves in the other part of the budget?

MR. GRAVES: I should think we should ask for a deficiency before we got very far down.

MR. THOMPSON: That is all right.

H.M.JR: I want you (Bell) to stay for a little while afterwards for a meeting with Harold, George, and Robbins. They are coming in after this meeting.

MR. BELL: There is an Economic Stabilization meeting this morning at eleven.

H.M.JR: I am not up to it.

MR. BELL: Do you want me to go?

H.M.JR: Somebody ought to go, but I don't want to.

MR. BELL: I would like to get out of it too.

H.M.JR: Supposing nobody went - then what?

MR. BELL: I don't think it is terribly important. There is a discussion this morning on the National Food Program.

MR. WHITE: Yes, National Food. But I think the other program you really ought to comment on. It is definitely a Treasury program.

MR. BELL: I don't have to do it today.

H.M.JR: I think you (Bell) had better go.

MR. BELL: The subcommittee of the ABA committee is in town today. I told them I would meet them at two-thirty. I don't know whether you want to see them or not.

H.M.JR: Who is on that committee?

MR. BELL: Burgess, Fleming, Wiggins, Steele, and Ned Brown. Ned Brown is sick, and he won't be here.

H.M.JR: I don't think it is necessary.

MR. BELL: I thought I would just discuss in general terms the next financing and get their ideas on it.

I am still holding on my desk the question of the extension of the stabilization fund which you should discuss with White and me.

H.M.JR: I would like to talk to you. Do either of you have anything at four this afternoon?

MR. WHITE: I haven't.

MR. BELL: I have an appointment, but I can postpone that.

H.M.JR: I will see Bell and White at four o'clock.

MR. WHITE: I think the Legal Division should be in on that.

H.M.JR: How is Paul's mother?

MR. O'CONNELL: I haven't heard since yesterday. She was just the same - very low. I expected him back yesterday, but he didn't come. That probably is an indication that something has happened.

H.M.JR: What else?

MR. BELL: The only other thing I have is the Debt Bill.

H.M.JR: Harold?

MR. GRAVES: I have nothing.

MR. WHITE: There was a meeting in London which got a good deal of publicity. The British Treasury held a meeting of the Allied financiers in which they discussed the monetary proposal. You will be hearing a great deal more about it. I have already been asked by several reporters about our participation. We have explained that we haven't participated, but this is merely a continuation of a series of meetings. Apparently the British are going to push their proposal very hard.

H.M.JR: Their proposal for what?

MR. WHITE: An international stabilization fund or clearing union. We have these letters all ready, and there are twenty more to be signed.

H.M.JR: Put them here on my desk.

MR. WHITE: I will send the others in when they come back from Berle. I will send in a copy of the letter which referred to--

H.M.JR: What does the letter say?

MR. WHITE: It didn't say that he approved the letter. It said the list of countries was all right, and that they should be sent out such and such, so I think it is in answer to your letter, and his approval--

H.M.JR: Suppose you bring it in at four o'clock. I can look at it then.

MR. WHITE: Would you want to look at it before you sign it? We would like to get it out this morning.

H.M.JR: You can't rush me. See that they are on my desk. After all, you expect instantaneous service here - how long has it gone on, a year?

MR. WHITE: Almost a year.

MR. BELL: It has been in the State Department for a month.

H.M.JR: According to my new routine, you can't rush me.

MR. WHITE: All right, we will wait.

H.M.JR: I am glad you are resigned to it anyway.

MR. WHITE: There are a couple of things about North Africa that might interest you. One is that they are collecting all the yellow seal currency, and we are asking the French to give it back to us - some forty odd million dollars of it.

Secondly, there is a question of how the expenses between the British and American forces in North Africa shall be allocated, whether the Americans shall pay it all or whether the British - it was settled tentatively in a meeting at Mr. Bell's office two weeks ago, and has now been reexamined.

MR. BELL: I might talk a little about it. I haven't signed that yet.

MR. WHITE: You haven't signed it?

MR. BELL: No.

H.M.JR: What else?

MR. WHITE: There has been a request for five million dollars worth of francs to be used for some purpose other than imports, but the decision hasn't been made. It has been suggested that if the Treasury

does buy them it will be to sell them right over again to the Army, so it will be merely a transaction of that kind.

There are a number of other things that aren't important.

H.M.JR: Is everything all right?

What about this financial committee?

MR. WHITE: You would be very amused at the development.

H.M.JR: What is it called?

MR. WHITE: They call it the Committee of Combined Boards of Civilian Affairs. This succeeds number one which I attended with Mr. Luxford yesterday, at which a lot of unimportant details were discussed. There were about thirty men there, and after the meeting Mr. Finletter said he wanted to speak to me about something. He wanted to know if instead of having this new section two meet, which Feis had created - he wanted to know what was the use of having this section two. He said, "There are practically the same members on both of them. Both committees are discussing the same thing. How about dropping section two and using one of the meetings we have here for section two?" The only one who doesn't attend this meeting is General Carter. There is no reason for having a separate meeting for General Carter.

H.M.JR: You took a deep breath?

MR. WHITE: Yes, I took a deep breath and said that I didn't like either committee, and that I didn't understand why he had asked me. I said, "This isn't my brain child; this is your brain child. If you want to dispose of it, it is your affair. Why did you create it in the first place?" I said,"Now that you have the Treasury in you want to abolish it and discuss it here. I don't see the

need for it. You will have to take that up with Feis; I don't like either committee," so he is going to take it up with Feis.

MR. BELL: Yesterday at Cabinet, Under Secretary Welles proposed to the President an executive committee composed of Treasury, BEW, and a number of others, to pass on personnel, names, types of characters, and personnel needed in areas like North Africa. He said he understood Secretary Hull had previously discussed it with the President. The President said, "I have never heard of it," and then Patterson got in.

Patterson is becoming quite disturbed because they have a roster of personnel, and they are working on an organization to control occupied areas. He said, "I don't want any overlapping." So finally the President decided that all he would do would be to write a letter to those agencies, telling them to get together and consider the matter and bring back a recommendation as to what should be done. I think it ties into this whole committee that they have started.

MR. WHITE: Incidentally, I had a conversation with Feis yesterday and asked him whether we should consider the discussion we had here in regard to the monetary problem. He said that after thinking it over, he is in complete agreement with us as to the kind of committees that ought to be had there. He doesn't know who is stopping it. Both he and Dean Acheson are in full agreement with us. This matter is just as confused as it ever was, except I think matters are being taken care of.

H.M.JR: I think it is being taken care of a little better. We are on that?

MR. BELL: Yes, but the Finletter committee considers everything down to the finest detail, and there ought to be some - the point Harry is making is that there ought to be some policy committees up above that. There ought to be subcommittees to take care of details.

MR. WHITE: There are a thousand and one details that have to be considered, such things as an oil tanker going from Tenerife to Spain - what shall be on it. The problems of such detail - as I say, there were thirty men, and each man had a little detail to add. It is impossible to operate a committee on that basis. The highest officer there was a captain, and the civilians were approximately the same rank, so you can imagine the level at which they are supposed to operate. It is impossible for an over-all committee--

H.M.JR: Now, who represented the Treasury on the question of personnel to Africa?

MR. BELL: Well, we haven't been asked yet, but it was provided in the Executive Order that the Treasury be represented.

H.M.JR: Does that take care of you, Harry?

MR. WHITE: Yes.

H.M.JR: George? Has Bell had a chance to give you my message about these two men I want in?

MR. HAAS: No, sir.

MR. BELL: The Secretary would like to have Wood and Shields here Monday.

H.M.JR: Monday, Tuesday, and Wednesday.

MR. HAAS: They were planning on coming down Tuesday and Wednesday, but that can be arranged.

H.M.JR: I want them a full day ahead of the meeting with the Federal Reserve. I expect to devote Monday, Tuesday, and as much of Wednesday as possible--

MR. HAAS: I will call them.

MR. BLOUGH: Jere Cooper has been ill, so the subcommittee has not met for several days, and I haven't

heard yet whether they are meeting this morning or not.

H.M.JR: Should you be up there?

MR. BLOUGH: If there is a meeting, I should be up there, but I don't think they will meet.

H.M.JR: What is the status now of pay-as-you-earn?

MR. BLOUGH: The committee has decided to have it drafted, and they have given out to the press a twenty-percent withholding tax to begin the first of July and to consolidate the withholding of Victory Tax and the first bracket, or basis, you might say, income tax in that twenty-percent withholding levy. That is as far as they have gone.

They are still struggling with the problem of how to handle the civilian employed professional men, and so on, and they have not voted. I don't think they have reached any conclusion about what to do about forgiveness or cancellation, and so on. I rather imagine the Canadian action would stir things up a great deal.

H.M.JR: What is that?

MR. BLOUGH: The Canadians are only eight months behind and have decided to forgive the tax on earned income and on only three thousand dollars of investment income and to postpone until death a half year's tax on the remainder of the investment income so that they have in effect Rumlized their tax structure, except that the tax on unearned income will be postponed, but not forgiven.

H.M.JR: Why don't they instead of this adding and subtracting of the Victory Tax just make it a flat percentage? It would make it so much simpler. I mean, is there a certain - they didn't feel--

MR. BLOUGH: They are trying not to tamper with the Victory Tax at this moment. There is a good deal of sentiment against it. It is almost impossible to use

the Victory Tax basis of six hundred twenty-four for withholding - it is such a terribly bad thing for married people.

H.M.JR: Couldn't they have made it all one, say, a flat twenty, and one figure for exemption? It would be so much easier.

MR. GASTON: That is what they are proposing as to the withholding. Then the return will be something else again.

MR. BLOUGH: There will be one simple withholding which will be based on a table that will really fundamentally be a calculation, although it would be very simple for the employer to operate. It is really the Victory Tax at three percent on incomes above six hundred twenty-four, plus the other at seventeen.

H.M.JR: But they haven't power enough to throw it out and start over again?

MR. BLOUGH: No. I guess they don't feel they want to do that.

H.M.JR: Everything else all right?

MR. BLOUGH: I think so, yes.

H.M.JR: You are not bothering with the Debt Bill?

MR. BLOUGH: Thank the Lord, no.

H.M.JR: Thank the Lord and raise the dead. (Laughter)

Are you all right? Have you heard from Paul?

MR. BLOUGH: Not today, but we did yesterday.

H.M.JR: Now, Mr. Debt Bill, what are you on? (Laughter)

MR. O'CONNELL: I haven't anything this morning. Everything seems to be going all right. Did you want to see me this morning?

H.M.JR: Yes, I want to see you.

The Bishop - what is the name of the former Bishop of Washington?

MR. O'CONNELL: Monseignor Ryan.

H.M.JR: He is now the Bishop of Nebraska, and he was on the train, and this is one time he had had his desert. He came along with a cigar about that long (indicating), and this is one time I didn't say anything about it.

MR. SULLIVAN: It is a good thing you weren't on the broadcast, because Tuesday night--

H.M.JR: How did it go?

MR. SULLIVAN: Madam Chiang Kai-shek talked over twenty-five minutes, and we went on at twenty of eleven. They had a lot of friends there who were sitting in the studio just hanging over us. You would have loved it. (Laughter)

MR. GASTON: I thought it was a very good broadcast.

MR. SULLIVAN: I have the record downstairs. Knutson talked, and so did Vandenberg. Do you want to drop a note and tell them that you didn't hear it because you were on the train, but you heard it on the record?

H.M.JR: Will you write that?

MR. SULLIVAN: Yes. The Senate Finance Committee met and decided they would not report out the Public Debt Act. Vandenberg O.K.'d it. He told me that they insisted on having some sort of repeal of the salary ceiling and that he thought the Disney proposal was full of holes and unsupportable, but that it would be easy

to work out something that would do the job. The next morning Joe and I reported to Dan. We knew there was going to be a hearing before the Rules Committee, and we wanted to get Sabath before that meeting started. I got him just before they went in. I told him that we wanted to correct the conversation you had with him; and if he could get an open rule that would enable them to vote separately on the two provisions, we would like it very much. That was about half past one. About quarter of one he called and said that he had just gotten out of a very bitter meeting - the Democrats had joined the Republicans. The bill will be taken up after they get through with Lend-Lease, which will probably be Wednesday or Thursday of next week.

H.M.JR: What is an open rule?

MR. SULLIVAN: That limits them to about two hours of debate, and they have to talk on the whole thing together.

H.M.JR: Have you kept Jimmy Byrnes posted?

MR. SULLIVAN: Yes, I have sir. I had lunch with Senator Walsh. You remember the Commissioner gave you a memorandum on the Boston situation - one of the difficulties was that Walsh and McCormack had approved this man who is up there now. Walsh plead with me to get rid of his nominees. He was convinced that he was not doing a good job, and I think we should do nothing about that until around the first of April, just as we are doing with the other changes in the Collectors office. I think they can disrupt things pretty badly.

The information that the President asked for on the Ruml plan has all been assembled. You will remember that he said on his memo, "No names please." The information as it came to me bore the names. I am now changing that, and I will give it to you in both forms.

H.M.JR: When can I get it?

MR. SULLIVAN: In about half an hour.

H.M.JR: Will you get it to Mrs. Klotz?

MR. SULLIVAN: Yes.

H.M.JR: All right?

MR. SULLIVAN: Yes.

MR. GASTON: You sent in a young man from the United Press. Mr. Mager has written the story. I think it is pretty good, but you might like to look at it.

H.M.JR: Get it to me.

MR. GASTON: He probably has it ready now.

H.M.JR: Give it to Mrs. Klotz, and she will give it to me.

Anything else? What is the name of the publicity man who made his business - he formerly used to do Miami, Florida, and he made his reputation down there.

MR. GASTON: Steve Hannagan.

H.M.JR: In the middle of the night I remembered his name -

MR. SULLIVAN: I am speaking at the Navy Yard on the 29th, and at an advertising club luncheon on the 30th. Is there anything in connection with this new drive that you want me to get into those talks?

H.M.JR: Not that I know of.

Is everything all right?

MR. SULLIVAN: Yes.

H.M.JR: Let's go into War Bonds then.

MR. WHITE: The President signed that Canadian memo.

March 5, 1943
10:00 a.m.

FINANCING

Present: Mr. Bell
Mr. Graves
Mr. Buffington
Mr. Haas
Mr. Robbins

H.M.JR: I spoke to Mr. Bell last night.

MR. ROBBINS: Did he convey the bad news?

H.M.JR: Yes.

MR. ROBBINS: It is just tragic. I am very much upset about it, and I am very anxious to clear with you my next action.

H.M.JR: Please.

MR. ROBBINS: Time is so short and we must get organized with them on a definite campaign plan. My thought is that I will get hold of LaRoche, who is head of the Advertising Council, and go over with him the list of that group. Out of that list of names, who are, I think, presumably pretty capable advertising people, I will try to pick with him a man who will be satisfactory from my point of view, and, of course, from yours, sir, and ask for a temporary assignment of that man to be here with us for the duration of this campaign. I would like to proceed with that program immediately - as a matter of fact, today.

H.M.JR: Well, I had an idea almost the same, and that was that I thought - well, I was thinking of a man all right, but don't give us Lemmon.

MR. ROBBINS: No, sir.

H.M.JR: We might even want to appoint a couple of agencies as a group, but there should be responsibility on one man.

MR. ROBBINS: That is right.

H.M.JR: That Doremus crowd did a good job for us last time.

MR. ROBBINS: I don't know how many there are on the Council.

H.M.JR: There are twenty-five.

MR. ROBBINS: Twenty-five.

H.M.JR: They are not all advertising agency men; they have radio, newspapers, and everything.

MR. ROBBINS: I would like a man who is an agency executive, and not a creative advertising man if possible, because I would like to have that type of assistance for this campaign.

H.M.JR: Which kind?

MR. ROBBINS: The agency executive type, rather than a creative advertising man - a man who might write copy.

H.M.JR: You can get the copy writers at the Council. I think they gave us nineteen, and at one time--

MR. ROBBINS: It is the coordinator and administrator type I am looking for.

H.M.JR: LaRoche wants to talk to me now. Shall I put in a call for him and say you will talk to him later?

MR. ROBBINS: I wanted to talk to him, and was planning to do so as soon as I had seen you.

H.M.JR: What about Mr. Rubicam? What happened, anyway?

MR. ROBBINS: Well, he called me yesterday afternoon about three-thirty, and he said that he was sorry he had to call me and say that he couldn't come. He had been in touch with the president of his company, Sig Lorman. Mr. Lorman is the acting head of Young and Rubicam while LaRoche is here and Rubicam is away. He felt that perhaps his original answer had been more emotional than had been practical, and he promised LaRoche that he would stay more or less on the job at Young and Rubicam during the six-months period that LaRoche would be allowed to come and do his share for the war. Lorman said he needed the help that only Rubicam could give him, and that the agency's interests were being interfered with by the tremendous impact of war work. He felt that, in justice to that interest, he had spoken a little too fast.

Now, I believe he was completely sincere in saying he wanted to come with us ultimately if we still wanted him, but he said he couldn't wait for that. He won't be available if he has to wait until LaRoche's departure - until September - and there is a lot of water going over the dam.

H.M.JR: About forty million dollars' worth.

I got this idea sort of subconsciously last night, and that is this fellow - what is his name?

MR. GRAVES: Hannagan.

MR. ROBBINS: Steve Hannagan. He is a promotional man who is contracted to an advertising man, and he has done some particularly fine work in selling Miami, Florida, to the public, and that sort of thing; but he doesn't fit in with my idea of what we need here.

H.M.JR: I understand that he has some very important clients. Would you make some inquiries about him?

MR. ROBBINS: It would be a very easy thing for me to do. He doesn't fit my pattern.

H.M.JR: Yes, but on the promotion - you said you didn't want a man with ideas.

MR. ROBBINS: Yes, I think we could use the facilities of Hannagan through the Council if we have a problem of the kind that Hannagan is accustomed to dealing with, and we will have such problems. But for our organization here, he is not the type I would be thinking about unless there was some particular reason for me to turn to--

H.M.JR: Find out what he has been doing the last year or so. I think he has been working for the Pennsylvania Railroad, and people like that.

MR. ROBBINS: He operates in a field that has a very distinct name - what is the name of that field? It is not public relations, but I guess that would come more closely to it. It is the technique of more indirectly influencing the public mind.

MR. BUFFINGTON: Mass psychology.

MR. ROBBINS: That is right.

H.M.JR: Will you speak to LaRoche and ask him about this man?

MR. ROBBINS: Yes, I will.

H.M.JR: That is just an idea - you will find that I will be shooting them at you. Make a note of this - before we get these requests, I wondered if somebody in the present Treasury organization couldn't get in touch with the Army and Navy and find out if they could give us a list of relatives of members of the armed forces who have lost their lives recently - relatives who will be willing to speak for us. There is Mrs. Sullivan, who is one of the most effective speakers we have.

MR. GRAVES: And Colin Kelly's wife.

MR. ROBBINS: Wouldn't that be the sort of job that OWI would line up for us?

MR. BUFFINGTON: We have had some contacts through the Army and Navy. They work with us.

H.M.JR: I think if you go to General Surles of the Army - they are in touch with the families - this is my guess - through the Army and Navy Relief Society. I was thinking if we could get a list of - I don't know, maybe a thousand from each, you see, it might be a wife, a mother, a sister, or a brother, and those people will take time to get them lined up. I don't think you can get more effective speakers than they are.

MR. ROBBINS: Isn't there such a thing as a speakers bureau?

H.M.JR: It isn't very effective.

MR. GRAVES: We have contacts with the Army and Navy on that kind of thing.

H.M.JR: We have, but I am just throwing it out - I mean, we have never done it. It has been sort of hit and miss.

MR. GRAVES: It has been done on a local basis to a considerable extent.

H.M.JR: I was thinking of contributions we might make from here. I am just throwing it out. You will get accustomed to me. But what I do like to have - whenever I do throw out an idea, I would like to know what happened to it.

MR. BUFFINGTON: Mr. Secretary, what about Wanders? That question was left somewhat in the air.

MR. ROBBINS: I think he should come down here, but Wanders is acquainted with what we have done, and we have left it up to him.

H.M.JR: If Robbins wants something, he can tell Bell about it. We are going through channels from now on. (Laughter)

MR. BELL: George and I discussed the possibility a couple of weeks ago of getting Eisenhower and MacArthur to give a broadcast, and now I see the Red Cross has beat us to it.

H.M.JR: Neither Eisenhower or Admiral Nimitz spoke. They had their speeches ready. My own feeling - I think the President has got to give us the kickoff on this thing - and any other thing,now. People get all "het up" and expect to hear Eisenhower, and then something happens and they don't hear him, or hear from Nimitz - I don't know whether it is so good or not.

MR. BELL: Did you think you might get a suggestion across of having the broadcast start with the members of Congress from the White House?

MR. ROBBINS: I think that would be splendid; and I think we should have the President on the air at the beginning.

I have the reins now, do I go ahead on the other plan?

H.M.JR: Yes.

MR. ROBBINS: That is my major problem.

H.M.JR: When you talk to LaRoche and he comes through with a suggestion, before you sign him up I want to know who he is.

MR. ROBBINS: Yes, of course.

MR. BELL: Do you want to tell the Secretary about the Philadelphia meeting and your plans for meetings of a similar character?

MR. ROBBINS: We attended the Philadelphia meeting, and from my point of view we had a very educational day. Going up on the train I was able to pick up quite a bit of background, and one of the points that registered most keenly with me was that in Philadelphia we were going to have as friendly an approach in molding these two organizations as we could expect to find almost any place; and when I saw the results and saw what they wanted--

H.M.JR: Excuse me - I want to talk to LaRoche.

(The Secretary held a telephone conversation with Mr. LaRoche, as follows:)

March 5, 1943
10:14 a.m.

HMJr: Hello.

Chester J. La Roche: Good morning.

HMJr: Mr. La Roche?

L: Yes, sir.

HMJr: Good morning. This is in answer to your call. They said that you wanted to talk to me about something to do with advertising?

L Oh, I see. Well, I thought it was about Rubicam.

HMJr: No, did....

L: No, it was simply - well, I covered it with Bill Robbins....

HMJr: Oh.

L: ....and he's entirely familiar with it. It was just on two points.

HMJr: Oh.

L: The first was a matter of paper, which I think has been cleared up pretty well....

HMJr: Oh.

L: ....and the other one was a matter on these so-called non-deferable lists, which if the advertising men get on too soon, there'll be a stampede out of our business....

HMJr: Oh.

L: ....and we will not have the manpower to do the job.

HMJr: But you've talked to him about that?

L: I have talked to him about it, and we're in agreement on it.

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

L: I'm sorry that you were bothered.

HMJr: There's no bother - he - and Robbins is going to call you a little later on himself.

L: Yes, all right.

HMJr: Will you - well, where are you?

L: I'm in New York at the Advertising Council right at this moment.

HMJr: Right. Well, he - he'll be calling you in the next - will you be there in the next fifteen minutes?

L: Yes, I will. I congratulate you in getting Robbins. I think that's fine, and I think....

HMJr: Yes.

L: ....Rodgers will be very helpful over in O.W.I.

HMJr: Good.

L: And I'm sorry Rubicam isn't coming, but we can get....

HMJr: Yeah.

L: ....some other man who will do a good job.

HMJr: Well, yes - he's - that's just what he's going to call you up about.

L: All right, sir.

HMJr: Thank you.

L: Goodbye.

H.M.JR: The Advertising Council - what he wanted was something about manpower and deferment, which is a thing I won't get in on, and something about papers which I won't get in on either.

MR. ROBBINS: I told him on the paper situation--

H.M.JR: They gave me the memorandum this morning, and we have to ask him several things. I just didn't want his telephone call to go through unanswered.

MR. ROBBINS: We will do the Philadelphia story; and anticipating, therefore, that I was going to see an early attempt to mold together these two organizations, which would be as friendly as any spot we might contact, I can't help but say that I was somewhat impressed by the difficulties that were going to be faced in accomplishing that end. There was nothing in Philadelphia that disturbed me greatly, but certainly there was every evidence of the fact that it is not going to be an easy natural thing for these two organizations to mold themselves together without some help of some kind which we can assist on from Washington by being there personally.

I was delighted with the meeting. I feel that from my point of view the educational value was extreme. I am quite satisfied that we will probably find people in both cases, that is, the investment solicitation group and pay-roll savings group, who will be a little bit unhappy about the adjustments we will make in the immediate future.

Following that, it has been necessary for us here - and I think this is important - I am glad I have an opportunity to tell you about it. We felt - Mr. Graves, Mr. Buffington, and myself - that it was necessary for us to get an agreement as to how we will operate during this immediate period ahead of us, so I have gotten - and you haven't seen it, George - a brief drafted up. It is a brief statement of how we will operate. Each one of us, therefore, will know what activities the other will carry on. Now in brief, it is simply this, that Mr.

Graves, for example, will continue to operate as he has in the past with his field organization, clearing those things which are of an operating nature, but which are not distinctly part of the April campaign. On matters--

H.M.JR: Say that again, I didn't get that.

MR. ROBBINS: I say Mr. Graves' organization will run along, campaign or no campaign. The authority to the president of the Reserve is a distinct and complete authority for direction of all forces during the April campaign.

Now, the president of the Federal Reserve has not yet gathered up the operating reins of the many programs that have been underway preceding this assignment. He can't let the reins drop, and therefore Mr. Graves is going to keep his hand on the throttle so far as those things that are current and active that are not to be changed in respect to the campaign are concerned. In matters that he will run into that will have a bearing on the April campaign, he will groove those very directly and quickly through the presidents' offices. Likewise, Mr. Buffington, I am sure, when we get this on a piece of paper would want to continue. His would be a natural one; he would go right into the newly established channels the way he has been doing with the Federal Reserve president.

Now, there is one other admonition I think we are all going to agree on. That is that we must all feel responsible to protect these presidents in their new responsibility. We must not find ourselves - any of us - answering operating questions that come in direct from a lower flight - answering them from Washington, rather than grooving them through the presidents' offices. Then of course, to make that memorandum a little bit better balanced I put in a paragraph about how we will have to feel responsible about one another. It is a brief statement of perhaps six short paragraphs. It is a temporary operating agreement between the three of us.

H.M.JR: I don't want to be consulted, but when it is finished I want to read it.

MR. ROBBINS: All right.

MR. BUFFINGTON: Do you think there will be any question there where our line of authority or contact does not flow through the presidents as much as it has through the executive managers?

MR. ROBBINS: All operating matters relating to the drive have come around the presidents - we have not gone through them, you know.

MR. BELL: But I think this setup is better for this drive. I was a little bit worried about the first part of Mr. Robbins' statement - that Mr. Graves would go directly to his staff. I think you have an understanding among yourselves that you have to protect the presidents, and I think you are all right.

MR. ROBBINS: I am not so much worried about what Mr. Graves will do in going to his staff.

H.M.JR: Is this all agreeable to you, Harold?

MR. GRAVES: Yes. This follows out the discussion we had in your office the other day. If you will recall, we talked about women's activities, farmers' activities--

H.M.JR: Yes.

MR. ROBBINS: I am planning to go to Chicago and Mr. Graves will be with me. I don't believe Mr.Buffington is going to make that trip, although it is optional with him.

MR. BUFFINGTON: Chicago raised the question - I would prefer staying here - I would not have the time at present. I would rather not go, but if it is a good thing to do from the standpoint of Chicago, I will be delighted to go.

MR. ROBBINS: I think we can work out that detail. It is just a matter of our desire to inject a personal activity in his organization.

After a little while I probably will feel that I alone can do some of this that I want to do, only being alone for the sake of leaving behind the others who will be, I am sure, quite busily engaged in other matters. But I feel we have an obligation to all of these groups at this stage to show a definite personal active interest in what they are doing.

H.M.JR: Well, there is no way you can learn this thing any faster than to get out there.

MR. ROBBINS: That is right. There is a meeting in Boston on Wednesday. I would like to go to that, too. Now, whether I can or not - as a matter of fact, I have a note from Mr. Sproul suggesting that he would like me to be in New York tomorrow morning. I am going to let the events of the day determine that.

H.M.JR: New York is awfully important.

MR. ROBBINS: It is, indeed.

H.M.JR: It is the most important, because that is where you are going to sell most of the securities. There is no use kidding ourselves. Sproul has more influence among the presidents than anybody else. If you get him straightened out and get going--

MR. ROBBINS: My position is this, sir; if I get this promotional advertising organization problem settled, then I am going to ride the road as hard as I can and as fast as I can. But until I do that, this is the number-one problem.

H.M.JR: That is right. It must be done.

If during the day you want to see me, let me know.

MR. ROBBINS: I will after I talk to LaRoche.

March 5, 1943
11:09 a.m.

HMJr: Hello.

Gen.J.R. Deane: Good morning, Mr. Secretary.

HMJr: Hello, General. How are you?

D: Fine, thanks. Did you have a nice trip?

HMJr: I had a - a very good trip coming back, and I wanted to thank the Army for arranging that flight.

D: (Laughs) That was perfectly all right.

HMJr: But, General, I - I really think I ought to tell you something about it, see?

D: All right.

HMJr: Both for - for - I think you - you'd really like to know.

D: Yes.

HMJr: I mean the pilot - they couldn't have been nicer, see?

D: Yeah.

HMJr: But they put us into a little Cessna plane.

D: A what?

HMJr: A little Cessna, one of these training planes.

D: Oh, yeah.

HMJr: And they only had this - the one instrument - they didn't have the - the regular instruments weren't on the board.

D: I see.

HMJr: And so when it came to trying to find their way, they - they had a terrible time.

D: Is that so?

HMJr: And the - the gyroscope compass wasn't on. They just had this one little compass, and - and their telephone communication until they were right on the field didn't work, and - well, the pilots were apologizing. They felt terrible to have to take me up - because they said there were five other planes there that could have gone, and I....

D: Yes.

HMJr: ....and I just thought I'd tell it to you.

D: Yes, well, I'm awfully glad to hear about it.

HMJr: Because - uh....

D: Well, it certainly wasn't very well handled. Of course, it was done very quickly.

HMJr: I know. But....

D: Yes.

HMJr: ....I - I feel it's not doing the Army -- 99 times out of 100 I've gotten such marvelous service that if once I don't....

D: Yeah.

HMJr: ....I - I think you'd like to know it.

D: Surely we do.

HMJr: But it really was something flying in that plane with inadequate instruments.

D: I imagine it must have been. You....

HMJr: We....

D: ....finally made it all right, though.

HMJr: We made it. We got there just at - after the sun set and - and I'm writing General Marshall a letter, because the address that General Ramey gave is one of the finest addresses I've ever heard.

D: Oh, that's fine.

HMJr: It was exceptionally fine, and he asked me to give the diplomas to the boys, which gave me quite a thrill.

D: Yes, I imagine so.

HMJr: And it was a great success, and - and I - I do appreciate your making the arrangements.

D: (Laughs) Well, I'm sorry they didn't turn out....

HMJr: Well, we got there, we got there, but we got there under rather (laughs)....

D: Under difficulties.

HMJr: Under difficulties, but made it.

D: Yeah.

HMJr: And what I'd like to do next week at your convenience is to ask you sometime if you could take five minutes to let me send Henry over.

D: I'd be delighted any time. Tuesdays and Fridays - bad day for me on account of my meetings. But any other time I'd be....

HMJr: Tuesday and when?

D: Tuesdays or Fridays are bad for me.

HMJr: Well, do you want to set some time Wednesday?

D: That would be fine.

HMJr: Any time in the afternoon is....

D: Well, let's say about 2:30 Wednesday.

HMJr: Two-thirty Wednesday?

D: Yes.

HMJr: I - I'll send him over.

D: Swell.

HMJr: Thank you.

D: Righto. Goodbye.

HMJr: Goodbye.

March 5, 1943
4:40 p.m.

STABILIZATION FUND

Present: Mr. Bell
Mr. Sullivan
Mr. Gaston
Mr. White
Mr. O'Connell
Mr. Henry Morgenthau III

H.M.JR: Good afternoon, Mr. Bell.

MR. BELL: Good afternoon.

H.M.JR: As the stabilization fund expires June 30, also the President's right to issue three billion dollars in so-called--

MR. WHITE: Just the stabilization.

MR. BELL: I have an idea that the three billion will come into the picture before we get through.

I raised the question the other day as to whether or not you wanted to recommend the continuation of the powers of the President to devalue the dollar along with the continuation of the stabilization fund. I think you are going to have more difficulty this time than you ever had before in getting it extended. I am wondering whether it is worth all the fight necessary to get the authority to devalue the dollar. Why don't we just ask for continuation of the stabilization fund?

H.M.JR: May I make this suggestion as to saving time - I wish everyone would be frank. I think Sullivan could be awfully useful in contacting the Hill. I think he does it very well, and I just wanted - instead of my taking the time - I kept postponing it for two weeks

because I know what has to be done. Somebody has to go up and see the Democrats and make a report, and I think Sullivan is the person to do it.

The reason I have been dodging the thing is that I don't want to take two or three days off to go up on the Hill. What would you people think of bringing Sullivan in, telling him the story, and saying, "John, I want you to go up on the Hill and visit around and write up a report to be sent to me?" What do you think, Dan?

MR. BELL: Does that cover the devaluation of the dollar?

H.M.JR: Both.

I would let him stay long enough on the Hill to see Vandenberg, the Senator from Oregon--

MR. BELL: McNary.

H.M.JR: ... and different people, going around - what committees would it come before?

MR. BELL: Coinage, Weights, and Measures in the House.- Somers is still there - and the Banking and Currency Committee in the Senate.

H.M.JR: That is a ticklish situation because they wanted us to give Somers a job and the President wouldn't back him for Congress and all the rest of that. What do you think, Joe?

MR. O'CONNELL: John is a very good operator. He is a good man on the Hill.

H.M.JR: White?

MR. WHITE: I think he would be a very good man to find out what their attitude is. I am afraid if they asked him any questions about it, he would have to learn a lot about it or he is stuck. They may not ask

him a lot of questions - he is very valuable, but he certainly doesn't know anything about it. If that is an advantage, that is fine. I would certainly think you have to work with Congress through somebody like that to first find out the lay of the land, win over as many persons as you can.

H.M.JR: I think the thing to do is - John has to go up and do this thing. When I was in Cuba I said that I was going to spend at least a day a week on the Hill, but I don't have the time. Another thing - when I go up on the Hill they will say, "What do you want, Mr. Morgenthau?" Then I am on the spot.

John can simply say, "I am up here for information. I don't know what the President or Mr. Morgenthau want."

MR. WHITE: I am all for that emissary approach, but I think we might decide ourselves what--

H.M.JR: I can tell you right now.

MR. BELL: I think we could make a decision on the devaluation, and if the question comes up on the Thomas amendment, we can make a decision on that. That would help anything on the Hill.

(Mr. Gaston entered the conference.)

H.M.JR: This is the way I feel - White, to my surprise, feels the same way - we are talking, Herbert - let's wait one second until Sullivan comes and then I will explain it.

MR. WHITE: There is a new element that has been introduced in the situation that has never been introduced before. It may provide a very reasonable out. There is a prospect that there will be deferred until after the war an arrangement that will prevent depreciation of currency; and if that arrangement is satisfactorily consummated, then you no longer need that power; but if it isn't consummated, you are leaving yourself vulnerable

at the very time when you most need it, far more than at any time in the last ten years.

MR. BELL: I question whether the power is big enough where you are going to need it anyway.

MR. WHITE: I know it isn't terribly powerful, and it wouldn't be a calamity if it were left out, but within the limit--

(Mr. Sullivan entered the conference.)

H.M.JR: John, we are just discussing the question - I wanted the advice of everybody about what we should do in regard to the devaluation powers of the President which expire on June 30 - his right to devalue the dollar and continue the stabilization fund.

I think the first thing that ought to be done is somebody has to go up on the Hill and find out how both Republicans and Democrats feel in the House. I don't think they will feel too kindly, because last year Congressman - what's his name - the leader of the District didn't want Somers re-elected because he didn't support the President. It went across the street. McIntyre or somebody passed the buck and said we should give him a job here.

MR. SULLIVAN: He wanted to be an Assistant Secretary.

H.M.JR: I wouldn't do that. I said, "Why should I give the man a ten-thousand-dollar job as a reward for not supporting the President? I am not going to do it until the President orders me to do it." He never said a thing about it to me, and the thing was dropped. They said he could be re-elected, and I guess he was - I don't follow elections. I'd be damned if I'd give a man a job for not supporting the President.

MR. GASTON: The last thing he told me was he wouldn't take it anyway. He thought he could get the nomination and win, and that is what he did.

H.M.JR: This is what I want you to do. I find you do this very well, this business of going up on the Hill. I have been ducking this thing. I can't find the time to go up, and there is a certain advantage in sending an assistant rather than the Secretary.

MR. SULLIVAN: Yes.

H.M.JR: So if it is agreeable to you, I would like to use you on this and on other occasions. The point is this: I think you should speak with Somers, and I think you have to talk with the Speaker and--

MR. SULLIVAN: That is Andy Somers.

H.M.JR: I think you have to talk with some of the Republicans there in the House and in the Senate, fellows like Bob Wagner, Vandenberg, the Senator from Oregon--

MR. BELL: McNary.

H.M.JR: ... and simply tell them - say, "Is this going to be a party issue, or isn't it?" We here feel definitely that we would like to see the stabilization fund continued. I would very much like to complete my term with that intact. I would like to finish my term with a billion eight hundred still in the till, because the only other thing is to put it back in the Treasury General Fund, and you never know what might happen. It is there, anyway, in an estate.

MR. GASTON: Are you going to ask for retention of power to devalue the dollar?

H.M.JR: Now the big fight is on the retention of power of the President to devalue the dollar. White doesn't think it is a matter of life and death, but I think it is going to be a life and death struggle. I don't know of anything that could be more difficult than that.

MR. SULLIVAN: Would there be any reason for it?

MR. WHITE: There is more reason for it, John, than there has been in the past. Let's among ourselves understand what we are after.

H.M.JR: Let me say this - before he goes up he can talk with Bell and White. There is no need of his going to school here. Immediately now - until the war is over, Harry, there is no particular need for it.

MR. WHITE: Until the war is over, no.

H.M.JR: Then it becomes a part of rehabilitation - reconstruction.

MR. WHITE: You are speaking now of devaluation. Well, it becomes an essential element in the post-war monetary arrangement and the post-war monetary negotiations that would take place. Although it is of no value during the war, immediately after the war when the monetary troubles will be most acute it will be most desirable at that time.

We fought for it three times. This time there is more reason than any of the previous times, without considering how much reason there was the previous time.

MR. SULLIVAN: I think you are going to have an easier time to get it when you need it than to hang on to it now.

MR. BELL: I think there is a distinct advantage in going up and telling them you aren't asking for it.

MR. WHITE: Why did you ask for it two years ago?

MR. BELL: Now you have kind of got them all tied in with the dollar--

H.M.JR: At that time if we went up it would have been the one thing that Congress singled out to slap the President down. Now they have done so many things that

it would just be one of a half dozen. I would have felt terrible to have let them do that at that time. Maybe that doesn't make much sense, but at least--

MR. GASTON: I think if you could get it without a fight now it would be desirable to have; but I think a knock-down drag-out fight would hurt your security issues.

H.M.JR: Will you discuss this a minute? I just want to ask Mrs. Klotz something.

(The Secretary left the conference.)

MR. WHITE: If John goes up with that, the same fellows who bucked it before are going to buck it again. There is always going to be trouble on that angle of it. My opinion is that technically there are sound and good grounds for continuing it, more than there ever were.

MR. GASTON: Correct.

MR. WHITE: It never was a vital factor. It never was a power which if we didn't have we felt we suffered a very serious restriction of ability to operate.

MR. BELL: Harry, it wasn't a club over Great Britain and France when you didn't have any control over it whatever. Now France has gone and you certainly have Great Britain right in the palm of your hand in Lend-Lease.

MR. GASTON: I feel now that the power is not worth the damage that would be done by a fight. That is the way I feel about it.

MR. WHITE: I can see that if you go in and tell them that to begin with we will--

MR. SULLIVAN: You don't do business that way. That is just so we know back in our heads how we stand.

MR. BELL: First I would want to add a very great deal to what the Secretary said about the stabilization fund. It means a great deal more than finishing his administration and giving back the two billion.

MR. SULLIVAN: You won't jeopardize the continuation of the stabilization fund in making a fight?

MR. WHITE: No. We never would, because there remains another power that is stronger which isn't in this bill. They may draft it in, but it isn't in there. The first thing would be to find out whether they want these things and how they feel about it. After they have given you an earful, come back and we will talk it over. They will ask you how important it is, and I think the answer to that is, "It is important." See what they say. We know that Vandenberg has been against it - why should he change now?

You know that Taft will get purple in the face if you mention it to him.

Now if you want to withdraw, I think we have an excellent out which we have never had before. I think we can say that previously we have always had to depend on that and other instrumentalities to assure us of an appropriate place in the monetary field, but there are excellent chances now of getting an arrangement which will eliminate competition at a time when it is most likely to occur. If you didn't have any instrumentalities you would be in a little weaker bargaining position.

It still isn't going to make paupers out of us, and we are still going to have a high national income. Nobody is worried about the soundness of the dollar. These fellows that keep talking about the dollar - they don't make sense. This power has been in existence for ten years, and it has never kept a fellow from buying dollars. The only thing that has kept them from buying dollars is that they haven't the money.

If we continue to have that power and don't use it, we have a little more power. We would be willing to forego that if we get, as we are likely to, some kind of an international arrangement in which the countries are going to agree not to alter their exchange rate unilaterally. We would be the first ones to agree with that; and if we did agree with that, that power is of no use. So we could have an out if we decided at the last minute that the thing wasn't worth the fight we were going to have on it.

MR. GASTON: You think they are not going to jump on our secret weapon when the stabilization fund is up there?

MR. WHITE: I don't know. They learned about it the third time, and maybe they will--

MR. BELL: What do you mean by the secret weapon?

MR. GASTON: The power of buying and selling.

MR. BELL: The only thing that worries me, Harry, is that if you go up and talk along that line you will find the power is such that you can't get the power to devalue through. Then they will come and say that they forced us into that position. We sounded the sentiment and found out we couldn't get it through, so they forced us into that position.

MR. GASTON: I don't think that would happen if you talk to such a man as Vandenberg. But if there is going to be a nasty fight over it in the Committee that is going to hurt our sale of Government securities, that is what we want to know.

(The Secretary reentered the conference.)

H.M.JR: What I would like you to say is this, "Now look, Senator, I don't know where the President stands on this. I don't know where Mr. Morgenthau stands. I am simply up here seeking information." Then go into this

thing about securities and say, "We want this thing, and I am sure you of all people don't want to start - you tell me there is no chance to get this thing through and I will advise Mr. Morgenthau, and he will advise the President."

MR. BELL: I don't think he can say to Vandenberg, "I don't know how the Secretary stands on it," can he?

H.M.JR: He can say something like, "I would like to have it because I want to have the stabilization fund continued. I think it is good housekeeping to keep it there. I would like to have the devaluation power continued because when the war is over we are going to need it." But neither of these things is worth having a knock-down, drag-out fight over with the tremendous financing I am facing.

MR. SULLIVAN: Of course you want to save the stabilization fund, but you don't want to jeopardize either your April drive or your stabilization fund to save the devaluation power.

MR. WHITE: You have seven stabilization agreements. There are a number of other reasons why you want the stabilization fund. Without the stabilization fund you would be in a very weak position in the post-war world in coming to any monetary arrangements. There are some other reasons if he is going to argue about it. There are a lot of good reasons why it should be continued, and the least of these is the fact that you want to give it back to them after the war, because I think that ought to be continued for the next administration. There are many real technical reasons why the stabilization fund should be maintained.

MR. SULLIVAN: Will you give me a memo?

MR. WHITE: We will give you more than a memo. (Laughter) We will give you one and make sure you read it.

MR. SULLIVAN: You have never been up there with me, brother, I want to know what I am talking about when I go up there.

H.M.JR: That is enough, isn't it?

MR. SULLIVAN: Yes.

H.M.JR: I would like you to start on this Monday.

MR. SULLIVAN: Yes, sir.

MR. WHITE: Who do you think the best man might be to mention it to? Vandenberg is against us.

MR. BELL: Is Taft on the committee?

H.M.JR: Besides Taft I would like you to talk to Vandenberg, and I would like you to talk to McNary. McNary always keeps his word.

MR. WHITE: But won't Barkley be the first one to speak to?

MR. SULLIVAN: I have him on this list.

MR. BELL: How about Maloney? He is really an important man on the Financial Committee after you eliminate Barkley. Wagner is chairman--

MR. WHITE: Is Wagner on the committee?

MR. BELL: No, Wagner is chairman of Banking and Currency.

MR. GASTON: Glass is on the Appropriations Committee.

MR. BELL: But Glass is next to Wagner. Neither one of them is active on the committee, but this fellow Maloney--

MR. WHITE: It isn't in this bill at all.

MR. SULLIVAN: If he is going to ask about it, you had better tell me about it.

H.M.JR: Do you want to give me any more advice?

MR. GASTON: No.

MR. O'CONNELL: No.

H.M.JR: I would like you to start on this Monday.

H.M.JR: Bell, are you satisfied?

MR. BELL: Yes.

Treasury Department
Division of Monetary Research

Date March 5, 1943 19

To: Secretary Morgenthau

From: H. D. White

Appended are:

1. A copy of your letter to Secretary Hull and Mr. Berle's reply. (not attached)

2. A list of the countries to whose Ministers of Finance letters are being sent.

The United Kingdom, China and Russia are not included because the State Department has already submitted the document to them.

Argentina and France are left out with the approval of the State Department.

The neutral nations in Europe, i.e., Sweden, Switzerland, Spain, Portugal and Turkey, are not included in the list.

DEPARTMENT OF STATE
WASHINGTON

March 2, 1943

My dear Mr. Secretary:

In reply to your inquiry regarding the list of countries to whom the monetary stabilization plan prepared by Treasury experts might be sent, it would seem appropriate to send this plan to all of the United Nations and to all of the American republics which are not United Nations, other than Argentina.

The self-governing Dominions should, of course, be addressed as separate nations; and India should likewise be addressed separately, since India has representation independent of the United Kingdom.

Sincerely yours,

Adolf A. Berle, Jr.
Assistant Secretary

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

(Copy to Mr. Harry White, direct)

March 4, 1943

Excellency:

I am sending for your examination a preliminary draft of a Proposal for an International Stabilization Fund of the United and Associated Nations. This draft was prepared by the technical staff of the United States Treasury in consultation with the technical experts of other departments of this Government.

The document is sent to you not as an expression of the official views of this Government but rather as an indication of the views widely held by the technical experts of this Government. I hope you will examine the draft and submit it for critical study by the technical experts of your Ministry and your Government. After you and your experts have had opportunity to study it, you may wish to send one or more of your technical experts to Washington to give me your preliminary reaction to the draft proposal, and to discuss with our technical experts the feasibility of international monetary cooperation along the lines suggested therein, or along any other lines you may wish to suggest. We are informed that the technical experts of the British Government have also been studying the question and will doubtless make their views available.

It seems to me that the enclosed draft proposal points the way to an effective means of facilitating through cooperative action the maintenance of international monetary stability and the restoration and balanced growth of international trade. It is my hope that as a result of unofficial discussions involving no commitments, we may find a sufficient area of agreement to warrant proceeding on a more formal basis.

Very truly yours,

(Signed) H. Morgenthau, Jr

Secretary of the Treasury.

His Excellency, Arthur de Souza Costa,
The Minister of Finance,
The United States of Brazil,
Rio de Janeiro, Brazil.

By Mess. Brown & Short
10:00 3/6/43
(to legations)

Photo file in Diary

File to White's office

Enclosure

HDW:dal
3-4-43

(Letters sent to those on attached list.)

FINANCE MINISTERS TO BE REPRESENTED AT CONFERENCE OF UNITED AND ASSOCIATED NATIONS

United Nations

1.	Hon. J. B. Chifley	Treasurer (Canberra, Australia)	Commonwealth of Australia
2.	Mr. Camille Gutt	Minister of Finance (c/o Belgian Embassy London, England)	Kingdom of Belgium
3.	Dr. Arthur de Souza Costa	Minister of Finance (Rio de Janeiro, Brazil)	United States of Brazil
4.	Hon. J. L. Ilsley	Minister of Finance (Ottawa, Canada)	Dominion of Canada
~~5.~~	~~Dr. H. H. Kung~~	~~Minister of Finance (Chungking, China)~~	~~Republic of China~~
6.	Senor Carlos Manuel Escalante	Minister of Finance (San jose, Costa Rica)	Republic of Costa Rica
7.	Dr. Jose Miguel Irrisari	Minister of Finance (Habana, Cuba)	Republic of Cuba
8.	Dr. Ladislav Feierabend	Minister of Finance (Fursecroft, Brown St. London, England)	Republic of Csecho-Slovakia
9.	Senor J. Furcy Pichardo	Minister of Finance (Santo Domingo, Dominican Republic)	Dominican Republic
10.	Dr. Rodrigo Samayoa	Minister of Finance (San Salvador, El Salvador)	Republic of El Salvador
11.	Mr. Kyriacos Varvaressos	Minister of Finance (Royal Greek Govt., London, England)	Kingdom of Greece
12.	Mr. Jose Gonzales Campo	Minister of Finance (Guatemala City, Guatemala)	Republic of Guatemala

13.	Mr. Abel Lacroix	Minister of Finance (Port au Prince, Haiti)	Republic of Haiti
14.	Dr. Urbano Quesada	Acting Minister of Finance (Tegucigalpa, Honduras)	Republic of Honduras
15.	Hon. Jeremy Raisman	Finance Member of Governor-General's Executive Council (Delhi, India)	Government of India
16.	Mr. Salih Jaber	Minister of Finance (Baghdad, Iraq)	Kingdom of Iraq
17.	Mr. Pierre Dupong	Minister of Finance (809 Sun Life Bldg., Montreal, Canada.)	Grand Duchy of Luxemburg
18.	Senor Eduardo Suares	Minister of Finance (Mexico City, Mexico)	United States of Mexico
19.	J. van den Broek	Minister of Finance (Stratton House, London, England.)	Kingdom of the Netherlands
20.	Hon. Walter Nash	Minister of Finance (Wellington, New Zealand)	New Zealand
21.	Senor J. Ramon Sevilla	Minister of Finance (Managua, Nicaragua)	Republic of Nicaragua
22.	Mr. Paul Hartmann	Minister of Finance (Kingston House, Princes Gate, London, England)	Kingdom of Norway
23.	Senor Jose A. Sosa	Minister of Finance (Panama City, Panama)	Republic of Panama
24.	Dr. Henryk Strasburger	Minister of Finance (London, England)	Republic of Poland
25.	Hon. Jan Hendrik Hofmeyr	Minister of Finance (Pretoria, U. of SA)	Union of South Africa
~~26.~~	~~Mr. Arsenii G. Zverev~~	~~Peoples' Commisar for Finance (Moscow, U.S.S.R.)~~	~~Union of Soviet Socialist Republics~~

~~27. Hon. Kingsley Wood~~	~~Chancellor of the Exchequer (London, England)~~	~~United Kingdom of Great Britain and Northern Ireland~~
~~28. Hon. Henry Morgenthau, Jr.~~	~~Secretary of the Treasury~~	~~United States of America~~
29. Dr. Juraj Sutej	Minister of Finance (Kingston House, Princes Gate, SW 7 London, England)	Kingdom of Yugo-Slavia
30. Dr. Joaquin Espada	Minister of Finance (La Paz, Bolivia)	Republic of Bolivia
31. Dr. Alfonso Araujo	Minister of Finance (Bogota, Colombia)	Republic of Colombia
32. Senor Guillermo del Pedregal	Minister of Finance (Santiago, Chile)	Republic of Chile
33. Sr. Vicente Illingworth	Minister of Finance (Quito, Ecuador)	Republic of Ecuador
~~34. Mr. Allayar Saleh~~	~~Minister of Finance (Teheran, Iran)~~	~~Iran~~
35. Dr. Rogelio Espinosa	Minister of Finance (Asuncion, Paraguay)	Republic of Paraguay
36. Mr. Julio East	Minister of Finance (Lima, Peru)	Republic of Peru
37. Ricardo Cosio	Minister of Finance (Montevideo, Uruguay)	Oriental Republic of Uruguay
38. Dr. Alfredo Machado Hernandez	Minister of Finance (Caracas, Venezuela)	United States of Venezuela

Additional letters sent:

His Excellency,
Lij. Ylma Deressa,
The Minister of Finance,
Addis Ababa, Ethiopia - dated 4/2/43 - sent via diplomatic pouch on 4/7/43

Colonel Andres Soriano,
Minister of Finance,
Commonwealth of the Philippines
Ritz Tower, Park Avenue,
New York, New York. - dated 4/12/43 - mailed 4/12/43

MINUTES OF MEETING

11th meeting
Economic Stabilization Board

March 5, 1943, 11:00 A.M.

East Wing, White House

Present: The Director (Presiding)
Mr. Wickard
Mr. Jones
Miss Perkins
Mr. Bell (Acting Secretary of Treasury)
Mr. Smith
Mr. Brown
Mr. Davis
Mr. Eccles
Mr. Flanders
Mr. Murray
Mr. Patton
Mr. O'Neal

1. Mr. Bell stated that the Treasury, at a later date, desired to submit a memorandum with reference to Mr. Eccles' proposal for permitting the deduction of overtime payments under the 48 hour week from income taxes by employers not in the excess profits bracket.

Mr. Murray also commented upon the 48 work week in the steel industry. He estimated that the increased cost of a 48 hour week would not exceed 1.5 percent, and he stated that the existing profits of the industry are amply sufficient to absorb this increased cost. However, Mr. Murray asserted that thousands of workers in the industry are not now working more than three or four days per week and many are intermittently unemployed because of changes in production schedules, the allocation of contracts and materials. Mr. Murray cited several instances of such unemployment, involving many thousands of workers. He further expressed the opinion that it would be most difficult to obtain a satisfactory application of the 48 hour work week to the steel industry, and stated that the United Steel Workers of America had been attempting for some weeks, without success, to get the industry on a 48 hour basis. Mr. Murray also called attention to the fact that many of those who point their fingers at the "fat pay envelopes" of war workers overlook the substantial amount of unemployment which constantly but intermittently reduces the incomes of many workers.

Mr. Eccles admitted the validity of these assertions but stated that they did not gainsay the fact that, in the economy generally, there was an enormous increase in purchasing power which had created an inflationary crisis. Doubtless individual hardships exist, he stated, but they are inevitable. Mr. Murray and Mr. Eccles both agreed that it would be impractical to eliminate overtime payment, or to increase the basic straight time week from 40 to 48 hours.

Mr. Patton expressed the opinion that too much emphasis had been laid upon the slogan "Equality of sacrifice". It is impossible, he stated, to have equality of sacrifice in wartime. Some people get killed and others do not. Some people get hurt economically and others do not. We can not, he went on to say, run a war on the basis of every individual and every group trying to

ge[illegible] is share, and hating everyone else, including his government.

Mr. Flanders expressed agreement, and stated that we must quickly come to the concept that every problem is now a war problem -- the problems of labor are war problems, and likewise the problems of industry and agriculture are war problems. In a total war, there is no economic problem which is not a war problem.

Mr. Eccles agreed, and stated that we should, therefore, consider the impact of our total program on the civilian economy, including the size and effectiveness of the army which we propose to raise. He expressed doubts as to whether our civilian economy could meet the double obligation of raising and supplying an army of the size now contemplated, as well as supplying the allied forces already in the field, and equipping our army in a manner calculated to make it effective in the places where it would be called upon to fight.

2. Mr. Patton read a memorandum on the general food situation, which was distributed to the members of the Board. The remainder of the meeting was consumed by a general discussion of this memorandum, all the members participating.

The meeting adjourned at 1:20 to meet again on March 19, at 11:00 A. M.

TO: 346-C

1. Mr. White
2. [illegible]
3. [illegible]
4. Miss Chauncey

Material submitted by Mr. Patton at the meeting of the Economic Stabilization Board on March 5. Only one copy was available so it will be appreciated if this is read and passed on to the next on the list.

D. W. BELL

March 9, 1943

Office of the Under Secretary

★ ★ ★ WARTIME ★ ★ ★
FARM *and* FOOD POLICY

Pamphlet No. **2** *in the Series*

FARM PRICES *for* FOOD PRODUCTION

by

THEODORE W. SCHULTZ

Twenty Cents

THE IOWA STATE COLLEGE PRESS
AMES IOWA

WARTIME FARM AND FOOD POLICY SERIES

* * *

To mobilize our nation's giant strength for war necessarily brings drastic readjustments in producing, distributing, and consuming everything we make. Citizens must know what has to be done in economic mobilization—and how and why. This series of pamphlets, prepared by members of the Department of Economics and Sociology at Iowa State College, deals with the what, why, and how of agricultural policy and food management.

Pamphlet No. 1, "Food Strategy," sketched the adjustments in both production and consumption which will be necessary to match food supplies and requirements in a war economy. It outlined the national and international machinery needed to handle food, and explained the need to build up stockpiles, to ration food at home, and to develop an extensive educational program.

This second pamphlet, "Farm Prices for Food Production," tackles one of the biggest problems in the whole food field. Farm prices have been the subject of much legislation, and sharp differences of opinion have developed over the appropriate level for various specific prices. A large part of our difficulties and differences arises out of a carry-over of the depression attitude toward prices—regarding them as primarily something to manipulate to give farmers more money income. Now food production is our major goal; but because of this outmoded income emphasis we are failing to use farm prices effectively to guide production, and have let them get into such a snarl that they are actually discouraging many urgently needed production adjustments. This pamphlet starts from production requirements and works out from them to determine the needed changes in farm prices.

Ames, Iowa, February 1, 1943

FARM PRICES FOR FOOD PRODUCTION

THEODORE W. SCHULTZ
Professor of Agricultural Economics, Iowa State College

PART I. FINDINGS*

Farm prices should be set up primarily to guide production. Some farm prices are now too high for best production, and others are too low. This price situation is serious and adjustments are urgently needed.

A. Production Required. Farm production goals should reflect both our food needs and our farm capacity. The U.S.D.A. goals for 1943 are defective in that they do not adequately reflect wartime requirements in our food needs. Nor do they sufficiently take into account the need to economize farm labor. These goals are tied too closely to past production patterns in agriculture. They fail to take into account the many possibilities of shifting agricultural resources from less to more important uses.

The main lines for adjusting and improving the U.S.D.A. goals are: convert all available feed into animal products in place of maintaining large stocks of feed; shift diets towards cereals, potatoes, and soybeans; economize on transportation and preserving facilities; adjust the dairy industry so that nutrients of whole milk are more fully used; and expand food

* This pamphlet is based on research carried on under Project 818 of the Iowa Agricultural Experiment Station, Iowa State College, Ames, Iowa. The study also was aided by a grant from the division of the Social Sciences of the Rockefeller Foundation, New York.

Acknowledgements of the Professional contributions made by individuals appear at the end.

production in the South. On the basis of these criteria a new set of farm goals is proposed in this pamphlet.

B. Farm Prices Required. The test of farm prices lies in what they do. They should be such that they will induce farmers to produce the right foods in the right amounts. Three aspects of price are important: (1) the general level of farm prices, (2) the relationship of farm prices, one to another; (3) farm price uncertainty.

The general level of farm prices is probably neither too high nor too low. They are not out of line with other sectors of the economy in view of the job that needs to be done.

Prices within agriculture, however, are far from satisfactory. In many cases the foods which should be produced in much larger quantities are priced too low, while some farm products with a low wartime rating are priced too high. A survey of food needs and farm capacities leaves one convinced that farm prices as they now stand will not do the production job that is required in 1943.

There has been an undue amount of price uncertainty confronting farmers. This has held up production appreciably during 1941 and 1942. The U.S.D.A. is now correcting this situation through price supports. They have, however, been developed too haphazardly. What is needed is a system of forward prices covering the production period of the commodity.

Adherence to parity is at present a major obstacle to getting suitable relationships among the prices of the various farm products. Agriculture in our war economy bears no resemblance to the situation in 1933 when the parity formula was adopted.

PART II. THE ANALYSIS

Putting Agriculture on a War Basis

On the food front, as in so many other parts of the war effort, we are just beginning to fight. The achievements of American agriculture in 1941 and 1942 are a matter for pride: our farmers, with the aid of favorable weather, have succeeded in pushing food production up 15 per cent, while releasing at least 2.5 million individuals to the armed forces and industry. But none-the-less we are only beginning to grasp the immensity of war food requirements; and as they take shape it is more and more apparent that we shall have to do much better than we have done so far to live up to our national responsibilities in foods.

All farm resources must be resurveyed to find neglected opportunities for expanding food production. Rigid economy is needed. Our acreage is limited; and in view of manpower needs in the armed forces and in industry, it will not be possible or desirable to avoid some further shrinkage of agricultural manpower. To stretch our resources we shall have to shift consumption toward foods which are relatively cheap in terms of labor expended, so far as this can be done without serious losses in health and working efficiency; and we shall have to prune mercilessly those branches of agriculture which do not help the food situation with minor exceptions for critical non-food materials such as hemp and long-staple cotton.

This production job is the big responsibility of American agriculture for 1943. In changing their production plans farmers are very strongly influenced by prices. It follows that

American farm price policy must be set up primarily to help steer production. We can no longer afford to regard farm prices as ends in themselves, or to let farm price policy be settled for us by a mechanical comparison of price statistics thirty years out of date. In short, we cannot let the concept of "price parity" keep the prices of individual farm products out of line with wartime food needs. A number of instances will appear later in this pamphlet where parity prices are too low for the best production results, and a number of others where they are too high. When these instances have been examined, we shall be in a position to analyze the parity issue more fully; but in the next few pages the price policy demanded by our production goals will be examined without reference to parity.

Prices for Production

It is the function of farm prices to get farmers to produce the right foods in the right amounts. Farm prices should be such that they induce farmers to use their labor, land, machinery, fertilizer—in fact, every farm resource—in a way that the aggregate food output will be a maximum measured in terms of wartime food requirements. That in a nutshell is the job of farm prices.[1]

War requires this new focus in farm policy. During the thirties it was a matter of managing surpluses and maintaining a decent level of income. War has eliminated, at least for the duration, these two basic farm problems. What were looked upon as burdensome surpluses less than two years ago are now assets. Full granaries and large herds are a blessing. Instead of holding crops in check it is necessary to push them to the limit; instead of saving our soils we now need to expend them; instead of bolstering farm prices they must be kept from

[1] For an extended treatment of the role of prices, price parity, and parity income, see the author's *Redirecting Farm Policy*, Macmillan, 1943.

skyrocketing. Meanwhile, it has become increasingly harder to produce food as farm machinery and equipment are rationed and as men leave their plows for battlefields and war industries.

There are two main divisions to the analysis that follows: first, what and how much to produce in 1943, and second, what prices are required to do this job.

A. PRODUCTION REQUIRED FOR 1943

In setting production goals, both estimated food requirements and estimated productive capacity have to be taken into account. There is no sense either in setting production goals which we have no means of approaching or in using valuable land, labor, equipment, and fertilizer to produce crops which are not urgently needed. Fortunately, neither requirements nor production capacity are completely rigid: We can and must fall back on second and third choices in filling some requirements; and we can and must shift resources from less urgent to more urgent production tasks.

Table 1 summarizes the production records of 1939 and 1942 and production goals set for 1943. Besides the announced goals of the U.S.D.A., the table shows a set of proposed goals intended to do fuller justice to consumption needs within the framework of productive possibilities.

The U.S.D.A. goals represent the upshot of a good deal of study by the Department of Agriculture staff. They are tied closely to "feasible production," and are built up from the bottom—starting with the details of each type-of-farming area and combining these into state and regional totals to get the national picture. On the whole, they provide a very good picture of what farmers *are likely to produce* in 1943 in view of their production record and their probable reaction to the 1943 prices now in sight. But obviously this is not a thoroughly satisfactory way to determine what they *ought to produce* in 1943.

TABLE 1

FARM PRODUCTION IN 1939 AND 1942, AND 1943 GOALS

Commodity	Past Production			1943 Production Goals			
	1939	1942		Announced U.S.D.A. Goals[a]		Proposed Adjusted Goals	
	Amount	Amount	% of 1939	Amount	% of 1942	Amount	% of 1942
A. Animal Products (Unit: Billions of Pounds)							
Hogs and lard	10.7	13.3	124	17.2	129	18.3	138
Beef and veal	8.0	10.2	128	10.9	107	11.2	110
Mutton and lamb	.87	1.01	116	.99	98	1.0	100
Chickens	2.6	3.12	120	4.00	128	4.2	135
Eggs	4.8	6.64	138	7.2	108	7.6	115
Subtotal	26.97	34.27	127	40.29	118	42.3	123
Milk	111.4	120.0	108	122.0	102	S.R.	S.R.
B. Food Crops (Unit: Millions of Acres)							
Dried beans	1.8	2.4	133	2.8[b]	118	3.36	140
Dried peas	.24	.53	221	.67	125	.74	140
Rice	1.0	1.5	150	1.4	93	1.40	93
Potatoes (Irish)	3.1	2.84	92	3.16[c]	111	3.98	140
Potatoes (sweet)	.86	.76	88	.76	100	1.06	140
Subtotal	7.00	8.03	115	8.79	109	10.54	131
Wheat	63.5	53.4	84	52.5	98	57.0	107
C. Feed Crops (Unit: Millions of Acres)							
Corn	91.1	91.1	100	95.0[d]	104	100.0	110
Oats	35.4	40.6	115	37.3	92	34.5	85
Barley	14.6	18.2	125	18.0	99	20.0	110
Rye	3.8	3.86	102	3.6	93	3.3	85
Sorghum	4.4	9.22	210	10.0	108	10.1	110
Subtotal	149.3	162.98	109	163.9	101	167.9	103
D. Oil Crops (Unit: Millions of Acres)							
Soybeans	4.4	10.9	248	10.5	96	12.0	110
Peanuts	1.9	4.17	219	5.5	132	5.66	135
Flaxseed	2.4	4.67	195	5.0	107	5.4	115
Subtotal	8.7	19.74	227	21.0	106	23.06	116
E. Cotton and Tobacco (Unit: Millions of Acres)							
Cotton	24.9	24.0	96	22.5	94	S.R.	S.R.
Tobacco	2.0	1.4	70	1.5	107	1.5	107
Subtotal	26.9	25.4	94	24.0	94	1.5	107

Footnotes on page 7

I. SHORTCOMINGS OF U.S.D.A. GOALS

Several defects of the U.S.D.A. 1943 goals make it necessary to call for some major revisions. In particular:

One. First and foremost, these goals do not adequately reflect the changes that wartime requirements have brought in our food needs. This shortcoming arises from the fact that these "goals" were weighted too heavily by past production patterns. There are two reasons why this has happened: First, the lack of satisfactory estimates of food requirements played a part. "Feasible" farm production estimates were available, and not having another set of equally well-formulated estimates for food needs, the estimators were disposed to tie to the production figures. The second reason is that many workers of the Department tend to think of past uses of farm resources as natural if not inevitable. The procedure of building up estimates "from the grass roots" makes them reflect agricultural tradition and leaves out food needs.[1]

[1] This point is hard to substantiate since there is no public record of the two separate estimates (requirements and "feasible production") from which the goals sprang. But a few examples suggest what we have in mind. In view of the prospective shortage of canned goods and the small total acreage involved, the increase proposed for dried peas and beans is curiously small. Since the 1942 potato crop was a very tight fit despite good weather, and since other countries with food shortages have found an abundance of this cheap food very welcome, merely putting acreage back to the 1939 level seems decidedly inadequate. The corn goals look as if more weight was placed on preserving the AAA acreage allotment system than on laying the foundation for a continued high livestock production in 1944. (This defect was corrected in January.) In view of the usefulness of eggs and poultry for replacing scarce meat proteins, of the great difficulty of rationing eggs and poultry, and of the fact that both can be expanded in the wheat and cotton areas, a much larger increase in the poultry field is desirable. On the other hand, the modesty of the planned contraction in oats, rye, and cotton implies defeatism about finding better uses for such large fractions of our farming resources.

Footnotes to Table 1

[a] As announced December 1, 1942, by the Secretary of Agriculture.

[b] On January 17, 1943, the dried bean goal was increased to 3,260,000 acres.

[c] On January 17, 1943, the potato goal was increased to 3,300,000 acres. This is still much too low.

[d] On January 8, 1943, over planting of corn without penalty was permitted, aimed to increase corn to 100,000,000 acres.

Two. The goals do not allow adequately for the need to economize farm labor in 1943.[4] Increasingly, the manpower available for farming will become the chief limiting factor in total production. The goals should allow for the inevitable continued drain of manpower out of agriculture, and should provide for more effective mobilization of the manpower still there. This means, chiefly, that the goals should provide for a shift in both production and consumption toward foods which give satisfactory nutrition with minimum labor requirements.[5]

Actually, the goals laid out by the Department of Agriculture are not so much a guide to farm price policy as they are a reflection of the assumption that the structure of farm prices must remain much as it is. If farm prices were definitely regarded as an instrument of adjustment, the goals would not be set so close to 1942 levels of operation. The goals tend to fit prices rather than the other way about. This is their most serious weakness. They do not give us a set of production figures for determining required prices since they are a mirror of what would occur with prevailing prices. The specific import of this limitation will become more evident as we proceed to take up farm prices.

2. Major Criteria for Setting Goals

In view of the great uncertainty as to how much food will be needed and of the uncertainty as to how much food a given acreage will produce under future weather conditions, there is no use pretending that we can arrive at ideally correct figures for 1943.[6] But the data are adequate to indicate the main lines of adjustment—roughly as follows:

[4] A later pamphlet in this series will deal in detail with the manpower problem.

[5] The correct policy is very well exemplified in the Selective Service rulings which refuse to regard bleached celery and artichokes as essential, but do so regard cabbage. But on a number of larger issues related to production goals this consideration seems to have been ignored.

[6] The two sets of data necessary for making production goals are *food requirements* and *farm resources*. For food requirements: (a) Start with the food needs of our armed forces because of their high priority; then (b) take the food needs of the other United Nations for which there is likely to be shipping space; next

Footnote continued on page 9

(1) *Convert feed into animal products.* With the exception of wheat, our feeds can be used in volume to nourish people only by conversion into animal products. We still have very large supplies of feed. Policy should aim to mobilize these feed resources as rapidly as possible by transforming them into meats, animal fats, eggs, etc., and then to accumulate stockpiles of these foods. It is better to carry reserves as cured meats, dried eggs and milk, and other finished food products that can be stored rather than in raw material form as hay, barley, corn, and feed wheat. We need a minimum feed reserve. Beyond that for the duration we should aim to scrape the bottom of our feed bins each autumn before the new crop comes in. Next fall we are likely to have a carryover of corn exceeding 400 million bushels—which is twice as large as is warranted. In addition, the Canadians now have about 300 million bushels of barley and oats in excess of their domestic needs. Under present plans this extra feed is not likely to be utilized. Then there is a large quantity of wheat available for feed in both Canada and the United States—much more

Footnote continued from page 8

(c) add contingency reserves that should be accumulated; and (d) calculate the amount of foods which civilians are likely to buy at prevailing prices and with incomes at levels likely to prevail. This procedure has the advantage of providing a set of maximum food requirements and accordingly points up prospective shortages when matched against anticipated supplies. It also establishes convenient categories for approaching the task of managing the flow of food into civilian and other channels. For farm resources: (a) Take the prevailing patterns of farm production; then (b) adjust for manpower, feed supplies, farm machinery, fertilizer, credit, marketing, and transportation facilities that are likely to be available; and (c) adapt farm output (use of resources) to reflect prevailing farm prices. These estimates would approximate those which the Department of Agriculture has made and called "feasible production" in their studies of "Agriculture's Wartime Production Capacities." The term "feasible" is exceedingly unfortunate because there is no *one* feasible production but instead a great number of different feasible productions, depending upon what we want produced and what we are willing to pay for the output. Instead of using the term "feasible production" or "farm capacities" or "potential production," all of which are misleading, what is needed at this point is essentially a benchmark which will tell us what flow of production is coming from our farms under prevailing prices and prevailing patterns of production in order to ascertain what changes must be made and how large these changes must be, in order, first, to determine the production goals, which is the estimate that is arrived at by fitting food requirements and farm resources together; and second, to reach that goal in production for the coming year.

wheat than is needed for flour to insure against a short crop and for post-war food relief.

At the same time, we should aim to increase most those branches of feed production for which labor requirements are not excessive—corn in the Corn Belt, corn and peanuts in the South, sorghum in the southern Great Plains, wheat and barley in the northern Great Plains, etc. In using feed, we should concentrate on animals which are efficient converters of feed into proteins and fats—which in general, means reserving corn for hogs rather than butterfat or feeding beef cattle to provide prime carcasses.

(2) *Shift toward cereals and potatoes in the diet.* We must aim to alter our diets in favor of foods which reduce manpower requirements per unit of human nutrient, because of the manpower shortage and the impossibility of satisfying all needs with what our acres will grow. In general, direct human consumption of plant products gives more human nourishment per acre and per man-year of work than can be obtained by feeding the plant products to animals and eating the resulting meats and fats. It is our good fortune to have very large reserves of wheat. The production of potatoes can be expanded quite readily. Ways and means should be found to get consumers to use more bread and potatoes. Soybean flour, meal, and grits rate high as foods. Their consumption should be promoted, especially to replace animal proteins.

(3) *Economize transport and preserving facilities.* We must adjust production to maximize the proportion of output which is produced near where it is consumed, and which takes a form which is easy to store and ship. This adjustment may take several forms. First, it means more dried vegetables. In view of the looming shortage of canned goods, production of dried peas and beans should be pushed as far as possible. If we succeed in outrunning domestic needs, these products are ideal items for a stockpile looking to post-war relief because

they are easy to store and ship. Second, animal products should be expanded in the South. The location in the South of many military training centers and war plants creates heavy requirements for meat, fresh eggs, and dairy products. Expansion in these fields would not only increase national supplies but greatly simplify our problems of transport and of government purchasing. Third, the government should encourage a maximum development of family gardening and of decentralized truck growing.

(4) *Readjust dairying.* While dairy products—particularly whole milk—must be given a very high nutritional value, they are unfortunately very costly in labor. On the other hand, a large part of the dairy output has been going into food uses much lower than fluid milk. Butter leaves huge quantities of skimmilk on farms. This is commonly fed to hogs and chickens and carries with it valuable nutrients. A further loss is in buttermilk, much of which is fed. It will prove to be good economy to cut milk production going to butter. It is highly important, however, to increase the amount going to human consumption as whole milk and as dried products.

(5) *Produce food instead of cotton in South.* Given our present stocks, the production of short-staple cotton has next to no wartime value: If all the short staple cotton likely to be produced in 1943 were to be dumped into the Gulf of Mexico, the war effort would in no way be handicapped. Yet, we continue to use vital ships to import fertilizer for cotton. We should do well to think of cottonseed as the major crop in the Cotton Belt, with cotton—at least during 1943—as an essentially useless by-product.

Cottonseed is a useful oil crop, and cottonseed meal is an important high-protein feed. But in terms of oil yield, peanuts do three times as well as cottonseed per acre.

The cotton industry is now about where the automobile industry was in late 1941: What it needs is primarily to face

the fact that its resources are needed in the war. The immediate adjustment is bound to be painful, as it was in Detroit. To minimize the necessary hardships and to make the adjustments quickly and efficiently is a job for those who know Southern agriculture from the inside. But since everybody knows that the Cotton Belt cannot survive many more years without adjusting its agriculture, the conversion suggested would prove a blessing in disguise.

3. More Appropriate Goals for 1943

Major changes in the 1943 U.S.D.A. farm goals are needed. The data now available on which to formulate such judgments are fragmentary. It is possible, however, in most cases to point out the direction to take. The changes that we would make in the goals as announced, with brief explanatory notes for doing so, are set forth in Table 2.

Use and misuse of goals. A word of warning must be given on the uses to which the production goals are put. To use them to allocate production quotas to individual farmers is a mistake. They do not lend themselves to that purpose. But for obtaining a general grasp of the production job and for providing a basis for establishing appropriate farm prices to bring about both the necessary shifts and the uses of farm resources, they are essential. In fact, until goals of this type have been developed, there is no foundation for either determining or testing the adequacy of a given set of farm prices.

When national goals are used for the purpose of assigning to each farmer specific production quotas for each crop and each animal product, they are bound to misfire badly. It is well-nigh impossible to go from, say, a 35 per cent increase in chickens as a national goal in 1943 to specific increases for each farm growing chickens by any direct, mechanical formula. What can be done is to establish a set of farm prices which are likely to induce farmers to produce 35 per cent more chickens

and then on the basis of the resulting price structure which confronts the individual farmer, figure out *with him* how he should combine and use the resources which he has in order to maximize the production on his farm. What the AAA is doing instead is, first, to break the goals down to a state basis, then to counties, and then to individual farms. This process of necessity becomes highly mechanical. While only limited harm is done in the first two stages, the real damage comes in assigning to each farmer quotas that reflect chiefly a breakdown of the county figures. Production quotas, or goals, for a particular farm should be based:

(1) On the price structure which will prevail in that community and,

(2) On the particular unique resources under the control and the command of the farmer concerned.

B. FARM PRICES REQUIRED

We are now ready to take up farm prices; we shall do this under three headings: First, the general level of farm prices, for the purpose of obtaining some insight as to whether farm prices as a whole are out of line with other prices; second, the relationship among farm prices to determine rather specifically which farm prices are out of line one with another—and in this we shall tie back to the production goals; and third, farm price uncertainty, which up to this year has been one of the major deterrents to all-out production in agriculture.

1. General Level of Farm Prices

Farm prices were among the first to rise as a result of the war. The big swell came in 1941 when farm prices, starting from a trough, surged upward fully 40 per cent. They rose another 25 per cent during 1942, and they still show no signs of having reached their crest. Food production rose also. More acres, more livestock, and two bumper crops in a row

TABLE 2

	U.S.D.A.[3] Goals for 1943	Our[4] Proposed Goals for 1943
	1942=100	
A. Animal Products[1]		
Hogs and lard	129	138[a]
Beef and veal	107	110[a]
Mutton and lamb	98	100[a]
Chicken	128	135[b]
Eggs	108	115[b]
Milk	102	s.r.[c]
B. Food Crops[2]		
Dried beans	118	140[d]
Dried peas	125	140[d]
Rice	93	93[e]
Potatoes (Irish)	111	140[f]
Potatoes (sweet)	100	140[f]
Wheat	98	107[g]
C. Feed Crops[2]		
Corn	104	110[h]
Oats	92	85[i]
Barley	99	110[j]
Rye	93	85[k]
Sorghum	108	110[l]
D. Oil Crops[2]		
Soybeans	96	110[m]
Peanuts	132	135[m]
Flaxseed	107	115[m]
E. Cotton and Tobacco[2]		
Cotton	94	s.r.[n]
Tobacco	107	107[o]

[1] Based on dressed weight for hogs and lard, beef and veal, mutton and lamb, and chickens, with milk and eggs also by weight.

[2] All crops are based on acreage planted.

[3] Based on farm production goals announced by the Secretary of Agriculture December 1, 1942. Several of these goals have been revised since then. Each item which has been changed has been in the direction of our recommendations.

[4] The more general assumptions underlying these estimates are disclosed in the footnote on pages 8 and 9.

[a] No substantial change from the U.S.D.A. goals except for hogs. The feed supplies warrant larger production, but it is not likely that it can be induced by prices. In the case of hogs considerably more production can be had by non-price measures.

[b] Chickens and eggs afford the easiest and quickest answer to more protein foods from animal sources. They are substituted readily for other meats, and many more farm resources can be shifted to the production of chickens and eggs, especially in the *South* and in the *Plains States*. Non-price measures can push this production figure up even further.

[c] A special pamphlet will be devoted to the elements of a dairy program. Milk rates exceedingly high on the food side. Because of the scarcity of farm labor, because of very small response of milk production to higher prices within a year or two, and because much milk is used quite ineffectively at present, which when corrected would measurably add to the effective supply of milk for human consumption, a decrease in total production may be warranted.

[d] Both dried beans and peas have high priorities as foods; they are easy to store and transport; farmers can expand output much more, given the price incentives.

[e] No change from the goals recommended by the U.S.D.A.

[f] More potatoes are needed for 1943, especially as the domestic food situation becomes more critical. Potatoes are a cheap food even with the growing scarcity of farm labor, and except for labor, production is quite flexible. The labor which is required for potatoes does not require special skills.

[g] Some of the land usually devoted to wheat should be used to produce flaxseed, soybeans, corn, barley, and grain sorghum next year. These crops are needed more urgently than is the wheat. Even with these shifts out of wheat, it is possible to expand the wheat acreage considerably. Not a great deal can be done at this late date as far as the winter wheat area is concerned except to discourage abandonment of acres now in wheat. Certainly this abandonment should not be forced in order to meet AAA acreage allotments. A very substantial expansion, however, is possible in the spring wheat area, and this expansion should be encouraged to the utmost.

[h] The corn acreage should be increased sharply. All AAA restrictions should be removed and a systematic educational program launched to encourage farmers, especially in the fairly level lands which are not subject to immediate erosion, to expand their corn acreage very considerably. Corn is long on productivity and economizes labor. More corn is needed to maintain livestock programs in 1944. Oats, rye, and to some extent in some areas wheat and sorghum should give way for corn in 1943.

[i] Less oats to make room for more corn and soybeans.

[j] Barley next to corn is an efficient producer of feed concentrates and more is needed as in corn.

[k] Rye is a second rate feed. With the suggested acreage plus carryover there will be more than enough for food uses.

[l] With a wet fall in 1942 and considerable sub-soil moisture in the sorghum-growing areas, corn may well replace this crop to some extent, partly offsetting increases that may be made in other sections at the expense of wheat.

[m] The oil crops should be increased further. The crushing capacity is not as restricted as was expected; some of the products of these crops have very high ratings as food with wide range of substitution and the growing need for protein for feed makes further expansion highly desirable.

[n] Special recommendations are necessary for cotton. It is an extremely complex problem. Moreover, we are less certain of our knowledge and insight about the alternatives in the case of cotton than for other crops and for animal products. We certainly need less short staple cotton than we do food crops next year. Hence every effort should be made to mobilize cotton-producing resources next year in the direction of producing food crops, particularly soybeans, peanuts, sweet potatoes, and in the production of feed to make possible a very substantial increase in chickens, eggs, hogs, and if possible also in cattle and in dairying.

[o] No change from U.S.D.A. goal.

made records in 1941 and 1942. The changes in farm prices since 1939 have been as shown in Table 3:

TABLE 3

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
	1909–14 = 100				
1939	92	89	92	97	92
1940	99	97	96	100	98
1941	103	113	132	139	122
1942	147	151	160	172	157

Has this rise been sufficient to induce farmers to bring idle resources into use, to put forth maximum effort, to hold in agriculture that manpower needed for a well-balanced war economy?

There is a good deal of evidence that the general level of farm prices did not limit farm output during 1941 and 1942. Farm prices advanced enough, or even more than was necessary, to make room for as much expansion as most farmers were prepared to undertake. Had farm prices risen to even higher levels than they did, it is not likely that farmers would have produced appreciably more. This means that the *rate of expansion* of farm production during the past two years was determined primarily by factors other than the general level of farm prices.

Were the increases in prices enough to hold manpower in agriculture? During this period agriculture has lost chiefly manpower; large numbers entered the armed forces; many hundreds of thousands of farm people left farming to seek employment in other occupations, mostly in war industries. In spite of this exodus, it would seem on the surface that both farm prices and incomes were sufficient to have made it

possible for farmers to have kept their help by bidding successfully for their services against the competition of firms outside of agriculture. Farm incomes have increased more rapidly than has the wage bill of farmers. Farm wages have risen from a U. S. average of $27.64 per month with board in 1940, to $44.17 in 1942, a rise of 60 per cent. Factory wages during the same period (U. S. average weekly earnings) rose from $25.80 to $36.50, an increase of 41 per cent. It is not that farm wages have failed to advance; quite the contrary, they have gone up faster than factory wages, relatively. But this hides the fact that farm wages started from very low levels.*

There is another side to the effect of the rise of farm prices. Did it cause an expansion of farm production at the expense of other industries? Have the high prices been instrumental in keeping resources in agriculture which were needed more urgently elsewhere in the economy? There has been some of this. In spite of the exodus of farm people, the high prices of some farm products have kept resources producing things which have a very low wartime rating. This certainly has happened in the case of fertilizer, labor, and land producing cotton. Nor is this the only case. Such "hoarding" of resources has been caused chiefly by defects among farm prices, by AAA payments, and by institutional factors; the latter often make it difficult to shift resources quickly in farming.

Non-price controls. We must guard against placing too much stress on the role of prices in allocating resources. Within agriculture prices continue to be very powerful in inducing farmers to shift the use of farm resources; but a large number of non-price controls now govern the transfer of resources into agriculture and, to a less extent, those going out of agriculture. New farm machinery—what little will be avail-

*As already indicated, one of the forthcoming pamphlets in this series will be devoted to manpower, in which the complex series of forces at work in determining the farm labor supply will be examined.

able—will be rationed, and thus it doesn't matter how much farmers are willing to pay. The same applies to building materials and fertilizer. Consequently, prices will not allocate available supplies; they will be rationed. In substance, resources outside of agriculture available for farm production in 1943 are not likely to be controlled by prices.

Looking at all resources in agriculture, the likelihood is that this bundle of labor and equipment will continue to shrink. It will do so because of the deterioration of equipment which cannot be replaced and because farm manpower is likely to shrink further—as it probably should because of the vital importance of labor in other spheres.[7] Prices take on less importance as far as the relation between agriculture and other fields is concerned, but within agriculture they continue to play a most significant role.

A look at parity. Farm prices taken as a whole are now considerably above parity as defined by law, standing in January, 1943, 15 per cent above parity. Note the figures in Table 4.

TABLE 4

	Prices Received by Farmers	Prices Paid by Farmers[a]	Percentage of Parity[b]
1910–14	100	100	100
1929	146	167	87
1932	65	122	53
1939	92	125	74
1942	157	152	103
Jan., 1943	182	158	115

[a] Includes taxes and interest; Source, U.S.D.A.
[b] During World War I this ratio hit 117 for 1917 and 116 for 1918.

[7] Some labor already in industry is to some degree being "hoarded" in that various laws, customs, and institutions are keeping workers from putting in as long, and as many work days as present circumstances may warrant. From July, 1940, to July, 1942, the work week increased only 1.0 per cent in meat packing, 1.9 per cent in baking, 2.6 per cent in ice cream making, 8.3 per cent in flour milling, 9.4 per cent in beverages, and 12.7 per cent in canning. In agriculture in the Corn Belt it is estimated that farmers have added to their already long days between 10 and 15 per cent more working time.

The above table, last column, shows that the prices received by farmers have been rising much more rapidly than have the prices, taxes, and interest paid by farmers. This, however, is not evidence that farm prices are now 15 per cent too high (or formerly were altogether too low), because the parity formula is not based upon prices that are necessary to induce farmers to produce the food required; instead, parity as defined by law is based upon the price relationships that occurred as the result of supply and demand situations that prevailed thirty years ago. The fact that this particular parity formula now puts farm prices at 115 per cent of 1910–14 is no evidence as to what farm prices should be. Since legislators and farmers focus attention upon the parity price of each farm product, we shall return to this price formula in the next section as it applies to specific products.

Higher Land Prices

All of the potentials for a major land boom are rapidly developing in many agricultural regions. Does this mean that prices of farm products are too high? High farm prices and the resulting high incomes along with many investors seeking the security they associate with land are contributing to the danger of sharply pushing up land values. There are two things holding land prices in check currently: (a) the uncertainty that the tightening labor situation has introduced, and (b) the fear of a post-war collapse. While it is exceedingly important to avoid a land boom during and after this war, because of the long-run, disastrous financial aftermath that is likely to follow in its wake, rising land prices in themselves do not mean that farm prices are too high to induce the food production required in 1943. The test lies in getting

the food produced and not in the farm rents which are capitalized into higher land values.[8]

* * *

Our conclusion can be put as follows: The center of gravity of farm prices taken as a whole is probably neither too high nor too low in terms of obtaining maximum food production in 1943. There are good reasons for stabilizing farm prices at about the present level as we look towards 1943 production. Quite emphatically, however, this does not mean that the price of each farm product should be frozen at the prevailing level. In fact, as we shall show, the contrary is called for because some farm prices are too high and others are too low.

2. Price Relationships Within Agriculture

Again in retrospect, it appears that farm prices in their relationships one to another have not so much hindered the rate of expansion in farm production during 1941 and 1942 as they have caused some farmers to produce the wrong crops.

ANIMAL PRODUCTS

FEED

By all odds the most important prices within agriculture, as far as wartime food needs are concerned, are those of livestock, poultry, and dairy products, on the one hand, relative to the prices of corn, barley, oats, wheat used for feeding, and roughages, on the other.

Prices have favored the feeding of hogs and cattle, the milking of cows, and the keeping of hens for eggs. Feeds have been cheap compared with animal products. The rate of expansion certainly has not been held in check by feed prices.

Good fortune and good management both contributed to the favorable price relationships between animal products

[8] The checking of the land boom will be treated in a separate pamphlet in this series.

and feeds. We entered the war with unprecedented stocks of feed; we were favored with bumper crops. On the side of management the record of the government was distinctly creditable. The U.S.D.A. early in 1942 launched an aggressive policy aimed at keeping feed prices from spiraling upward. Had the Department been passive in this matter, it is quite probable that a strong, speculative wave would have carried feed prices too high. The positive role of the Secretary, making plain in no uncertain terms that he intended to hold feed prices in check, the quick sales of government-owned corn, the battle with Congress to permit the Commodity Credit Corporation to sell wheat for feed, the calling of 1938 and 1939 corn loans held by farmers—all were significant steps in keeping feed prices from rising too fast and thus choking off animal products.[9]

More might have been done in increasing the volume of wheat fed during the summer of 1942. Also, while the price charged for wheat sold for feed by the CCC fitted the price structure of the major Corn Belt states, it has been out of line with the value of feeds in the Plains States—the Dakotas, Nebraska, and Kansas—the very states in which the largest increases in livestock, especially of hogs, might have occurred.

The increase in corn acreage allowed by the AAA during 1942 was not well distributed because it was allocated on virtually a flat percentage basis and not according to productive capacity of farms. These are the shortcomings of the past, but they do not add up to much, compared to the bumper feed crop in 1942, along with huge carry-overs and the large stocks of wheat available for feed.

[9] Contrast this situation with that which prevailed during the other war, when feed prices choked livestock production. The Chicago corn-hog ratio, for example, reached 12 only once (December, 1917) during the period from August, 1914, to the end of the war. Most of the time corn was exceedingly dear relative to hogs. Similarly, Canada currently finds itself in a price squeeze in feed versus livestock. Further expansion in hogs is being checked by the relative high price of feed in spite of the record crops of barley, oats, and other feed stuffs harvested in Canada this year.

Cheap Feed Policy

The outstanding merit of the policy that has been pursued lies in the price ratios of animal products to feeds. They have favored feeding. In the figures which follow, we have a measure of these price ratios. The larger the figure, the more favorable it is for farmers to feed. For example, when the hog-corn ratio rises from 14.2 (1941) to 16.5 (1942), it tells us that hog prices have gone up considerably relative to corn prices, and therefore, it has become more profitable to feed corn to hogs. The trend in livestock feeding ratios is shown in Table 5:

TABLE 5

	1920–39	1941	1942
Hogs / Corn	11.9	14.2	16.5
Beef / Corn	13.8	16.7	16.8
Butterfat / Feed	29.1	26.4	24.4
Eggs / Feed	17.1	18.8	19.0

Favorable feeding ratios may lead to a depletion of feeds. But we are still long on feed. The task is to get more of it fed. Have the efforts of the Secretary to hold feed prices in check curtailed feed output? There is no evidence that they have. The acreage devoted to feed crops was 15 per cent larger in 1942 than in 1939. Moreover, this increase would have been greater had the AAA not held corn in check. Nor should it be assumed that feed prices did not go up. Corn prices, for example, were 87 per cent higher during the fall of 1942 than they had been four years earlier.

Feed for 1943 and 1944

The feed granary fortunately still bulges with corn, and there never were larger wheat reserves. Many old schoolhouses, churches, and barns were filled with wheat last fall. Elevators and terminals are full; in wheat we still enjoy a cornucopia. Yet with all this grain we may find ourselves short of feed in 1944 because of the scale of the livestock program on which farmers are embarked. Thus, it is imperative that we lay our plans to grow as much feed as possible in 1943, and impose no restriction on wheat and corn acres. This year's feed crop is next year's pork, eggs, beef, and milk.

Feed goals. Let corn and barley go up; hold oats and rye down; and then produce all the wheat possible for a feed-food reserve—that in a few words is what needs to be done for 1943.

Since it is not likely that the personnel of AAA can reallocate corn acreages to get maximum production (before planting time), it is better to let each farmer produce all the corn he deems best. This means abandoning the corn acreage allotments and, what is more, encouraging farmers to expand their corn.[10]

Specific proposals for feed crops are as given in Table 6.

Feed prices. The prospective feed-livestock prices basically favor our food requirements: feed supplies are long, and feeding ratios are wide; hence, there is a strong inducement for farmers to expand further their output of animal products. But a formidable cloud is gathering on the horizon that may

[10] This step has several shortcomings. Many farmers will jump their corn acreage to their own disadvantage; we know from past experiences that some farmers do plant more corn than the true situation warrants. In other words, on some farms less corn would produce a larger supply of feed because of the high feeding value of protein roughages and also of protein vegetable crops such as soybeans which are undervalued relative to corn by many farmers. Other forces are also at work pushing farmers in the direction of too much corn when left wholly unrestricted. Nevertheless, to get outright maximum production next year, freeing corn from AAA restrictions is likely to entail fewer disadvantages than holding to AAA allotments. Fortunately, the U.S.D.A. has announced (Jan. 8, 1943) that it will not hold to AAA allotments; farmers are permitted to overplant.

TABLE 6

	Acreages in 1942[1]	Our Proposed Goals for 1943	Prevailing U. S. Farm Prices, Dec. 15, 1942[2]	Estimated Required U. S. Farm Price for 1943
	In Millions of Acres			
Corn	91.1	100.0	.80	.80[a]
Barley	18.2	20.0	.62	.65[a]
Sorghum (grain)	9.2	10.1	1.07	1.10[b]
Oats	40.6	34.5	.47	.40[a]
Rye	3.8	3.3	.56	.50[a]

[1] As reported by U.S.D.A.
[2] Average U. S. farm prices as of December 15, 1942, per bushel, except for sorghum which is per 100 pounds. Source, U.S.D.A.
[a] Plus or minus 5 cents a bushel.
[b] Plus or minus 10 cents a hundred pounds.

quickly become a devastating tornado. The trade and many farmers are bullish on feed. Withholding corn for higher anticipated prices is a real threat. Feed prices may choke off livestock feeding even to the extent of "hoarding" our now still large feed reserves. Corn and other feed prices are on the move; already protein feeds have skyrocketed in spite of unprecedented supplies. Last year the Secretary was able to brake feed prices by selling CCC corn and by getting Congress to let him dispose of a small quantity of Government wheat for feed. This year, however, CCC has virtually no corn to sell. Will Congress permit the sale of much larger quantities of wheat for feed? Certainly that is what should be done. Yet Congress may decide to hold back and then act too late to check the swell in feed prices.[11]

If action is delayed, it is all too likely that high feed prices relative to livestock prices will become a major economic and political issue by late next fall and early 1944. One thing,

[11] Since this was written, the government has placed a ceiling on corn prices (as of Jan. 11, 1943) at about $1.00 a bushel at Chicago. This move is likely to keep speculative buying in the trade at a minimum, but it probably will not prevent corn prices on farms from rising further.

patently, needs to be done: Mobilize wheat and make as much of it as possible available for feed during the spring and summer of 1943 to make room for a large wheat crop next fall. This action would pave the way for increasing the wheat acreage and would thus assure a full use of wheat-producing resources. U.S.D.A. goals do not allow for this expansion. The excuse for continuing AAA restrictions has been the difficulty of storing and transporting another big wheat crop. The merits of feeding wheat go unacknowledged. Also, we need to take advantage of the large feed supplies available in Canada.

Meats, Milk, and Eggs for 1943

Production of animal products started up sharply in 1941, gained momentum during 1942, and is headed still higher in 1943. This expansion is wholly warranted; our large feed supplies make it possible, and we need the additional meat and fat. Both the U.S.D.A. goals and prices are broadly in line with food requirements and with what farmers can produce during 1943. We recommend major changes in hogs and chickens, as the figures in Table 7 indicate.

In the production sphere several major considerations must be borne in mind. They are:

1. There is the question: Which animals are the more efficient converters of feed into food? The answer is not easy. Milk cows rank high *when all milk products are used for human food* but fairly low when only the butter is used and the skimmilk and buttermilk are fed to hogs and chickens. Hogs rank higher than milk cows kept for butter production when cows are fed much grain; also, hogs rank higher than chickens. Beef cattle fed on corn for nine to twelve months to produce a top choice or prime carcass are usually less efficient than shorter fed cattle dressing good to low choice. But all of this assumes that a given feed supply can be used to produce

TABLE 7

	Production[1] In 1942	U.S.D.A. Goals for 1943	Our Proposed Goals for 1943	U. S. Farm Prices,[2] Fall, 1942	Estimated Required U. S. Farm Price for 1943
	In Billions of Pounds				
Hogs	13.3	17.2	18.3	13.60	13.50[c]
Beef and veal	10.2	10.9	11.2	11.40[a]	11.50[c]
Lamb and mutton	1.0	.99	1.0	12.15[b]	12.00[c]
Chickens	3.1	4.0	4.2	.20	.23[d]
Eggs	6.6	7.2	7.6	.39	.40[e]
Milk	120.0	122.0	Spec. rec.	2.94	Spec. rec.

[1] As reported by U.S.D.A. In dressed weight for hogs including lard, beef, sheep, and chickens. Eggs also are given in pounds.

[2] Average farm price for October, November, and December 15, 1942. Source, U.S.D.A. Hogs, cattle, lambs, and milk price per cwt., eggs per dozen, and chickens per pound.

[a] Price for cattle.

[b] Price is for lambs.

[c] Plus or minus 75 cents per cwt.

[d] Plus or minus 2 cents a pound.

[e] Plus or minus 3 cents per dozen for seasonal change.

either milk, pork, chickens, beef, or mutton, which is true only within rather restricted limits. Obviously, the ranges must be used for cattle and sheep, the pastures of the Lake States and Northeast for milk cows or other cattle. Yet in most of the Corn Belt there is room for substitution in feeds which makes possible big shifts in livestock enterprises.

2. Labor is a key element in producing animal products. Dairying probably takes the most labor, and labor has become the limiting factor in most milk sheds. Chickens also take much labor, but on most family-type farms they absorb labor not otherwise used to take care of crops and to do chores. Hogs, cattle, and sheep require less labor but very special care at the time the young are born; that is very true of lambs and little pigs.

3. Then there are the biological limits to the rate of expansion. Chickens can be increased quickly: A period of three

to six months brings new products to the market. It takes two to three years to produce a dairy cow. Cattle and sheep can be multiplied less rapidly than hogs.

4. Closely related to the above is the response of farmers to higher prices. In the time span of a year, higher prices bring about the biggest expansion in chickens and least in milk and mutton. Hogs rank next to chickens.

Hogs. The U.S.D.A. is calling for about as many hogs as can be got by way of price incentives during 1943; hog prices even several dollars higher would probably not increase hog production appreciably. An average U. S. farm price of $13.50 is about all that can be done via prices, unless feed costs move up sharply, a danger that should be averted by moving much more wheat into feeding channels. By non-price programs hog production, however, can be lifted by fully a billion pounds (making it 138 per cent above 1942 output). The means to be used include subsidy and credit programs that bring feed and equipment to farm families still having some labor reserve and measures that supplement their management skills.

Cattle for meat. As long as the feed supply permits, the tonnage of beef can be increased by not only fattening the more select feeders produced in the Range states but also by putting an extra couple of hundred pounds of flesh on many "native cattle" produced on farms. These are cattle that are less well bred and usually less well fed as calves and young stock. By using corn and other feeds to add weight to this common stock, more beef can be produced. The price structure worked out by OPA, and now in effect, appears to favor feeding of this kind. It discourages long feeding necessary for the top choice and prime grades but makes it attractive to feed for the lesser grades.

Mutton. Of the several meat animals sheep production has been least responsive to higher prices. Lamb prices have

risen 79 per cent since the beginning of 1939, but production has increased only 15 per cent. Higher prices are not likely to bring forth more output next year.

Chickens and eggs. It is in chickens and eggs that much more can be accomplished both by prices and by non-price programs. Further expansion of the poultry enterprise on most farms taps the labor of the wife and children. Chickens can be expanded rapidly; the volume of eggs and chickens should be increased, especially in the Plains states and in the South. Higher farm prices for eggs and chickens, a forward price that farmers can bank on, plus a little credit, some equipment, and perhaps a small amount of subsidy would step production very much higher.

Milk. Milk is a complex of many products and many markets. To speak of a single goal and an average U. S. farm price is quite meaningless. Prices which various farmers receive for milk are only loosely interrelated. Milk products serve a wide range of uses. The importance of milk in both the food and farm economy and the inherent complexity of milk production, markets, prices, and distribution make it advisable to treat milk at greater length than is possible in this pamphlet.[12] Because of the difficulties of expanding output at this time, the main objective in milk should be to use more effectively what is being produced.

ANIMAL PRODUCTS

WHEAT

Nowhere in agriculture is there a sharper contrast between this war and that of 1914–18 than in the case of wheat. In World War I farmers of this country were assigned the "battle for wheat" into which they put their very best effort. This time, thus far, wheat has been a burden in Canada and United

[12] A pamphlet dealing with dairy production is to appear in this series.

States. Storage and transportation facilities have been overextended by ever-mounting supluses.

If we look upon wheat as a bread grain only, the wheat economy, like the cotton economy, has been too big. It is a long story—going back, in the main, to the expansion of wheat occasioned by the other war and the changes in demands since then. Wheat flour for civilian use, for the armed forces, and for export does not warrant as many farm resources in growing wheat as have been employed. But wheat is more than a bread grain. *Wheat is an ace in reserve.*

It also is excellent feed for dairy cows, chickens, and hogs. A major mistake lies in not feeding more wheat. Our wheat is well located to move into feeding channels. What is more important, wheat farming is intertwined with livestock. Many farms that grow wheat also produce animal products. What needs to be done is to make it worthwhile for these farmers to feed more of the wheat they grow. The principal obstacle to this is the high price of wheat.

Wheat has been overvalued. Wheat prices have been too high (a) to let farmers use wheat in large volumes as feed, (b) to encourage them to shift acres from wheat to other feed crops wherever these will produce more feed units than wheat.

Wheat prices have been responsible for expanding supluses. Instead of allowing the price to fall, two devices were used which, thus far, have been notably unsuccessful: (1) Through the AAA we restricted wheat acreage, and (2) through the CCC wheat has been subsidized to induce farmers to use more of it as feed. Selling wheat for feed is, however, fairly recent, and thus far it has been quite limited.

The changes in the price ratio of the prices of hogs, beef cattle, butterfat, and eggs to the price of wheat in five Plains states have been as set forth in Table 8.

Since 1939 the ratios of prices of hogs to wheat and also eggs to wheat have become more favorable to feeding hogs

TABLE 8

	1939	1941	1942
Hogs / Wheat	9.9	10.8	12.8
Beef / Wheat	11.6	10.8	10.8
Butterfat / Wheat	.36	.40	.39
Eggs / Wheat	.23	.26	.27

Source: U.S.D.A. materials.

and producing eggs, going from 9.9 to 12.8 in hogs and from .23 to .27 in eggs.

It is noteworthy that the 1942 production of eggs and hogs in the wheat states exceeded expectations. In the Dakotas, Nebraska, Kansas, and Oklahoma, hog numbers are up virtually 50 per cent over 1941 and eggs a full 25 per cent. Part of this expansion is recovery from the bad weather and poor crops of the past decade, but most of it has been induced by prices favorable to hogs and eggs. Milk production has not changed much in these states, as one would expect from the price structure.

Farm resources in the wheat area are under-employed in terms of our food needs. We must convert wheat into a more valuable asset than has been accomplished thus far during the war. The answer lies in using more wheat to produce hogs, eggs, and chickens. To accomplish this end it is necessary to recognize that wheat is overvalued.

Wheat for 1943

AAA restrictions on wheat should be lifted. Farmers in the spring wheat area should be encouraged to increase their wheat

TABLE 9

	Acreage Reported for 1942	U.S.D.A. Goal for 1943	Our Proposed Goal for 1943	U. S. Farm Price, Dec. 15, 1942	Estimated Required U. S. Farm Price for 1943
	In Millions of Acres				
Wheat	53.4	52.5	57.0[a]	$1.10	.85[b]

[a] The only adjustment possible at this time in winter wheat is to minimize the abandonment of acreage this spring. Had the goals been set last fall when winter wheat was planted, an acreage of 60,000,000 total for the United States was feasible and would have been desirable. At this date, with only the planting in the spring wheat area remaining, the increase attainable is likely to bring the total to the neighborhood of 57,000,000 acres in comparison with 53,400,000 in 1942, U. S. total.

[b] Plus or minus 5 cents a bushel.

acreages. A lower wheat price, however, should be maintained, one that would let wheat find its value as feed, which would be close to the price of corn. Lower wheat prices would protect flaxseed, barley, and corn acreages as wheat is expanded. There will be some sections where the feed crops would, in fact, be increased at the expense of wheat should wheat be priced as a feed grain. The lower price would also make it easier to further increase the acreage of flaxseed.

The task ahead of us is to open the floodgates that now hold our wheat surpluses back, free them for feeding and thus let enough of the wheat run into the feeding channels to make room for next year's crop. Meanwhile, we hope that nature will favor us once again with a bumper crop.

ANIMAL PRODUCTS

COTTON

The cotton economy of the United States has been poorly adjusted both to markets and to resources for many years. All too little has been accomplished in bringing about a solution.

We simply have too much land in cotton. As things now stand, the agriculture of the South is not making anywhere near the contribution to the war of which it is capable. In our total food and fiber needs for 1943, short staple cotton has a very low priority. It is true that domestic uses for cotton have expanded about as much as exports have dropped, but large carryovers have accumulated from past years. These stocks are still so large that we could well afford to put most of our cotton-producing resources to work turning out eggs, hogs, and wherever possible, beef and milk.

The price relationship between animal products and cotton is one of the factors thwarting this shift. Cotton prices have gone up more than animal product prices. Consequently, it has become less advantageous to produce hogs, cattle, butterfat, and eggs than cotton. The following figures (Table 10) are ratios based on farm prices in the six leading cotton states.

TABLE 10

	1939	1941	1942
Hogs / Cotton [a]	.69	.62	.65
Beef / Cotton [b]	.65	.54	.49
Butterfat / Cotton [c]	2.59	2.27	2.01
Eggs / Cotton [d]	2.04	1.79	1.59

[a] A pound of hogs to a pound of cotton.
[b] A pound of cattle to a pound of cotton.
[c] A pound of butterfat to a pound of cotton.
[d] A dozen eggs to a pound of cotton.

To interpret: As the figures decline, the price situation becomes less favorable to feeding livestock, and conversely, as the figure rises they become more favorable. For example, the drop in the figure for hogs-cotton from .69 in 1939 to .62 in 1941 means that the price of hogs had dropped considerably relative to the price of cotton.[11]

The data in Table 10 show that since 1939, prices of animal products have become less favorable in the South relative to cotton.

The upshot is that as far as price incentives go, they are inconsistent with the nation's food requirements. The prices of cotton have been so high that they have induced farmers to use fertilizer, farm labor, and other farm resources for cotton rather than finding it profitable to shift these to the production of feed and with this feed produce the urgently needed animal products. Plainly, we have encouraged a misuse of farm resources in the South.

AAA policies also have been largely on the side of cotton. If there were no restrictions on cotton acreage in 1943, with present high cotton prices, the acreage would jump tremendously, which would be a most serious mistake.

Thus, there exists a basic dilemma. Cotton is priced so high that farmers use every possible measure to grow as much cotton as it is possible on the restricted acreage, pouring in labor and fertilizer to accomplish this end. The loss is great. Should AAA acreage restrictions be removed, however, even a greater misuse of farm resources would occur. AAA allotments should be much lower.

War requirements afford the nation a major opportunity to correct a few of the maladjustments inherent in southern agriculture. Thus far we have failed to do so. Measures must be found to increase the income of southern farmers through farm products that we need as food in 1943 and 1944.

[11] The prices of hogs, beef, butterfat and eggs are the prices received by farmers in Texas, Mississippi, Oklahoma, Arkansas, Alabama, and Georgia, the six leading cotton states, not weighted; for cotton the prices received by farmers, U. S. average, was employed. All prices are on a per pound basis except eggs, which are per dozen.

The situation might well warrant putting the prices of eggs and of some other animal products, as has been done with peanuts, much higher in the South in order to make it highly profitable for farmers to produce these more essential products. The problem, however, is exceedingly complex. With the high cotton prices and the high AAA benefit payments all pulling in basically the wrong direction, it is difficult to devise and manage programs with sufficient pull to bring the resources around to the production of food needed for war. Yet we must not miss the opportunity. There has not been a time during the past three decades when a more favorable over-all situation prevailed for correcting some of the economic defects which plague the South. We need more peanuts. We need more soybeans. We need more sweet potatoes. These are all crops in which some parts of the cotton-producing areas have had experiences. Enough feed can be grown to expand very markedly the number of eggs and chickens, hogs, and perhaps also of cattle and dairy cows. It is in this direction that we must move, using prices, credit, subsidies, and other measures to accomplish this end.[14]

OIL CROPS FOR 1943

The U.S.D.A. turned in a remarkable record in 1942 when we lost the Southwest Pacific and with it one of our main sources of oil. The Department at once took steps to induce farmers to expand oil-bearing crops. In this they were most successful. The acreage of soybeans, peanuts, and flaxseed

[14] Hog prices have been most favorable of the several animal products relative to cotton. The hog enterprise is also one of the easier ones to undertake and to expand, and it is in hogs that we find the largest expansion in 1942 over 1941. The probable production on farms for 1942 in the nine leading cotton states of the South is up 25 per cent over that of 1941. (Most of this increase, however, came in the two states of Oklahoma and Texas.) The production of eggs is also an enterprise which can be expanded readily. This product, in spite of the worsening of its price relative to cotton, has been increased substantially in the South. For the same nine states, egg production for 1942 was 18 per cent higher than in 1941. Moreover, the increase is spread much more evenly among the states than is the case with hogs.

jumped from 11.1 to 19.7 millions. Crushing capacity now looms as the limiting factor.

What about the program for 1943? Following (Table 11) are the main figures for the three leading oil crops.

TABLE 11

	Acreage Reported for 1942	U.S.D.A. Goals, 1943	Our Proposed Goals	U. S. Farm Price, Dec. 15, 1942	Estimated Required U. S. Farm Prices, 1943
	In Millions of Acres				
Soybeans	10.9	10.5	12.0	1.59	2.00[a]
Peanuts	4.2	5.5	5.7	6.19(nuts) 3.97(oil)	6.50[b]
Flaxseed	4.7	5.0	5.4	2.36	2.60[a]

[a] Plus or minus 10 cents a bushel.
[b] Plus or minus 30 cents per cwt.

Soybeans. In spite of the difficulties of getting the 1942 crop crushed, soybeans should be increased again next year. With AAA restrictions removed from corn, it is going to be harder to do this. It will take a larger price incentive than was necessary in 1942. But soybeans provide not only oil but also proteins valuable in feeding livestock and also can be used for human food.

Peanuts. This is one war crop that belongs to the South. Peanuts yield about three times as much oil per acre as cottonseed. Prices should be raised further to induce a 35 per cent increase over the very large acreage of 1942.

Flaxseed. There is much room for more flaxseed. It would not require a higher price than $2.60 per bushel—if wheat were not overvalued.

SOME OTHER FOOD CROPS

Beans and peas. These two protein foods have high food values; instead of canning them, they can be retailed dry;

TABLE 12

	Acreage Reported for 1942	U.S.D.A. Goals for 1943	Our Proposed Goals for 1943	U. S. Farm Price, Dec. 15, 1942	Estimated Required U. S. Farm Price, 1943
	In Millions of Acres				
Dried beans	2.4	2.8	3.36	5.12	6.00[a]
Dried peas	.53	.67	.74	4.30	6.00[a]
Rice	1.5	1.4	1.40	1.62	1.50[b]
Potatoes (Irish)	2.8	3.2	3.98	1.12	1.30[b]
Sweet potatoes	.76	.76	1.06	1.10	1.30[b]

[a] Plus or minus 30 cents per 100 pounds.
[b] Plus or minus 15 cents per bushel.

storage is not difficult, and both can be expanded. A higher price will help do it.

Potatoes. With the growing scarcity of foods, potatoes should be increased sharply to assure an abundance. Supplies in 1942 were unnecessarily small. A much bigger crop (acreage) should be planned for 1943. The increase in the potato goal announced by the U.S.D.A. on January 17, 1943, is altogether too small. With average yields (1930–39) of 112 bushels an acre, it will take virtually 4 million acres to provide enough potatoes to assure consumers 10 per cent more than this year's crop plus non-civilian requirements. In addition we should urge the Canadian's to expand their potato acreage to increase the margin of safety.

PARITY PRICES WITHIN AGRICULTURE

Farm prices were among the first to take on major political significance. They became the storm center of politics, pressure groups, and price legislation. And the end of this is not in sight. The vast output of war materials which cut civilian supplies and expanded individual incomes made for inflation. Laws to control prices followed with the legislative and executive branches in disagreement about farm

prices. The chief stumbling block, so it appeared, was the parity price formula[16] to which all of the major farm legislation had been tied. Congress wanted to revise parity upward, while the President insisted on its staying as it was. The Administration contended that a higher farm parity would mean higher food and fiber prices, which in turn would make it necessary to raise wages still further, and thus the upward spiral of prices could not be checked. Legislators justified a higher parity on the grounds that farm costs were rising, but much of the pressure for higher farm prices was due to dissatisfaction with the labor and wage policies of the Administration.

What have been the merits of this political tug-of-war over farm prices? How close would parity come to doing the production job that we have outlined as necessary for 1943?

It would miss the mark completely. It would hold severely in check those foods needed most urgently; it would expand others having a low wartime rating. It would cause wheat to be hoarded, feed to be stored, livestock to be curtailed, and oil crops to be cut.

[16] Farm parity has been defined by law as that price which will give each commodity the same purchasing power in terms of prices, taxes, and interest paid by farmers in the base period. Specifically, parity prices for farm products based, for example, on 1910–14 are determined as follows:

	Assume the farm price in 1910–14 to have been:	Assume a fall of 50% in the prices, interest, and taxes paid by farmers, then parity becomes:	Assume a rise of 50% in the prices, interest, and taxes paid by farmers, then parity becomes:
Wheat (per bu.)	$ .88	$ .44	$1.32
Cotton (lb.)	.12	.06	.18
Hogs (cwt.)	7.20	3.60	10.80
Beef cattle (cwt.)	5.40	2.70	8.10
Butterfat (lb.)	.26	.13	.39

To force farm prices back into the 1910–14 strait-jacket, called parity, when compared with required prices, gives the following disparities (Table 13).

TABLE 13[1]

Commodity	Estimated Farm Prices Required for 1943	Parity[2] Prices	Extent to Which Parity Prices Are Out of Line
Rye (bu.)	.50	1.14	over 100 per cent too high
Sorghum (cwt.)	1.10	1.91	75 to 50 per cent too high
Wheat (bu.)	.85	1.40	
Oats (bu.)	.40	.63	
Barley (bu.)	.65	.98	50 to 20 per cent too high
Corn (bu.)	.80	1.02	
Sweet potatoes (bu.)	1.30	1.39	about right
Flaxseed (bu.)	2.60	2.67	
Beans (cwt.)	6.00	5.32	
Potatoes (bu.)	1.30	1.14	
Rice (bu.)	1.50	1.29	
Hogs (cwt.)	13.50	11.49	
Eggs (doz.)	.40	.32	10 to 30 per cent too low
Chickens (lb.)	.23	.18	
Lambs (cwt.)	12.00	9.29	
Soybeans (bu.)	2.00	1.52	
Cattle (cwt.)	11.50	8.56	
Peanuts (cwt.)	.50	3.71	40 to 50 per cent too low
Peas (cwt.)	6.00	3.30	

[1] Cotton does not appear in this table. Parity puts it far too high. Milk, which also requires special recommendation, is quite too low tied to parity.
[2] The combined index of prices paid by farmers, interest and taxes stood at 158 per cent of the pre-World War I level on January 15, 1943. This index gives the parity prices appearing in this column.

Parity prices will not do the necessary production job in 1943. Nor can the farm production be gotten by adjusting parity upward to 110 per cent, 120 per cent, or some higher parity figure or by including farm wages as is now proposed because it does not change the relative position of various farm prices; some farm prices would still be out of line—more of them too high, some still too low. Parity tied to 1910–14 is simply out of date by three decades. The price structure which prevailed just prior to World War I has

become as obsolete as the automobile of that time. Even tying parity to more recent years would not solve this difficulty. To take, say, 1935–39, although not nearly as defective as 1910–14, would still fail to give a set of farm prices which would induce farmers to make the best use of their resources. Farm prices thus hitched to the past would not give us the type and volume of food production which is required during wartime. Parity calculated in terms of some past period simply means being backward. It means using the dead hand of the past to tell us what to produce next year. Instead, food production should be shaped by present needs and by needs to come.[16] Farm prices, accordingly, should be forward-looking; they should be related to what is required. No past price structure, however recent, can meet that test.[17]

3. Farm Price Uncertainty

Farm prices have been notoriously undependable. Price uncertainty has been especially great for the very farm products of which more production has been needed to meet war requirements. In a halting and fumbling manner, attempts are being made to introduce more certainty into farm prices. prices.

The commodity loans have been employed to improve the dependability of prices of some crops, and have been fairly successful in the case of feeds. There has been, however, a persistent tendency to authorize and insist on ever higher loans. Those who press for higher loans usually lose sight of the *value* of the crop as a resource. This leads to "freezing" of supplies. The inevitable result must be a discrediting of the commodity loan technique,[18] although it has much to con-

[16] See the first pamphlet in this series, "Food Strategy," by Margaret Reid, on this point.
[17] For a treatment of the limitations of the parity price concept, see the author's *Redirecting Farm Policy*, Macmillan, 1943.
[18] There will be a pamphlet on this issue later.

tribute as a means for reducing uncertainties growing out of fluctuations in yields. The more recent introduction of price floors is also an attempt to lessen price uncertainty.

While considerable price dependability has been attained in the price of basic crops during the past six years, the price experiences in animal products have been far from reassuring. Here again there is considerable difference among the products. Price fluctuations in cattle and butterfat have been less pronounced than in eggs and hogs. The extreme changes in the price of hogs present an acute problem. For example, from 1937 to 1939 the monthly average price of hogs ranged from $5.03 to $11.45, and from 1940 to 1942 from $4.82 to $14.10. Is it any wonder that farmers treat hog prices as highly uncertain? They are forced to discount current prices, which means that the capacity of a given price to induce the desired production is greatly minimized.

It is possible to manage an administered price in such a way as to enhance its certainty features; it is apparent that prices can also be handled by administrators so as to increase the undependability of farm prices.[19] To some extent during 1941 and 1942, it is the latter that happened in hog and cattle prices.

There is little doubt that the rate of expansion in animal products during 1941 and 1942 was adversely affected by the price uncertainty which prevailed. Some of this uncertainty

[19] For example, government officials have made statements which had the effect of making farm prices appear even more uncertain. Throughout AAA circles, in order to induce farmers to participate in AAA programs, it was often asserted that unless farmers curtailed their crops, a very sharp drop in price was likely to occur the following year. These statements were freely circulated among farmers at the time the 1941 and 1942 programs were launched. These "predictions," patently, were not based on economic analysis. They harked back to the catastrophic experience of 1932 and 1933, trying to make it seem plausible that if big crops were produced in 1941 and 1942 this earlier price experience would reoccur. They were intended to "scare" farmers into participating in AAA. Some of the statements given to the press during the summer and fall of 1942 by OPA officials also had the effect of decreasing the dependability of farm prices in the minds of farmers.

could have been eliminated. But because it prevailed, farmers were reluctant to respond fully to the very favorable feeding ratios. The examples are many. Take one—there was every reason to expect farmers to feed hogs to much heavier weights than formerly as hog prices increased relative to the price of corn. And yet throughout 1941 and 1942 there was no appreciable change in the weight of hogs marketed. As hogs reached the usual market weights, farmers were confronted with the choice of selling their hogs at the then favorable price and be sure of their returns, or feeding them longer and running the risk of a substantial price decline. Throughout this period farmers generally viewed hog prices to be so uncertain that they chose the second of the two alternatives. They did not feed their hogs to heavier weights. The result is that we have had substantially less pork than would have been produced had hog prices been more dependable. This situation was corrected late in November, 1942. Within a few weeks hog weights started to climb and promise to go up much more.

FORWARD PRICES

The uncertainty in farm prices can be minimized for the farmer through a system of forward prices, prices which tell the farmer at the time he makes his production plans what he can expect for his products for the next production period. The price announced for soybeans a year ago was of this type.

Farm prices uncertainties are costly in two ways. First, there are many farmers who do not respond to changes in relative prices simply because they have learned from bitter experiences that farm prices are always changing, always subject to change without notice, and for them to try to outguess the market is futile. They, therefore, resort to a kind of traditionalism in farming, staying with the same crops and

the same livestock they have always had regardless of the changes in food needs.

Second, there are other farmers who try to adapt themselves to changing prices by building flexibility into their farms, which permits them to shift quickly when farm prices change. They do this by building extra corn cribs, more hog barns, cattle sheds, brooder houses, which allows them to get in and out with the flux in price. This extra equipment also has its cost.

The capacity of farm prices to guide, coordinate, and regulate farm production would be enhanced very substantially by minimizing uncertainties of farm prices. The farmer who now is inclined to stick with his traditional crops and livestock would know that it would pay him to shift when prices changed because he could depend upon the new price structure, and this would result in a better use of the resources on such farms in producing more nearly what society needs in the way of foods. Likewise, the farmer who keeps a considerable investment in equipment which has the sole purpose of providing him with flexibility would shift this capital and use it for current production.

It would be a mistake, however, to set up forward prices for long periods ahead. Forward prices should be restricted to one production period. For grain crops this would mean one year. The price should be announced well in advance of planting time and should be specific as to time and place and as to type and quality of commodity, sufficiently so that each farmer can ascertain specifically what the price means to him in his situation.[20]

The initiation of support prices for some farm commodities by the U.S.D.A. is a move in this direction. This technique has a good deal of promise. The support prices, however,

[20] See author's *Redirecting Farm Policy*, Macmillan, for more extended treatment of the role of Forward Prices in agriculture.

are being introduced all too haphazardly. Too little thought is being given to their production effects and to ways and means of administering them. Nevertheless, the few support prices that have been established are likely to reduce farm price uncertainties measurably. They will induce more food production with less price.

On the political and congressional front there is, however, a real danger that these support prices will be pushed too far into the future. Instead of instructing the U.S.D.A. to revise these prices at the beginning of each production period, they may be frozen by law for the duration and even for some years in the post-war period. Such a policy would turn out to be exceedingly costly; moreover, cost which can be avoided, and all of the advantages can be obtained by tying forward prices to the production period of the farm product. Changes made in prices at that time minimize the price uncertainty features and maximize the capacity of farm prices for food production.

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Acknowledgements: J. Reginald Bowring and Gordon L. Burton were responsible for preparing most of the basic statistical tables on goals and prices appearing in this pamphlet. D. Gale Johnson and Oswald H. Brownlee assisted in formulating the judgments and assumptions underlying the goals and required prices. Professors R. Schickele, A. C. Bunce, G. S. Shepherd, G. W. Snedecor, J. A. Hopkins, read the first draft and made helpful suggestions. Professors A. G. Hart, Margaret G. Reid, and W. W. Wilcox, in addition to professional criticism gave much help in their editorial capacities.

* * * SUBSEQUENT PAMPHLETS will follow this one at intervals of a few weeks. There will be fifteen or more in the series, each dealing with a crucial problem of our WARTIME FARM AND FOOD POLICY, including:

Food Strategy (Published January 21, 1943)
Farm Prices for Food Production (This Pamphlet)
Fiscal Policy and Food Management
Manpower Program for Agriculture
Commodity Loans and Price Floors
A Dairy Program Streamlined for War
Remodelling the AAA
Controlling Land Prices and Sales
Dividing Food Among Civilians
Methods of Educating Consumers
Improving Nutrition in Wartime
. . . and Others

* * * THE SOLE PURPOSE of each pamphlet will be (1) to bring together all the information pertaining to its subject, (2) to present an unbiased analysis of the information, (3) to suggest a wartime program for the subject under discussion calculated to contribute to early victory for the United Nations, and (4) to place information and suggestions in the hands of leaders in positions to initiate the necessary action.

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National Farmers Union
Room 430 Munsey Building
NA. 9750
Washington, D. C.

For Release Saturday A. M.
March 6, 1943

WASHINGTON March 5-- An immediate specific program for increasing food production by approximately $1½ billion a year at present consumer prices was presented today to the National Economic Stabilization Board by James G. Patton, President of the National Farmers Union.

One dollar invested in food production now will get one dollar and fifty cents in food at the counter later, Patton said, in urging that one billion dollars be invested with 1,390,000 farmers now producing at less than capacity.

"Immediate adoption of an adequate food policy is essential to back up the magnificent performance of our military forces and those of our allies," Patton declared. "The people of our country are becoming deeply concerned that we will not be able to carry out our commitments during and after the war. They want to carry out those commitments. They want to win the war and help build a decent and durable peace. They do not want their grandchildren to fight World War No. 3.

"We need to face up to some basic questions in Agriculture. Is our objective merely to try to maintain present production levels or shall we increase them? Shall we shift our land resources, skilled farm manpower and equipment away from surplus and less vital crops to vital crops for which deficits are now apparent? If we are to step up and convert our production to meet the needs of the war and post-war periods, shall we count in, equip and utilize all our farm families or shall we permit commercialized agriculture to take over at an accelerated rate? In other words, we should decide whether family-type farming is to survive as the pattern of American agriculture. I believe one basic determination needs to be made now: the preservation of family-type farming as a stronghold of democracy is a fundamental part of our national policy. The demonstrated fact that among four million farm families lies the best hope of increasing our food production should make that determination easier.

"Count in the tremendous unused resources of all American farmers and we can do the food production job as well as the industrial war production job has been done-- and better. The war food job can be done."

Patton said the 1,390,000 farmers would be given aid similar to that given 463,000 FSA borrowers in 1942, when such farmers, only 7.6% of all farmers, produced 36% of the total increase in milk production, 27% of the total increase in dry beans, 10% of the total increase in eggs, chickens and peanuts, and 9% of the total increase in pork.

A table showing by States the approximate numbers of farmers whose production can be materially increased lists, for example, about 50,000 in each of the States of Illinois, Indiana, Iowa, and Nebraska who can substantially increase production with this sort of assistance. In Missouri, 90,000 farmers can be assisted to make substantial increases in production; 60,000 in Tennessee, 80,000 in Alabama, 85,000 in Mississippi, and 145,000 in Texas.

Patton did not limit his proposals to under-financed, under-equipped and under-employed farmers, but also proposed steps to maintain increased production on the nations' two million most efficient farms by better utilization of machinery, and the recruitment, training and maximum use of migratory labor, youths and women.

For all farmers, Patton proposed a program for credit, use of prices and production goals to get production of commodities most needed, price floors, crop insurance, early completion of Congressional action on appropriations so that farmers may know where they stand; the integration of all farm agencies; expansion of county and township committees to include representation of all types of farmers and farm labor and the conversion of food marketing, processing and distribution practices to meet war time needs.

Discussing the use of prices and of production goals as tools in increasing food production, Patton said:

"In, of and by themselves, prices cannot be relied upon to produce vital foods in the kinds and quantities needed. But properly adjusted and used with other tools, prices can be of great service.

"Reliance upon parity prices will not get increased food production. Increase of parity prices by the inclusion of cost of farm labor, paid and/or unpaid, will not do the job. Parity was not invented or designed to get production; its purpose was to assure the relative position of farmers in our economy.

"The present farm price level is about right to help production--neither too high nor too low. Prices must be stabilized at the present level. But, within the list of farm prices, adjustments downward and upward are necessary in order to get the kinds and quantities of foods and fibres most needed."

The proposals are based in part upon special studies made by the Bureau of Agricultural Economics of the United States Department of Agriculture and by Theodore W. Schultz, Professor of Agricultural Economics, Iowa State College.

(Text of Proposal Attached)

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Preliminary Draft

SOME FARM PROGRAMS NEEDED TO MAINTAIN AND INCREASE FARM PRODUCTION AND TO HOLD DOWN FOOD SHORTAGES AND INFLATION

Proposed by

James G. Patton,

President, National Farmers Union

March 4, 1943

Preliminary Draft

SOME FARM PROGRAMS NEEDED TO MAINTAIN AND INCREASE FARM PRODUCTION AND TO HOLD DOWN FOOD SHORTAGES AND INFLATION.

Proposed by James G. Patton, President, National Farmers Union.

The proposals herewith presented are suggested for action during the coming months to improve war production on farms before the Spring of 1944. Other steps than those suggested here are undoubtedly needed now. These proposals do not call for full conversion of agriculture to meet the demands of total war. Agriculture has by its nature lagged behind industry in conversion to total war. Full conversion will require more time than in any other section of our national life. Compared to the British, or the other major nations, our farming has just begun to convert. We should be no slower than the unchangeable cycles of seasons, crops and livestock.

It is probable that extraordinary food demands will last through at least the next three crop seasons. Therefore, our farm policy should be based on the needs and possibilities for conversion in that period, rather than being month-to-month and year-to-year adjustments.

But for the 1943 crop season, a short view and fast action are essential. There are gaps in the program offered. However, it is presented with hope that even this much improvement will be of great value.

Some of these proposals are now before the Congress in restricted or incomplete form. The principles of others have been adopted by the Department of Agriculture, but plans for their execution are insufficient. Still others are under discussion in the Department, and could be acted upon quickly. One of the proposals, that for neighborhood machinery and labor pools, has been put into action in one State already by farmers independently of direction from Washington.

Maintaining and increasing farm production depends upon two types of activities:

1. the direction and organization of present production facilities to insure their most efficient use, in terms of the changed food requirements;

2. the enlargement of our farm plant to allow fuller use of the labor and other capacities of some 4,000,000 farmers whose operations are below minimum standards of efficiency.

To this should be added the necessity for a rapid overhauling of our practices in processing and consuming farm products, so as to attain greater use from our supply.

Both the job on the farm and the portion of the job which lies between the farmer's gate and the consumer's table require better leadership by Government. This leadership must place more local responsibility on farmers, their organizations and committees. Government leadership would be better understood and would elicit more effective effort if it came from a single integrated direction of the war at home. This might be attained by administrative action or by adoption of the Tolan-Kilgore-Pepper Bill, the principles and provisions of which have the full support of our organization.

Here, in summary, are the major proposals which we are now making:

(1) Invest at least one billion dollars of production capital in the most suitable of the 4,000,000 less-productive farms, and extend them appropriate farm management assistance so as to secure approximately a 10 per cent increase in our civilian food supply during 1943-44.

(2) Organize neighborhood machinery and labor pools throughout the nation to increase the efficient full-time use of equipment and manpower on our 2,000,000 most efficient farms.

(3) Insure adequate skilled farm labor by increasing the President's $65,000,000 special farm labor budget request, promptly putting that program into effect so that a land army of 400,000 mobile workers can be organized and utilized under government supervision.

(4) Encourage heavier production and use of feeds, making U.S. and Canadian supplies of wheat available at low prices. Subsidize cotton producers to encourage a more rapid shift from cotton production to livestock, oil crops and livestock feeds.

(5) Extend more guaranteed prices to farmers, including crop insurance on all high risk production. Maintain present farm price levels, but adjust individual prices by means of guaranteed "forward" pricing so as to use prices to direct the production effort into the right channels; supplement this by incentive payments for increasing production, especially for milk.

(6) Revise 1943-44 goals into line with possibilities opened up by the above program, and allow individual farmers more leeway in deciding which products to grow than the arbitrary farm quotas now allowed.

(7) Further consolidate Federal farm agencies at county and state levels; double or triple the number of farmers on official committees who, in the last analysis, have the know-how, the ability to get the job done.

(8) Rationalize food processing and distribution, utilizing nutritious foods now being neglected, cutting out frills and luxuries; get more efficiency out of our supply of calories, vitamins and minerals.

UNDER-EMPLOYED FARMERS

Figures are now available which for the first time allow an accurate analysis of the minimum production possibilities of our farmers. These figures indicate that

> Less than two million farms are adequate in their land, equipment, credit and management resources to use at full efficiency the labor of one or more farm families. The farms which are experiencing a labor shortage are to be found among this less than two million.
>
> On four million other farms there is no over-all labor shortage, but rather there is an underemployment of labor on most of them. This is due to lack of land, credit, equipment and modern management practices.

To determine the number of farms on which large and rapid increases of production could be obtained, we requested the assistance of the Bureau of Agricultural Economics. The Bureau had available new information from the 1940 Census which enabled it to indicate accurately the number of farms immediately available for increases. This information is contained in the attached letter (Appendix 1) and is summarized in

Table I. It shows 1,636,000 such farms. This figure includes about 250,000 present Farm Security borrowers. By our own estimates, based upon a further analysis of Census data, these farms are distributed about equally between the Northern and Southern states, the number in each State and Region being shown in Table II. From 10 to 20 per cent of the farms listed in each State are now receiving FSA assistance; the national average is 15 per cent.

To calculate the minimum increased production possible from these families, we have assumed that the production record established by 463,000 FSA borrowers during 1942 (appendix 2) can be extended to the 1,390,000 similar farms. We have also assumed that present FSA borrowers, if assistance is continued for them, could secure approximately the same increases in 1943 as in 1942. By using the Regional production figures for FSA borrowers on these nine important war products, we have estimated that the entire group of 1,840,000 farmers could make the increases in their production on these commodities shown in Table III.

Important increases will be secured in all other commodities in addition to these nine, and much food will also be produced for home use, thereby lowering the drain by low income farmers on the Nation's food supply. We estimate that the total effect of such a program would be the production of three-quarters of a billion dollars' worth of food at farm prices, or about 5 per cent of the expected national total for 1943. It would, however, represent 7 per cent of the supply available for civilian consumption, assuming that the amount available for civilians is not further reduced during the coming year.

The initial investment for such a program would be approximately one billion dollars, with increased food available in the first year of about one and a half billion dollars at consumers' price levels. This would represent $1.50 in new food supply for every $1.00 advanced. Virtually all of the dollars advanced would be repaid within 2 or 3 years, making the cost of administration the only cost.

It is true that such a program, which would call for a tripling of the FSA operations, cannot get in full swing in time to get full benefits, from the 1943 crop season. Nevertheless, much could be done to increase livestock production before the Spring of 1944 and to prepare for the following crop-year. Loan operations of FSA have been restricted by lack of funds. Assistance to farmers has been on a minimum basis. A real program of building up to efficiency will produce considerably greater results. The important thing to remember is that, without help the big majority of these farms will make no increase in production; they will constitute drains on the food supply produced by other farmers. They must be given management assistance as well as credit to build up their capital. Not only the experience of FSA, but the independent judgments of qualified economists have verified this fact.

LABOR AND MACHINERY

Our proposals for insuring adequate supplies of labor and machinery include provisions for immediate action to organize and use present resources on a neighborhood basis. However, we must have a reliable land army of volunteer civilians to meet seasonal needs for mobile labor. To succeed, this plan must guarantee the workers minimum standards and provide that producers needing their labor make contracts with the government so that maximum man hours of productive work will be obtained.

Machinery utilization can be made more efficient. Maximum use can be obtained by community agreements. Farmers' machinery-and-repair cooperatives should be assured government aid when needed. Machinery pools can draw in privately owned implements

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only if (a) the owner is guaranteed first call on his own implement; and (b) the government gives him a guarantee that the machinery will be maintained in working order, to be returned to him in as good condition as when he pooled it, or if depreciated or worn out will be replaced by a new implement. This pooling of machinery and labor can best be carried out on a democratic co-operative basis.

PRICES AND GOALS AS TOOLS IN INCREASING FOOD PRODUCTION

In, of and by themselves, prices cannot be relied upon to produce war vital foods in the kinds and quantities needed. But properly adjusted and used with other tools, prices can be of great service.

Reliance upon parity prices will not get increased food production. Increase of parity prices by the inclusion of cost of labor paid and/or unpaid, will not do the job. Parity was not invented or designed to get production; its purpose was to assure the relative position of farmers in our economy.

The present farm price level is about right to help production--neither too high nor too low. Prices must be stabilized at the present level. But, within the list of farm prices, adjustments downward and upward are necessary in order to get the kinds and quantities of foods and fibres most needed.

The USDA has done well in keeping livestock feed prices from spiralling upward. Wheat production has finally been turned loose, after long urging by the Farmers Union. Better distribution of corn and wheat acreages will increase production of both crops.

Prof. Theodore W. Schultz, of Iowa State College, in his pamphlet "Farm Prices for Food Production" just published, and attached hereto as an appendix, sets forth in Table 14, Page 38, the extent to which he believes parity prices are out of line, from the point of view of getting maximum production of the crops most needed. In a series of tables (Tables 6, 7, 9, 11 and 12) he gives his estimate of the best farm price to assist in getting required production of each principal vital crop.

Dr. Schultz also proposes important changes in the goals for various commodities. In applying these goals to individual farms the effort to award mechanically quotas to individual farms on the basis of a county average should be discontinued, in order not to misuse land, labor and machinery.

I have examined these tables and Dr. Schultz's supporting arguments and am of the opinion that the adjustment of goals and most prices he proposes will contribute greatly to increased production and should be adopted. Such adjustments will not result in an increase in the total price for all farm production.

In addition to price changes, we urgently need incentive or bounty payments for increasing production as proposed by Secretary Wickard. This proposal is a MUST, and the Administration should immediately announce the details of plans to extend it to milk and milk products.

Farmers also must have assurance of minimum support prices on many more commodities, as the Farmers Union has repeatedly pointed out. The special war crop advances being made with RACC funds should be made available for livestock production. Crop insurance plans are ready for high risk crops, but should be revised to include, in addition to production costs, at least the normal return which would be made on the commodity being displaced by the high risk crop. Farmers must have something which approximates the guarantee extended to industry in constructing and/or operating additional war plants. Perhaps an individual farm contract for certain commodities

would be a part of the answer. Farms are war plants, and in expanding our farm plants the government now asks the farmer to assume much more risk than any industrial firm has undertaken.

FOOD UTILIZATION

Much effort has been devoted to price control and rationing of farm products. Little attention has yet been paid to eliminating waste of manpower and materials in assembling and processing our foods. Little attention has been paid to fuller use of some of our best sources of good nutrition. Nothing has been done to introduce mass feeding, particularly in war factories, as a great saving of both food and manpower. We suggest the rationalizing of milk distribution as a good place to start. We suggest also much fuller use of our supply of skimmed milk and steps toward the eventual elimination of white flours, if that becomes necessary. Food utilization in itself offers great economies and merits extended examination and fast action to promote conservatin of our scarce supplies.

DEMOCRATIC ORGANIZATION

Many more farmers must be allowed to bear responsibility in the farm programs. Total war will call for much greater individual responsibility and discipline in what has been an almost unorganized industry. Problems cannot be solved by officials away from the grass roots nor can the will to succeed be developed unless comparable democratic responsibility is made possible. As part of such a change should come the unification of government agencies dealing with farmers, and the unification of the war effort at the top.

DETAILED SUGGESTIONS FOR FARM PROGRAM

(note: Names of various agencies are used only to identify the type of service indicated, not to suggest assignment to such agencies. Under our proposal, all agencies would be merged in one unified effort.)

A. TO INCREASE PRODUCTION BY UNDEREMPLOYED FARMERS:

1. Use credit alone, with responsibility resting on County War Boards for aggressive action; private credit, PCA's, RACC as sources; AAA, county agents, War Board Loan representatives, and FSA supervisors to give advice at time of loan.

2. Greatly expand supervised credit program for full-time farmers. Should reach at least 1,000,000 out of 1,385,000 farmers best situated to use it, and be continued for 460,000 present Farm Security borrowers. Funds needed: approximately a billion dollars at once. Build up an adequate staff to furnish the necessary type of farm management assistance. Use both FSA and AAA personnel.

3. Adopt a farm expansion program for farms now fairly well operated but too small. Lease available land adjoining them to expand to fully efficient basis. This should reach a quarter million farmers. They will need in addition some credit, machinery, and livestock. A joint Extension Service and FSA program.

4. Establish procedure and authority for consolidating farm units wherever and whenever opportunity arises. This applies to areas where farms are now much too small, and to many farms that have been or will be vacated as employment opportunities open up further. This requires methods similar to those used in the Tenant Purchase (Bankhead-Jones) program.

5. Set up a special loan program for part-time farmers, elderly farmers, subsistence farms, and share-croppers, who can not handle a full-size production loan, but can develop one particular product, such as poultry. Between a million and two million farms are available for such projects.

6. Give special assistance to farm cooperatives for handling the increased production which will result from the above program as well as the increases already projected in the USDA 1943 program. Cooperatives are also needed to make heavy equipment available for efficient use by small farmers, and to furnish other farm supplies.

7. Insure increased production of farm machinery, particularly horse-drawn equipment and small tools, that these programs will need.

These seven points will shift more livestock to low-income farm areas, produce more livestock feeds, improve land-use in those areas, and use the labor of low-income farmers much more fully.

B. TO MAINTAIN AND INCREASE PRODUCTION ON 2,000,000 MOST EFFICIENT FARMS:

1. Launch at once a nationwide drive to organize neighborhood "Machinery and Labor Pools," as already underway in Ohio under the leadership of state Farm Bureau and Grange, and as planned by the National Farmers Union through our local, county, and state War Mobilization Councils. Every community is to be divided into neighborhood groups of five to ten farmers for this purpose. Is to be initiated and led by farmers with the aid of all government employees in each area. Program will increase custom use of equipment, develop machinery co-ops for heavy equipment where desired. Present equipment owners must be given a guarantee of replacement when replacements become available, if they will pool their equipment under community direction. A parallel pooling of repair facilities is necessary, cooperative repair centers, being set up where needed. In case of extreme shortages of equipment, County War Boards should have authority to commandeer equipment, with guaranteed repayment to owners for use. Present machinery is far from being used to capacity on many farms, while other farmers are trying to get along with obsolete equipment. Labor exchange among neighbors is to be exhausted before other labor is brought into community by government agencies.

2. Start mobilization of "U.S. Crop Corps.," simultaneously insisting that Congress appropriate necessary funds. Take definite steps now to have careful estimates made of the supply and demand in each local area for seasonal labor peaks.

3. Establish now short courses for at least 200,000 high school youths who will be available for the entire growing season and can be placed with individual farm families. (Courses are now planned for end of school terms).

4. Make clear that the only solution to the needs for migratory labor is by immediate action to set up the mobile land army requested by the President. Failure to act soon will cut planting and later endanger many crops. Expand the proposed program from 275,000 to 400,000, and make it a volunteer enlistment for at least a year, with minimum living and wage conditions guaranteed by the government, the growers to contract with government for workers. Develop a group of labor utilization specialists to tackle problems of efficient labor use and efficient labor skills. Agriculture is the only industry which does not have such skilled assistance.

5. Double budget request so as to train and place at least 100,000 year-round skilled workers from ranks of underemployed farmers. Offer housing and medical subsidies as partial incentive to attract back to farming some workers who left farms for industry.

6. Set up a Farmer Placement Service so that capable tenants or owners on less efficient farms can be promptly moved to better farms that have been vacated, or to farms where operator desires to retire but can't find a satisfactory replacement.

C. FOR ALL FARMERS:

1. Put into effect crop insurance (for all high-risk crops) plans now developed by the Department of Agriculture. Plans should include repayment of all costs incurred, plus the normal net returns on the crop from which acres are being diverted. This approach would reach all farmers and be easier to administer than the RACC Special War Crop Advances.

2. Announce immediately the details of incentive payment program for milk.

3. Extend RACC Special War Crop Advances (non-recourse loans) to livestock production.

4. Place definite price floors under poultry and other important products not now having adequate price supports.

5. Work out a war contract for the government to make directly with individual farmers for possible future use.

6. Enlarge purchase-placement program of dairy cows by FSA, and extend to include good dairy calves and gilts which should be held off market; if necessary, embargo stockyards from receiving productive dairy cows, overweight calves, underweight hogs and cattle.

7. Assure farmers of unrestricted use for feed of the wheat supplies of U. S. and Canada. Concentrate wheat production on land not having better uses, and restrict it elsewhere. Re-examine corn and soybean acreages to achieve same type of concentration.

8. Immediately develop a campaign under the slogan "Not An Idle Acre."

9. Secure complete enforcement of draft regulations on deferment of farm workers. Extend draft deferment through harvest season to all skilled men serving agriculture in the marketing and processing of farm products, distribution of farm supplies, and organization and execution of war food programs. At present only county agents and some of the highly-skilled technicians serving marketing and processing business are covered.

10. Prepare plans to furlough men in armed services if still in the country to their own farms or those of their parents during summer peak months.

11. Compile a list of skilled farm operators and workers who have quit farming but whom we may need to return to the land in 1944.

12. Request Congress to complete action on farm appropriations prior to planting time, so that farmers may know where they stand.

13. Place all farm agencies at county and state levels under one responsible head.

14. Expand AAA county and township committees, bringing in representation of all types of farmers and farm labor. Make them action committees at neighborhood and community levels, and policy committees at the county and state levels.

D. CONVERT FOOD PROCESSING AND DISTRIBUTION PRACTICES TO WARTIME NEEDS:

1. Complete the simplifying of country milk collections, and extend to all assembly and marketing operations to conserve rubber and manpower.

2. Concentrate leading lines of farm supply distribution to maintain service and save manpower.

3. Eliminate wasteful frills and trick packaging in food processing and distribution.

4. Put city distribution of food, particularly milk, on the basis of utility.

5. Increase use of inexpensive nutritious foods beginning with skimmed milk, and require at least 50% of our flour production to be whole wheat.

6. Take vigorous steps to keep high income families and higher-price caterers from black market and hoarding practices.

7. Start immediately a program of mass feeding with its greater efficiencies wherever possible. Begin at once with war factories.

E. PROCEED FASTER TOWARD THE SINGLE UNIFIED DIRECTION OF THE WAR ON THE HOME FRONT CALLED FOR BY THE KILGORE-PEPPER-TOLAN BILL.

Otherwise, Agriculture, a prime war industry, will continue to eat at the second table (in terms of manpower, machinery, fertilizer, processing equipment, and transportation) and millions will go unnecessarily hungry this year and next.

TABLE I. CLASSIFICATION OF THE NATION'S FARMS AND FARMERS ACCORDING TO CAPACITY TO PRODUCE

Classification	Number of Farms	Operators With: Limited Possibilities for Additional Food Production 1/	Operators With: Capacity for Expanding Wartime Food Production Effort	Assistance Needed for Maximum War Output
Group I Full employment for one or more workers. Operations almost at full capacity.	1,950,000	440,000	1,510,000	Adequate labor supply 2/ Production credit 3/
Group II Less than full employment for operator but readily convertible to Group I by addition of capital resources.	1,820,000	630,000	1,190,000	Production credit 3/ Supervised loans 4/
Group III Limited land resources, cannot be expanded to full employment in short period.	860,000	400,000	460,000	Supervised loans 4/ Mobilization for Farm Work 5/
Group IV Inadequate land resources, little or no expansion of production possible	1,460,000	820,000	640,000	Mobilization for Farm Work 5/ Special food loans 6/
ALL FARMERS	6,090,000	2,290,000	3,800,000 7/	

1/ Included in this column are operators over 65 years of age, sharecroppers, and off-farm workers.

2/ This will be provided by the Department's new farm labor supply and transportation program, the budget for which has already been submitted.

3/ It is anticipated that these needs will be set by local banks and the Department's new loan program utilizing the Regional Agricultural Credit Corporations.

4/ The loan program of the Farm Security Administration in 1942 reached about 450,000 farmers, many of whom were able to move up into Group I. A rapid expansion of this type of program is needed.

5/ The Department's labor supply program will recruit from these groups. An estimated labor reservoir of 1,000,000 workers is available from these families at the present time, which should be ample to meet all labor demands of Group I farmers in the years ahead and also certain demands for increases in industry.

6/ Although technical guidance is needed for those loans similar to that given with supervised loans, this credit constitutes a special category of very small loans for the production of one or two food enterprises. Some of these loans might also be made to part-time and semi-retired farmers in the other groups.

7/ This table was based primarily upon figures from the Census of 1940. Although it is estimated that a net loss of perhaps 300,000 operators has occurred since then, it is likely that there has been no loss in the number of farms operated in Groups I and II. In spite of losses of farms in Groups III and IV, a labor reservoir of 1,000,000 is still available on the remaining farms.

TABLE II

Estimated Number by States of Farms Having Best Possibilities for Expanding Production if Provided Credit, Marketing and Management Assistance.*

	Excellent Opportunities (1)	Good Opportunities (2)	Total Available (3)	Number All Farms (4)	Percent (3) of (4) (5)
Region I	60,000	20,000	80,000	534,000	15
New England	15,000	5,000	20,000	135,000	15
New York	15,000	5,000	20,000	153,000	13
Pennsylvania	20,000	5,000	25,000	169,000	15
N.J., Md., Dela.	10,000	5,000	15,000	77,000	20
Region II	155,000	30,000	185,000	572,000	32
Michigan	50,000	10,000	60,000	188,000	32
Wisconsin	55,000	10,000	65,000	187,000	35
Minnesota	50,000	10,000	60,000	197,000	30
Region III	235,000	65,000	300,000	1,101,000	27
Ohio	50,000	10,000	60,000	234,000	26
Indiana	40,000	10,000	50,000	185,000	27
Illinois	40,000	10,000	50,000	213,000	23
Iowa	40,000	10,000	50,000	213,000	23
Missouri	65,000	25,000	90,000	256,000	35
Region IV	150,000	85,000	235,000	1,053,000	22
Kentucky	35,000	25,000	60,000	253,000	24
Tennessee	40,000	20,000	60,000	248,000	24
West Virginia	15,000	10,000	25,000	99,000	25
Virginia	25,000	15,000	40,000	175,000	22
North Carolina	35,000	15,000	50,000	278,000	18
Region V	110,000	70,000	180,000	648,000	28
South Carolina	20,000	10,000	30,000	138,000	22
Georgia	35,000	20,000	55,000	216,000	25
Alabama	45,000	35,000	80,000	232,000	34
Florida	10,000	5,000	15,000	62,000	24
Region VI	105,000	65,000	170,000	658,000	26
Arkansas	40,000	20,000	60,000	217,000	28
Mississippi	35,000	30,000	85,000	291,000	22
Louisiana	30,000	15,000	45,000	150,000	30
Region VII	135,000	35,000	170,000	423,000	40
Kansas	45,000	15,000	60,000	156,000	38
Nebraska	40,000	10,000	50,000	121,000	41
South Dakota	25,000	5,000	30,000	72,000	42
North Dakota	25,000	5,000	30,000	74,000	40

	Excellent Opportunities (1)	Good Opportunities (2)	Total Available (3)	Number All Farms (4)	Percent (3) of (4) (5)
Region VIII	155,000	50,000	205,000	598,000	34
Texas	105,000	35,000	145,000	418,000	35
Oklahoma	50,000	15,000	60,000	180,000	33
Region IX	25,000	5,000	30,000	162,000	19
California	20,000	5,000	25,000	133,000	19
Utah	5,000	**	5,000	25,000	20
Nevada	**	**	**	4,000	--
Region X	25,000	5,000	30,000	108,000	28
Montana	10,000	2,000	12,000	42,000	29
Wyoming	5,000	**	5,000	15,000	33
Colorado	10,000	3,000	13,000	51,000	25
Region XI	25,000	5,000	30,000	188,000	16
Washington	10,000	2,000	12,000	82,000	15
Oregon	8,000	2,000	10,000	62,000	16
Idaho	7,000	1,000	8,000	44,000	18
Region XII	10,000	5,000	15,000	52,000	29
Arizona	3,000	2,000	5,000	18,000	28
New Mexico	7,000	3,000	10,000	34,000	29
U. S. TOTAL	1,190,000	440,000	1,630,000***	6,097,000	27
14 Southern States	520,000	270,000	790,000	2,956,000	27
All Other States	670,000	170,000	840,000	3,041,000	28

* Based on regional totals derived from Census data, with Census and other data being used to apportion regional totals among states.

** Less than 2,000.

*** Includes about 250,000 farmers or 15% who are now FSA borrowers, or between 10% and 20% of each state total.

TABLE III

MINIMUM INCREASES IN SELECTED PRODUCTS POSSIBLE BY 1,840,000 UNDER-EMPLOYED FARMERS

(In Millions of Units)

Commodity	'43 Goals	Increase Over '42 Production	1,380,000 Non-FSA Borrowers 1/	460,000 FSA Borrowers 2/	Total Increases, 1,840,000 farmers	% '43 Goal Increases	% '43 Goals	Farm Value
Milk, lbs.	122,000	2,588	4,951	1,419	6,370	250	5.2	$190
Pork, lbs. (dressed)	13,800	2,860	516	144	660	23	4.8	$125
Beef, lbs. (dressed)	10,910	930	231	69	330	32	2.7	$ 65
Eggs, doz.	4,345	348	170	50	220	63	5.1	$ 90
Chickens, lbs. (dressed)	4,000 5/	800	105	33	138	17	3.4	$ 35
Soybeans, bu.	216	22.3/	13.2	3.4	16.6	75	7.7	$ 25
Peanuts, lbs.	3,712	1,208 3/	265	102	367	30	9.9	$ 25
Dry Edible beans lbs.	2,554	593	63	30	93	16	3.6	$ 5
Beet Sugar, lbs.	3,800	472 / 4/	93	34	127	27	3.4	$ 5
								$565 / 6/

1/ Calculated from data in B.A.E. and Census studies, and 1942 FSA production records; increases on other commodities proportionate.

2/ Actual 1942 increases in these commodities by FSA borrowers; increases on all other commodities proportionate

3/ Increased acreage times expected yield.

4/ From higher yields and sugar content; acreage goal same; this potential production indicates capacity to produce competing crops more badly needed, such as potatoes.

5/ Farm-produced eggs only.

6/ Approximate price to consumer $1,000,000,000.

DEPARTMENT OF AGRICULTURE
WASHINGTON

February 20, 1943

Mr. Robert Handschin
National Farmers Union
430 Munsey Building
Washington, D. C.

Dear Mr. Handschin:

The reply to your letter of January 30, 1943 can best be based upon an analysis of some data from the 1940 Census of Agriculture, which we have recently made. There are no comprehensive data which would permit an entirely satisfactory classification of all farms according to the extent to which farmers are making full utilization of productive resources. The best available substitute is provided by an analysis of the gross farm income figures from the 1940 Census of Agriculture. On the basis of those figures we have classified the 6,096,734 farms into four groups as follows:

Group A	1,955,739	Higher farm income
Group B	1,824,279	Medium farm income
Group C	857,692	Low farm income
Group D	1,461,024	Very low farm income

No doubt considerable increases in production could be obtained in all of these groups. However, considering the factors limiting expansion in production, particularly manpower, it appears that the largest number of farmers who, with appropriate assistance, would be able to increase production substantially are to be found in Groups B and C. In these two groups the labor of the farm operators generally is not yet fully employed.

Group A represents the farms which provide full time employment for one or more workers. It includes 442,765 farm operators whose possibilities for substantial increases in production over present high levels are limited by their being 65 years old or over, by their working 100 or more days off the farm, or by their being sharecroppers. Among the others, there are many who are already producing at full capacity. Securing the maximum production from farms in Group A will require the provision of an adequate labor supply and of adequate credit.

Group B represents the farms which in the main provide less than full employment for one worker, but which could increase production through the addition of capital resources, thus making possible the more complete utilization of the labor of the operator and his family. On many farms in this group the improvement of farm management practices would be fully as important as the provision of additional credit. If we eliminate from consideration 636,147 farmers on account of age, off-farm work or sharecropper status, we have 1,186,132 who are situated favorably for increasing production.

Group C differs from Group B primarily in that the land and other resources for increasing production are considerably more limited, and the need for improved farm management practices is still greater. Nearly half of the farmers in this group are limited by age, off-farm work, or sharecropper status, leaving 446,026 farms with opportunities for increasing production, although some of the operators might be in position to make a greater contribution to the war effort by seeking employment on better farms or in industry.

Group D includes farms where, due to very limited resources, the opportunities for increasing production are much less. The total of 1,461,024 includes 822,527 farmers who are 65 years of age or over, who work 100 days or more off the farm, or who are sharecroppers. A large portion of the remaining 638,497 could contribute more to the war effort by working on better farms or in industry, although some of them with the proper assistance could increase production.

It seems to us that "farmers who are so situated that adequate farm management and credit could allow them to make the most substantial and quick increases in their production", to quote your question, will be found most frequently in Groups B and C. There are about 1,200,000 such farmers in Group B and 450,000 in Group C.

There are in round numbers about one and one-half million among farmers in these two groups who should be able to increase production substantially with the types of assistance which you mention. Of these, approximately 1,200,000 in Group B are probably somewhat more favorably situated for increasing production than the 450,000 in Group C.

A special program providing very small loans for the production of one or two food enterprises would enable many farmers who are not included in the 1.5 million to increase their contribution to agricultural production. Such a program would be applicable to some of the farmers in Group D and also to some of the part-time and the semi-retired farmers in Groups B and C. While the production resulting from an additional brood sow or two, a flock of chickens or a truck patch would not be large on any one farm, the aggregate contribution would be far from negligible. Because of the transportation situation or for other reasons, such a program might be particularly significant in some local areas.

More than three fourths of the sharecroppers are included in Groups B, C, and D. They are not included in the 1.5 million favorably situated for increasing food production. However, they too offer possibilities for increasing food production, if programs similar to those mentioned above, but recognizing the special status of sharecroppers, are developed. Experience has shown that this is entirely feasible.

The classification of farms given above is based on data from the 1940 Census of Agriculture. Full employment for at least one worker is represented by an income level which is dependent on type of farming and location. Consequently, the income limits for the several groups are not uniform throughout the country. The groups used were defined as follows:

VALUE OF ALL PRODUCTS SOLD, TRADED OR USED BY FARM FAMILY, 1939

REGIONS	GROUP A	GROUP B	GROUP C	GROUP D
I. Mass., Conn., R. I., Del., Maine, Md., Vt., N. H., N. J., N. Y., & Penna.	$1000 & over	$400-999	$250-399	Less than $250
II. Wis., Mich., Minn.	$1500 & over	$600-1499	$400-599	Less than $400
III. Ohio, Ind., Ill., Ia., & Mo.	$1500 & over	$600-1499	$400-599	Less than $400
IV. Ky., N. Car., Tenn., Va., & W. Va.	$ 750 & over	$400-749	$250-399	Less than $250
V. Ala., Fla., Ga., & S. Car.	$ 750 & over	$400-749	$250-399	Less than $250
VI. Ark., La., & Miss.	$ 750 & over	$400-749	$250-399	Less than $250
VII. Kansas, Neb., N. Dak. & S. Dak.	$1500 & over	$600-1499	$400-599	Less than $400
VIII. Okla. & Texas	$1000 & over	$400-999	$250-399	Less than $250
IX. Cal., Nev., & Utah	$1500 & over	$600-1499	$400-599	Less than $400
X. Colo., Mont., & Wyo.	$1500 & over	$600-1499	$400-599	Less than $400
XI. Idaho, Oreg., & Wash.	$1000 & over	$400-999	$250-399	Less than $250
XII. N. Mex., & Ariz.	$1000 & over	$400-999	$250-399	Less than $250

The distribution of farms in Groups A, B, C, and D by these regions follows: 1/

Region	GROUP A: Limited Possibilities for Expanding Production 2/	GROUP A: All Other Farms In Group	GROUP B: Limited Possibilities for Expanding Production 2/	GROUP B: All Other Farms In Group
U. S.	442,765	1,510,974	636,147	1,188,132
I	59,010	180,845	59,821	62,423
II	25,585	180,782	41,438	153,972
III	46,905	339,182	76,086	236,099
IV	111,445	207,376	122,336	150,281
V	60,838	103,549	89,884	113,246
VI	53,126	83,822	120,226	105,822
VII	15,087	119,144	21,229	153,333
VIII	32,083	135,946	59,936	153,623
IX	15,457	51,710	14,808	23,569
X	5,152	35,483	5,181	23,297
XI	15,461	62,129	20,545	23,711
XII	2,816	11,206	2,657	8,756

Region	GROUP C: Limited Possibilities for Expanding Production 2/	GROUP C: All Other Farms in Group	GROUP D: Limited Possibilities for Expanding Production 2/	GROUP D: All Other Farms in Group
U. S.	411,666	446,026	822,527	638,497
I	54,023	19,877	77,116	41,279
II	18,697	29,978	70,744	50,679
III	42,863	65,143	164,868	128,045
IV	100,196	86,132	169,079	106,109
V	58,126	68,718	82,154	71,270
VI	84,175	64,186	85,591	60,825
VII	9,458	36,422	31,885	57,447
VIII	37,516	50,725	65,264	62,596
IX	7,316	6,510	24,363	17,909
X	3,287	6,397	13,727	15,753
XI	13,354	7,369	29,255	15,374
XII	2,675	4,569	8,683	11,211

1/ Estimates by the Bureau of Agricultural Economics. These estimates are based in part on data secured in a cooperative project with the Bureau of the Census in which a 2 percent sample of the 1940 Agriculture Census returns were used.

2/ Farms with operators 65 years old or over, with operators who worked off the farm 100 days or more in 1939, or with operators who are sharecroppers.

It is difficult to estimate just how much additional production could be obtained from the approximately one and one half million farmers indicated above as being so situated that adequate farm management and credit would enable them to increase production. No doubt some of them could increase production much more than others. As a group they are particularly well situated in so far as manpower, one of the principal obstacles to production in 1943, is concerned. As a rule they have ample manpower available since so many of them are not yet utilizing fully or efficiently their own labor or that of the members of their families.

In the amount and quality of land and other resources at their disposal, a great many of them are in about the same situation as were FSA supervised borrowers before obtaining their loans, and might reasonably be expected to equal their performance. The following table, taken from a USDA press release of February 3, 1943 shows the remarkable increases in production obtained by FSA borrowers in 1942 as compared with the increases obtained by all farmers:

INCREASES IN PRODUCTION OF ESSENTIAL CROP AND LIVESTOCK PRODUCTS BETWEEN 1941 and 1942 BY ALL FARMERS AND BY ACTIVE FARM SECURITY ADMINISTRATION BORROWERS

Product	All Farmers: Amount Increase 1941 to 1942	All Farmers: Percent Increase	FSA Borrowers: Amount Increase 1941 to 1942	FSA Borrowers: Percent Increase	Percent of increase by all farmers contributed by FSA Borrowers
Milk (lbs.)	3,914,000,000	3	1,419,000,000	20	36
Pork (lbs. lvwgt.)	2,252,000,000 1/	13	192,400,000	36	9
Eggs (doz.)	516,000,000	15	49,800,000	31	10
Beef (lbs. lvwgt.)	1,767,000,000 1/	11	124,300,000	38	7
Chickens (lbs. lvwgt.)	366,365,000 1/	14	37,100,000	36	10
Peanuts (lbs.)	1,028,000,000	70	101,700,000	88	10
Soybeans (bu.)	104,000,000	98	3,360,000	106	3
Dry beans (lbs.)	110,500,000	6	30,100,000	34	27
Sugar beets (tons)	1,616,000	16	113,000	24	7

Total number of all farms 6,097,000
Number of actively supervised FSA borrowers producing in 1942 465,941
Proportion of all farmers who were actively supervised FSA borrowers. . . 7.6%

1/ Preliminary unpublished BAE estimates of commercial slaughter, plus home use. Chicken figures include commercial broilers.

It should be kept in mind, of course, that many of the borrowers whose increases are reported here have been given farm management assistance by the FSA for several years. The experience of the FSA last year indicated that first year borrowers were not able to increase production quite as much as the average borrower who had been in their program longer.

If one makes allowance for the fact that the group of a million and a half farmers referred to probably includes around a quarter of a million or more FSA borrowers who have already increased production by high percentages of their former production, and that it also includes some farmers who might be in position to increase production with credit, but without farm management assistance, it would appear that at least half of the group, or approximately three quarters of a million, would be so situated that they could increase their production very substantially.

While it is impossible, without a careful appraisal farm by farm, to say exactly what would result if farm management assistance and credit for capital goods were made available to these farmers, it is known that there are unused resources on these farms about as great as on farms of FSA borrowers. It therefore would be reasonable to assume that increases in line with the increases already obtained on farms of FSA borrowers would be possible on these farms.

The attached table contains data furnished us by the FSA which shows a regional distribution of the increases obtained by their borrowers last year. This gives a rough indication of where increases might be obtained by a larger number of similarly situated farmers next year and in 1944. No doubt there are also possibilities of getting additional production increases on many of the farms already in the FSA program. Taking it all in all you can see that it is possible to obtain substantial increases in production on a lot of farms, with farm management and credit help, increases which small farmers are not likely to obtain at all without such assistance.

In addition to the sizeable increases which might be obtained from the three quarters of a million farmers referred to above, the increases which can be obtained on other farms should not be overlooked. As you well know, the food situation is such that the maximum possible increases in food production on all farms, whether they be large or small, are greatly needed. Although the increases obtainable on many farms may be quite small, the need for food is so great that even the small "bits and pieces" are of great importance.

Sincerely,

H. R. Tolley

Chief

Attachment

Increases in production of essential crop and livestock products between 1941 and 1942 by active standard borrowers, by regions

Products	Region I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
	No.	No.	No.	No.	No.	No.	No.	No.	No.	No.	No.	No.
FSA borrowers	19,016	29,358	62,041	62,024	92,361	67,870	41,928	43,294	9,688	13,784	12,214	10,363
Milk increase												
Pounds (000)	95,537	207,575	185,438	113,381	83,970	117,562	228,572	140,337	65,877	53,903	97,374	29,453
Percent	17	15	16	25	34	35	22	25	22	16	21	19
Pork, increase												
Pounds (000)	1,139	21,093	55,712	15,179	16,286	8,378	38,833	15,364	1,982	9,153	4,128	5,153
Percent	12	34	30	32	36	33	57	45	21	58	19	62
Beef, increase												
Pounds (000)	1,255	13,086	18,400	8,476	4,380	4,982	26,092	17,315	5,799	14,417	5,447	4,850
Percent	24	43	32	43	93	69	30	43	50	38	42	40
Eggs, increase												
Dozen (000)	4,333	5,246	9,059	4,185	5,870	3,524	7,206	5,154	674	1,649	1,382	1,521
Percent	29	40	28	29	46	31	32	31	08	30	28	37
Chickens, increase												
Pounds (000)	2,561	1,938	6,380	4,700	5,500	3,228	7,409	2,136	1,056	1,103	450	660
Percent	24	29	35	35	50	38	47	25	43	31	19	40
Soybeans, increase												
Bushels (000)	221	195	2,181	184	137	296	105	12	1/	-	1/	29
Percent	454	196	89	81	253	138	332	35		-		339
Peanuts, increase	-	-	-	6,112	38,060	14,234	-	41,608	-	-	-	1,686
Pounds (000)												
Percent	-	-	-	29	59	162	-	210	-	-	-	114
Dry beans, increase												
Pounds (000)	254	2,015	196	712	3,294	1,184	1,039	521	-135	15,354	2,722	2,943
Percent	5	16	15	17	40	21	66	18	-17	55	39	26
Sugar beets, increase												
Tons (000)	2	14	10	1/	1/	3	10	3	1	35	35	1/
Percent	0	32	59			53	46	151	2	13	47	

1/ Less than 1,000 units

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
MAR 5 - 1943

TO Secretary Morgenthau

FROM Randolph Paul

The Subcommittee of the Ways and Means Committee this afternoon completed its work and will report to the full Committee Monday morning at 10:30. The Subcommittee did not make any decision as to transition to pay-as-you-go, leaving the whole question of cancellation and doubling up to the full Committee.

The Subcommittee adopted a system of current collection of income tax liabilities with the following features:

1. The withholding at source at a 20 percent rate, as previously announced. This withholding will not apply with respect to members of the armed forces, farm labor, or domestic servants.

2. With respect to taxpayers whose chief interest is farming, two-thirds of the estimated tax liability must be paid before December 31 of any year, and the balance by March 15 of the following year. (This is the Canadian plan.)

3. With respect to taxpayers other than farmers and other than those whose full liability is discharged through collection at source, quarterly returns must be filed with income estimated on an annual basis and the tax paid currently in quarterly installments. The taxpayer is allowed one month after the close of each quarter to make his return and pay his tax. He would presumably make final adjustments and settle his final liability on March 15 of the following year.

The above current collection plan applies only to individual taxpayers, and not to corporations.

The full Committee still faces the most difficult political problem, namely, that of deciding how much, if any, tax cancellation is to be allowed, and how much, if any, doubling up of payment is to be required.

RP

MAR 5 - 1943

TO: Secretary Morgenthau

FROM: Mr. Paul

About a month ago Senator Taft brought to my attention the income tax liability of the Lincoln Electric Company of Cleveland, Ohio. He was under the impression that certain provisions of the 1942 Act changed the tax incidence in this case. I wrote him on January 19 last, briefly pointing out in effect that such was not the case and then dismissed the matter from my mind. However, recently he requested that I see Mr. J. F. Lincoln, the President of the company, which I did last Thursday. I advised Mr. Lincoln as I had the Senator that this was a decentralized case and under Treasury rules and regulations I could do nothing about the matter but he insisted that I bring the matter to your attention, which I am now doing.

The Lincoln Electric Company began business in 1906 manufacturing and selling electric motors. From a small beginning it has grown into one of the dominant manufacturers of electric motors, welders and electrodes doing a business in 1941 of nearly $24,000,000 which I understand has since increased unquestionably because of the war. I am also told that he is supplying approximately fifty per cent of the welding equipment required by the Navy and the Maritime Commission and that representatives of the War Production Board and the Navy have indicated an interest in this matter. Mr. Lincoln who saw me, is the dominant figure in the company and has evolved a system over a period of years of sharing with his employees the profits of the company. This is not unusual. The unusual part of it is the extent to which he shares his profits. For instance, the salary of one of the vice-presidents is $12,453.28, his cash bonus is $40,000 plus the purchase of an annuity premium of $6,890.24 and a designated interest in an employees' trust agreement valued at $7,240.60, a total of $66,584.12. On the other hand an armature winder whose base pay is $3,070.45, which is in itself more than average for similar employment, receives a cash bonus of $2,900, an annuity premium of $1,249.49 and a designated interest in an employees' trust agreement valued at $1,774.56, a total of $8,964.50! Mr. Lincoln claims and shows

by charts that as a result of these large and conducive payments, or to put it another way, the generous sharing of profits with the employees, makes it possible for him to produce more machines at somewhat less than one-half the cost of his nearest competitor. Incidentally, his competitors are such companies as General Electric, Western Electric and comparable manufacturers. Mr. Lincoln states that the attitude of the Bureau is that since his over-all payments to his employees are out of line with comparable salaries in the same field they should be disallowed to the extent of the difference. He says that upon posing the query would his payroll have been questioned had he employed twice the number of people to produce the same number of goods, a representative of the Bureau advised him it would not have been. Also he complains that he was told that no person who works with his hands is worth $5,000.

At the last session of Congress Mr. Lincoln appeared before the Naval Affairs Committee. At that time the chief concern of this Committee was the effect of bonuses paid by Government contractors on the selling price to the Government. At that hearing Mr. Lincoln stated that although large bonuses were paid to his employees actually the cost to the Government was substantially reduced. The Committee seems to have been satisfied on this point and although this Committee was not interested in taxation, the Chairman took occasion to state: "You have gotten results by giving your bonuses. There are no two ways in the world about that but at the same time there should be some rule, and the thought has been running through my mind, what I have been thinking about this thing, that business engaged in interstate commerce should be restricted during the emergency in giving these large bonuses out, because there is no doubt about it, it has the effect of evading the corporate taxes."

This, of course, is the thesis of the Bureau. A day or so after I saw Mr. Lincoln I happened to see Mr. Helvering and I told him of Mr. Lincoln's visit and his views as to why the Bureau was wrong in questioning his method of compensating his employees. The Commissioner's comment was that if we permitted corporations to carry out Mr. Lincoln's ideas there would not be any necessity for an excess profits tax.

Obviously this company occupies a unique position. Although 80% of the stock is held by J. F. Lincoln and his brother, J. C. Lincoln, and certain trusts set up by them, J. F. Lincoln receives a base pay of $59,689.03, no bonus and an annuity premium paid for his account in the amount of $12,711.45, in all $72,400.48, which is only $5,816.36 more than one of the vice-presidents. His brother, who is chairman of the board and treasurer, received a flat salary of $3,408, no bonus and no annuity. The other 20% of the stock I understand is held largely, if not entirely, by employees of all classes to whom stock has been sold from time to time with the same incentive idea. In these circumstances the company is not particularly interested in the payment of dividends and the stockholders are not particularly interested in receiving dividends since their bonuses and other appurtenances amount to much more than dividends ordinarily would in the usual company.

Mr. Lincoln is a very persistent person and is insistent that the Bureau's attitude besides penalizing his company will destroy the productiveness of its employees and thereby seriously affect and retard the war effort. He made the statement to me that if all corporations engaged in the war effort had as good a record of production and cost that this Government would be in a better situation than it finds itself. He also informed me that he intended appearing before the Ways and Means Committee in this matter. Under the circumstances I felt that the matter should be brought to your personal attention. A copy of my letter to Senator Taft is attached.

Attachment.

COPY

GCT:WDF
A-378263

Jan. 19, 1943

My dear Senator:

Reference is made to your recent inquiry with respect to action taken by the Bureau of Internal Revenue concerning the income tax liability of the Lincoln Electric Company of Cleveland, Ohio.

Upon inquiry I find the situation to be substantially as follows: The case is pending before the Cleveland Division of the Technical Staff. Conferences have been held between representatives of the taxpayer and the Technical Staff concerning the amount of deductions the corporation may take in the years 1940 and 1941 on account of compensation paid to or promised to its employees. The crux of the matter seems to be whether the corporation is entitled to deduct, in the case of each employee, not only (1) the base salary or wages paid to its employees, but also (2) certain cash bonuses, (3) premiums for retirement annuities, and (4) contributions to an employees' profit-sharing trust. The record indicates that the conferees, that is, the representatives of the Technical Staff and the taxpayer, were unable to compose their differences, and notice was finally served upon the taxpayer's representatives of the purpose of the Technical Staff to disallow deductions (3) and (4), and its purpose to send what is commonly known as a deficiency letter to the taxpayer from which it would have the right to appeal to the Tax Court of the United States.

In our telephone conversation the other day, I got the impression the taxpayer's representatives thought the Revenue Act of 1942 had settled controversies of this sort. In trying to ascertain the facts and the law in the case, I have had both the old and new provisions of law in mind. If we take the Revenue Act of 1942 first, it will be noted the provisions of section 162 are applicable only to years beginning with 1942. See particularly subsection (d) of that section. This leaves us to consider then only the old provisions of law applicable to 1940 and 1941, since these are the years involved in the present situation. The applicable provision for 1940 and 1941 is section 23 (a), Internal Revenue Code.

In order for amounts to be deductible under that section they must, in the statutory language, be "ordinary and necessary", and "reasonable" in amount. Since the statute speaks of a "reasonable" amount, someone must determine what a reasonable amount is. I hardly think Congress intended to say, every claimed deduction should be conclusively presumed to be reasonable in amount and, therefore, allowed as a deduction. There must be some yardstick and some administrative action to carry out the purpose and policy of the law. As I understand the situation in this particular case at the moment, the administrative officers have determined the sums, claimed as deductions, do not fall within the yardstick of reasonableness, and to the extent they are excessive they are to be disallowed.

In conclusion, I might say, the element of "reasonableness" persists in the law even under the provisions as amended by the 1942 Act. See subdivision (b) of section 162, Revenue Act of 1942.

Very truly yours,

(Sgd.) Randolph Paul

General Counsel.

Hon. Robert A. Taft,
United States Senate.

Copy attached

MAR 5 - 1943

My dear Senator:

I have your letter of February 27, 1943, requesting certain information with respect to Government use of electricity furnished by the Potomac Electric Power Company in and around the District of Columbia.

With regard to the total number of kilowatt hours used by Federal agencies in the District of Columbia, in 1941 the Government purchased 295,955,920 Kwh. This represented 26.2 per cent of all sales of the Potomac Electric Power Company, and the Government paid $2,793,285 for this amount of current.

I do not have at hand figures for 1942 which I can vouch for as absolutely accurate. Preliminary figures just compiled indicate that total metered Government consumption for 1942 was 423,872,823 Kwh, at a total cost of $3,966,224.

You are correct in your understanding that the Government purchases electric energy in the District at varying rates, depending upon the amount consumed at each separate installation, of which there are over 700. The average cost to us was .944 cents per Kwh in 1941, and .934 cents per Kwh in 1942.

Photo. file in Diary
Orig. file - Thompson

I am greatly appreciative of your letter. As you may have seen in the press, we are taking a very active part in hearings being held by the Public Utility Commission in the District, and are urging strongly that the known facts justify a very substantial decrease in rates charged in the District of Columbia, in which decrease, of course, the Federal Government would share. It is too early to tell how successful we will be, but you may be sure that we will leave nothing proper undone to have the existing situation corrected, including appropriate changes in the basis for charging the Federal Government for its needs.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Homer T. Bone
United States Senate
Washington, D. C.

JJO'C.Jr/lsw
3-4-43

United States Senate

COMMITTEE ON PATENTS

February 27, 1943

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

Dear Mr. Secretary:

I shall appreciate your kindness if you will supply me with certain figures which I desire for my files.

All Government buildings and agencies in the District of Columbia purchase electric energy from the Potomac Electric Power Company. It is my understanding that separate bills for energy are paid at the commercial rate for each building or agency, rather than in one lump sum for the total kilowatt hours consumed by all of these government agencies. If the rates for current are on a sliding scale, dependent upon consumption, it would seem obvious that this would tremendously increase the cost to the government. I would like to know if my understanding is correct in this regard.

I would also like to know the total number of kilowatt hours purchased and consumed by all federal agencies in the District during 1942, and the total amount paid to the Power Company for this total consumption, so that I may determine the amount paid per kilowatt hour.

I want to assure you of my appreciation for your courage and forthrightness in dealing with the local power rate situation as you have. The power company boasts of being one of the most efficient producers in the country. In this connection I might add that it is the boast of private power companies that they are able to produce current as cheaply in their modern steam generating plants as current can be produced in the hydro plants of the West. This boast should be laid alongside the fact that my own city of Tacoma supplies all of the energy used in the great Army post at McChord Field near that city. It is my recollection that it is all supplied through one meter at a cost to the government of little in excess of 4 mills a kwh.

One of the chief purposes of this letter is to congratulate you and to let you know that some of us appreciate what you are doing.

Sincerely yours,

Homer T. Bone

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau March 5, 1943

FROM Frances McCathran

CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Tax: Pay-As-You-Go - As Canada prepared to put a pay-as-you-go income tax plan in effect by April with a directness unequalled here, dissatisfaction with the stalemate on tax legislation increased in the U.S. House of Representatives. Representative Daniel Reed, a member of the Subcommittee now considering proposals for putting taxes on a current basis, said yesterday that if the taxpayer isn't informed soon of his tax liability, he will hesitate to buy war bonds and to participate in the Treasury's April financing drive. This obviously would "create a major disaster," he said, because, "It will mean that the Treasury will have to appeal to the commercial banks to buy bonds to finance the war. This, in turn, will create and put new money into circulation to bid against the limited supply of goods available, thus fostering the very inflation the Treasury has sought to prevent." Moreover, threats to introduce a discharge petition relieving the Ways and Means Committee of further responsibility continued to circulate and there was talk of forcing a test vote in the House on the new Carlson bill, which would include modified features of the Ruml plan and a 20% withholding tax at the source. However, according to an article in this morning's New York Times, there are indications that the Subcommittee is "becoming more impressed with the Treasury's argument that the Government cannot afford (in view of the 16 billion dollars of new revenue asked by the President) to forego any collectable assets."

2. Salary Ceiling - Administration supporters are reportedly concerned over the fact that the Disney salary limitation rider attached to the Debt Limit Bill, which cleared the Rules Committee on Wednesday, will probably be considered by the House acting in its capacity as a "committee of the whole." This would eliminate the necessity of a formal roll call, which they are said to be seeking to secure for the measure after its debate on the floor of the House.

3. Silver - Senator McCarran said yesterday that a Senate Appropriations Subcommittee had voted unanimously to strike from the Treasury-Post Office Bill a House-approved amendment which would withhold funds from the Treasury for future purchase and transportation of silver under the 1934 Purchase Act. Although the action was only tentative since the Subcommittee is still considering the bill, McCarran said he thought most Congressional opposition to the continuation of the silver purchase program had been abated by measures taken recently.

4. O.W.I. - Demanding a Congressional investigation of the OWI, Representative John Taber, ranking Republican member of the Appropriations Committee, showed the House yesterday a publication entitled "The Life of Franklin D. Roosevelt," which he said Elmer Davis had told him was published and distributed by the OWI at Government expense. Charging that the publication was "purely political propaganda designed entirely to promote the fourth term and dictatorship," he claimed it contained "nothing in the nature of war--nothing to help the war effort." He also questioned the necessity of a personnel of 3,900 employed by the OWI.

MEMORANDUM FOR THE SECRETARY.

March 5, 1943.

Mail Report

This past week saw a rise in mail dealing with Bonds and a sharp decrease in tax mail. No new subjects or new variations of old subjects were developed.

Only 22 persons wrote to express their approval of a pay-as-you-go tax plan, and of these, only 3 voted for the Ruml Plan in its entirety. Two objected in principle to this method of tax collection, and 17 stated definitely that there should be no forgiveness of a full year's taxes. Very strong emphasis was placed on the desirability of extablishing a pay-as-you-go plan by beginning payment now on whichever is larger, the income for 1942 or that for 1943. Ten taxpayers sent their completed returns directly to the Secretary. Some 35 had questions about their own problems, and a few offered suggestions for simplifying collection methods. A number felt they could not meet higher taxes, and there were various protests about exemptions. There were several letters from CIO Unions submitting Resolutions calling for increased exemptions and a repeal of the Victory Tax. There were a number of complaints that tax forms were not on hand, and others in regard to difficulties encountered when the writers attempted to pay their taxes. Refusal of Collectors to accept cash has been commented upon in several caustic letters.

The Bond mail was full of suggestions which followed the usual pattern: provide additional sales facilities; offer new type of Bonds; permit borrowing on Bonds, etc. There seems to be a dangerous flare-up of the old rumor that Bonds now being sold will never be redeemed, or the Government will renege in some way. Two Congressmen transmitted protests on the expensive mailing tube, and other writers questioned the use of

franked envelopes or of Government-paid telegrams by non-official agencies promoting the sale of Bonds and Stamps. There were a number of reported instances of excessive cashing of Bonds -- in all, 61 were submitted to the Secretary for redemption, 15 coming from Patchogue, New York. Of the 44 individual complaints, almost all came from civilian and military personnel of the War Department.

In the general mail, only 6 letters spoke of Federal sponsorship of agricultural credit agencies. One writer favored these agencies and 5 opposed them. There is still occasional objection to the recent issuance of Federal Reserve Bank notes, and scattered complaints of excessive spending in local war projects of various types.

White House mail in February totaled 764 letters, of which 390 were handled in this Division. This correspondence reflects the general interest in pay-as-you-go taxation. For the first time in some months, this has fallen below the February receipts of one previous year, although it is larger than those of other years. In 1938, we received 1,098 pieces of mail; in 1940, 376, in 1941, 439.

Gabrielle E. Forbush

General Comments

James Harold, N.Y.C. I trust you will pardon my writing to you, but as one of America's little people, it occurred to me that you might be interested in what we little people think. First of all, we don't like to read about Mr. Paul saying he is going to forgive us anything for two reasons. No. 1 is that we don't think it's up to Mr. Paul for he was never elected by us to any job; and No. 2, we Americans have to pay this war bill for the Treasury is just OUR method of paying bills. All of us little people pay last year's taxes with this year's money, and God knows that's hard enough, with food higher and rents and insurance the same. Don't forget, Mr. Morgenthau, that a lot of us have NOT had any increases in pay like the Union workers. Another thing -- I read in the papers that you want to tax the Government tax-free Bonds. We little people don't own those so that doesn't affect us, but I am afraid that you are overlooking one thing, and that is that you may be making people wonder if their War Bonds may not be changed in some way or other. Only yesterday, I heard one fellow say that probably by the time the War Bonds were due, there would be some tricky idea to kill them. You see, people still remember that the Government broke its promise on the goldbacks and now if they do it on their Bonds, more and more people will wonder. * * * So let Washington start cleaning house and playing ball honestly. * * * When that's done, all America will back you up to hell and gone. But let it go on as it is, and Washington will see the greatest housecleaning it's ever seen at the next election. Harry Hopkins doing so well for himself and family don't go so well. * * *

Fred W. Greene, Dunsmuir, Calif. It affords me a great amount of pleasure to extend to you and your Department my best wishes. I can safely and sincerely say, Honorable Sir, that I have never seen a better balanced Administration than the present, and to you singly the credit for distribution for the Department. In these

times a heavy strain falls upon Governmental Heads, but the remarkable manner that officials are standing up and turning in performance certainly deserves credit. * * *

Mrs. W. J. Klessig, Badger, Minn. A recent newscast represented you as being in sympathy with the demands of rural bankers for an end to Government loans to small farmers. * * * Loans to small farmers by the Farm Security Administration and the Farm Credit Administration of the Emergency Crop and Feed Loan Administration, in no wise affect bank loans to farmers. F.S.A. and F.C.A. lend only to those farmers who are unable to secure loans from local banks. Applicants for loans from those administrations are asked if they have endeavored to borrow from sources other than the Government, and make affidavit that they have so tried and have failed. * * * No farmer can get a loan from a rural bank without gilt-edged security. The small farmer doesn't have the property which constitutes such security, or else he doesn't have them free from mortgage. The local banks lend to those farmers who wish to expand and have, free from mortgage, property that will much more than cover the loan. The small farmers, both in north Florida, where we lived for ten years, and in this "brush country" of northern Minnesota, have nothing a bank would accept as security. * * * After a farmer has stated that he cannot secure a loan from a source other than the Government, he is questioned closely about his assets -- cash, credits, stock, machinery, feed, seed, characteristics of his farm -- and his liabilities, etc. * * * We had a five-year F.S.A. loan which we paid in three years. Two years later, due to drought conditions, we asked for, and were granted, an F.C.A. feed and seed loan, which, with drought conditions still continuing, we were barely able to pay when due. That year only those farmers with extra, extra first-class security could get bank loans. * * * I cannot understand why rural bankers contend that they are adversely affected by F.S.A. and F.C.A. loans to small farmers. The only farmers who can borrow from these administrations cannot borrow from banks. * * *

R. Rutter Martin, Lakewood, Ohio. The United States Army recommended the removal of five men working for an aluminum company whom they stated, after observation over a period of time, had purposely slowed up production. The men in the department involved all quit their jobs. * * * A food company, producing dehydrated foods for the Armed Forces, was unable to secure a sufficient number of men, placed a few girls in the department - result, a sit-down strike in the entire plant because of Union objection to the employment of women. * * * A local club of respectable citizens holds a family dinner. Many members have children who play in a High School band. Permission of the Superintendent of Schools was requested so that the band could play at the family dinner. The School Superintendent was agreeable but he said Union officials would not consent on the grounds the club had enough money to hire Union musicians if they wanted music. Is this the America your ancestors and mine fought for and are still fighting? * * * Certainly, I am for Labor Unions, but don't you agree they must conduct themselves in the American way? Yours is a responsible job. Never before has such a responsibility rested upon honest officials. Will you advocate and work for legislation to correct the many unfair and un-American labor situations existing?

Favorable Comments on Bonds

J. G. Miller, Houston, Texas. We are putting future generations into financial bondage by the issuance of tax-exempt Bonds. The interest on the Bonds would buy vast supplies of munitions. * * * I have thought that all of us should waive interest on our Bonds. This we could do by giving a Power of Attorney to the Secretary of the Treasury authorizing him to apply interest on the purchase of munitions. The "little" people whom I have discussed this plan with, have approved it. I believe that it would spread like a prairie fire across the nation. We want to give to, not get from the Government. Do you approve the idea?

Unfavorable Comments on Bonds

H. A. Shaffer, New Castle, Pa. I would like to have some information in regard to the charge made when it is necessary to cash in a Defense Savings Bond. * * * My wife, Mrs. Irene M. Shaffer went to the Lawrence Savings & Trust Company this morning to cash in a Bond, and the secretary, Charles Johns, Jr., made her pay $1 for service charges. * * * I was told by Mr. Johns that the bank could not afford to do this free-of-charge, as they were held responsible for this Bond. I do not think that was a very good explanation as I am sure the Government would soon investigate if the proper party did not receive the cash for the Bond that was turned in. It looks to me as though the banks are making a little extra money. There is no place on the Bonds that there will be a charge made in order to cash in a Bond. I have been off of work for over 3 months, and it was necessary to cash in the Bond, but I am now back working temporarily, due to my injury, and I have signed up for 10% of my earnings; my sons are doing the same thing. * * *

T. Q. Hall, Vice President, Security-First National Bank of Los Angeles. In the sale of War Savings Bonds, we constantly are required to furnish advice and assistance to purchasers of Bonds in matters that we do not feel are fully and properly covered in the rules and regulations. We have one such situation before us. In 1935 and 1936 a young man purchased numbers of U. S. Savings Bonds, and named his mother as co-owner. A short time ago he married. The mother is agreeable to having her name removed as co-owner on these Bonds, and it is the desire that the Bonds be reissued in the names of the young man and his wife. We could only advance the information that the present regulations call for encashment of the Bonds, at a material loss of interest. Could you advise us if there is any procedure which can be followed in a situation such as this to save the interest which would have to be forfeited if the Bonds were cashed? * * *

Senator Joseph F. Guffey, Washington, D.C. I am in receipt of a postal card from Mr. Harold L. Heimbach, Postmaster at Quakertown, Pa., reading as follows: "Something should be done about stopping the payment of U. S. War Savings Bonds for the duration. It is getting to be a joke the way certain people subscribe to the payroll deduction plan and then cash their Bonds as soon as possible. And this class of people will be the first ones to crowd the relief rolls after the war. As Postmaster, I know that I am stating facts." I submit these statements to you for your consideration and such action as in your opinion may be warranted.

Senator William Langer, (North Dakota), forwards a letter he has received from James M. Witherow, Attorney-at-Law, Moorhead, Minn., which reads as follows:"* * * At the close of the last war, the Federal Reserve Banks instead of supporting the market compelled a good many of the banks to throw the Bonds on the market and suffer substantial losses through their patriotism in supporting the Government while the war was on. As an example, The First National Bank of Moorhead had $200,000 worth of Bonds on hand, upon which they asked the Federal Reserve for a loan, which was refused, telling them to sell their Bonds on the market, which they were obliged to do at a loss of $30,000.* * * We in the Northwest must remember that Mr. Morgenthau told the people in Boston that the United States was going to import wheat from Canada to bear down the wheat of the farms in the interest of the Eastern laborers. Now the question is: How much confidence can the banks and people, not only in the Northwest but throughout the country, justifiably place in a man whose knowledge of fundamental economics is so erroneous, and whose greedy selfishness would sacrifice the interests of the farmers to appease the Labor Unions? How do we know that such a man would not sacrifice the interests of the Bondholders to appease the speculators with whom he has been associated all of his business life and career? * * * A 10% shrink on the present holdings of banks

and other financial institutions bought for patriotic motives would wipe out the capital and surplus of the greater portions of the banks throughout the Northwest, and probably throughout the entire country. * * * We cannot afford to trust our financial safety to the tender mercies of the ravening wolves of the security markets, particularly when in the light of previous experience, the Treasury and the Federal Reserve fail to afford the banks and financial institutions protection against unscrupulous speculators. * * *

W. R. McClayton, The W. B. Cassell Co., (Provisions, Vegetable Oils, Food Products), Baltimore, Md. I was struck by what I saw at the Baltimore Post Office yesterday. Three windows were busy redeeming Bonds. The one window that was open for the sale of Bonds had nobody in front of it. It seems to me if citizens are subscribing to Bonds just as part of a face-saving campaign, that it ought to be made more difficult for them to redeem them or to cash them in. Certainly we get nowhere if as soon as the Bonds are bought, purchasers turn right around and redeem them.

Favorable Comments on Taxation

(Should the following be "Favorable" or "Unfavorable"?)

Josephine A. Hauger, Woodcliff, N.J. I beg to be excused from paying any tax. Have always been exempt, due to my supporting a sister, who is unable to work. It would be a joy and privilege for me to contribute my share too, were I in a position to do so. My only son is in the Air Corps at Greenwood, Miss. I receive no support from him, nor our Government. And my debts are a constant worry to me. You will understand my position. Thank you.

Mrs. Brenn Green, N.Y.C. In my own small way a survey taken among friends and relatives, all with some members in the Armed Services, some in factories, shipyards, white-collar workers, living in N.Y.C., Florida, Baltimore and Pennsylvania -- about 80 altogether -- reveals:

1. Against Ruml Plan.
2. All going to pay, and cheerfully, first installment and subsequent payments of 1942 tax.
3. All in favor of a pay-as-you-go for 1943.
4. Only 2 thought 1942 taxes should be partially forgiven.
5. All want $25,000 ceiling which President Roosevelt advocates.

I thought you would like to know this. My conclusion is (and has been) that the average man and woman is 100% in back of the War effort, sick of Congressional bickering. I think the Treasury Department should become very vocal on this subject, to lead the way to eliminate further confusion.

S. H. Zitter, Treasurer, Platt Contracting Co., Inc., Cambridge, Mass. As one Treasurer to another, I would like to throw in my 2-cents' worth about the Ruml Plan. The plan is all right as plans go, but I sincerely

Favorable Comments on Taxation

(Should the following be "Favorable" or "Unfavorable"?)

Josephine A. Hauger, Woodcliff, N.J. I beg to be excused from paying any tax. Have always been exempt, due to my supporting a sister, who is unable to work. It would be a joy and privilege for me to contribute my share too, were I in a position to do so. My only son is in the Air Corps at Greenwood, Miss. I receive no support from him, nor our Government. And my debts are a constant worry to me. You will understand my position. Thank you.

Mrs. Brenn Green, N.Y.C. In my own small way a survey taken among friends and relatives, all with some members in the Armed Services, some in factories, shipyards, white-collar workers, living in N.Y.C., Florida, Baltimore and Pennsylvania -- about 80 altogether -- reveals:

1. Against Ruml Plan.
2. All going to pay, and cheerfully, first installment and subsequent payments of 1942 tax.
3. All in favor of a pay-as-you-go for 1943.
4. Only 2 thought 1942 taxes should be partially forgiven.
5. All want $25,000 ceiling which President Roosevelt advocates.

I thought you would like to know this. My conclusion is (and has been) that the average man and woman is 100% in back of the War effort, sick of Congressional bickering. I think the Treasury Department should become very vocal on this subject, to lead the way to eliminate further confusion.

S. H. Zitter, Treasurer, Platt Contracting Co., Inc., Cambridge, Mass. As one Treasurer to another, I would like to throw in my 2-cents' worth about the Ruml Plan. The plan is all right as plans go, but I sincerely

believe that our Government will get "gypped" unless I am misinformed about the darn thing. If it is Ruml's intention to pay-as-you-go-along in 1943 on 1942 income, and call it a 1943 income tax -- o.k., I am satisfied. BUT, if I am correct in assuming that it is Ruml's intention to pay-as-you-go-along in 1943 on '43 income with adjustments after the close of the year, and forget the 1942 tax, then, NO! DEFINITELY! * * * For your information, I am enclosing a pamphlet which I have drawn up about my Company, just so you really won't think I am just another crank seeking publicity. Please believe this: I appreciate what my Country has done, and is doing, for me, and in my own humble way, I am trying to offer a suggestion which will help the individual, and still keep the Government from losing any of its much-needed income.

Sarah Nordyke Spears, Boulder, Colo. (Letter addressed to the President and referred by the White House.) The enclosed, "My Return to the Income Tax Club", I wrote for my husband who is a teacher of history and economics. * * * "Today is a great day; today marks my return to the Income Tax Club. I've been out for ten years -- ten grinding, uncertain years. * * * Ten years in which I tried to do willingly and well, the job that was made for me, and was grateful for the meager wage which kept souls and bodies together for my wife and me. Now there is room in the Income Tax Club for me; there is room in my profession for me; I am truly grateful to have the privilege of returning to the Income Tax Club". * * *

Rev. J. W. Hood, Johnstown, N.Y. I take the great liberty of writing to you as follows: All things considered, I believe that the present arrangement for collection of the income tax is the best for all concerned. I trust the Government will not be bulldozed by demagogic clamor into changing the law, unless a distinctly better method can be devised. I am satisfied with the present system, and I shall pay up without grumbling, although it will not be exactly easy.

Unfavorable Comments on Taxation

C. Russell Phillips, Law Offices, Montgomery, McCracken, Walker & Rhoads, Philadelphia, Pa. * * * For a good many years I have been preparing and filing income tax returns with the Collector of Internal Revenue at Philadelphia. I write the Collector a letter stating that I enclose a return, giving the name of the client, the year involved and also stating that I enclose a check for the tax, giving the amount. I take a duplicate of this letter and ask the Collector to stamp it indicating receipt of the original. Invariably, I am told that this is impossible; that the clerk has no authority to give receipts of this sort. However, after an argument, I have never failed to secure such an endorsement. * * * When a return is filed, and part or all of the tax paid, the taxpayer delivers two pieces of paper to the Collector, a tax return and a check. If either of these is lost or the date of filing erroneously noted, there may be serious consequences for the taxpayer, the least of which may be a law suit to establish the true facts. This year I have had the same experience to a worse degree. I took the usual letter on my personal income tax return, with a duplicate of the return and also a check for one-half of the tax. I went to the cashier's window, and after several tries found they all refused to stamp the letter. One of them agreed to stamp and did stamp the duplicate of the return. I asked for a receipt for the money and was told that there was no authority to issue more than one receipt, and that I would have to take either a receipt for the check or a receipt for the return stamped on the duplicate, but that I could not have both. I then asked that the receipt on the duplicate tax return be crossed out and that I be given a receipt for the tax. This was done. This procedure required an argument at several windows. There were at least six cashiers' windows, all vacant on the day that I went there, so there was plenty of time to consider the matter. A supervisor of some sort was summoned, and it was only after an argument with him that I obtained the result indicated.

Although I paid my tax on the 23rd of February, the check did not clear in the month of February. Whether it will be deposited in time to clear before the 15th of March, I do not know. My suggestion is that it is altogether unbusinesslike and wholly arbitrary and improper to insist that a taxpayer file his return and have no acknowledgment of any kind that it has been received. There are penalties for not filing a return on time. The only way a taxpayer can protect himself is to take a group of witnesses with him, sufficient in number to overcome any contrary testimony the Collector might produce. * * * I should like to record a vigorous protest on this practice. It has been going on so long that I am sure it is not merely a whim of some particular clerk. It is the established practice and it is unjustifiable from any point of view. * * *

F. G. Rogers, Philadelphia, Pa. I wish to give you some elementary thoughts on the Ruml Plan, and wish to say that I think it is the most sensible plan that was ever put in the lap of Washington. Canada is getting ready to put into effect the Ruml Plan, or what amounts to the same thing; thus, Canada is still another march on the United States, which is still stalling on the question, with Congress immerged in thought and the Treasury Department in theory. The Dominion of Canada has been working gradually into its own version of Beardsley Ruml's idea of collecting present taxes out of present income, and letting the Government bookkeeping department forget about the taxes on last year's income. The swing to the Ruml Plan is accordingly to be done sensibly and without fuss. This is characteristic of Canada's realistic approach to all its wartime problems. * * * I have heard rumors which I think well founded that the reason, or one of the main reasons, this plan is not put into effect is due to the fact that it wasn't thought of by the Treasury Department. Now, for the sake of God and Country, and all the humble taxpayers in these United States, we beg that you give consideration, put away politics and jealousies, and pass this Ruml Plan without further fuss and feathers.

Henry R. Smith, Melrose, Mass. I have just completed my income tax calculations and find myself with the choice of going bankrupt. What does happen to a staunchly loyal citizen who cannot pay his taxes? Specifically, what action does the Government take against a delinquent who cannot pay, as now, when the present taxes amount to 25% of gross income and leave no reserve. Seems a rather shabby reward after struggling to raise a decent family and comply with the philosophy of the Nation!

L. E. Adler, Southern Electric & Transmission Co., Dallas, Tex., in sending copy of letter to the Collector of Internal Revenue, Dallas, remitting three checks in the amounts of $65.05, $3,002.72, and $1,899.17, says: "With certain bureaucrats shedding crocodile tears over the plight of small business, this goes on! If you know the details of this case, you would undoubtedly throw it in reverse gear. Feeling that you are entitled to an honest explanation of our delay in remitting, please note the following facts: This alleged 'salary disallowance', being retroactive, completely ruined our cash position, and it was necessary to float a bank loan to handle. At the present moment, we are trying desperately to finance the manufacture of War equipment for the U. S. Signal Corps in the face of losing our entire working capital. I realize of course that the Treasury Department is not at all interested in our value to the War Department, and merely cite the above facts to justify our delay. Sadly enough, however, it is axiomatic that an overmilked cow soon becomes dry."

A. E. Post, Tottenville, S.I., N.Y. We are unable to get a supply of U. S. Income Tax Blanks - none at Staten Island National Bank and Trust Co., Tottenville, N.Y., and none at Corn Exchange Bank Trust, St. George, Staten Island. How can new taxpayers pay United States an income tax with no tax form available? * * *

Walter E. Kopp, Stratford, Conn. I filed my income tax report February 25, and it was $245.00 and I payed it all at the Post Office, and know I am told that I should have payed only one quater that is $61.25 and to forget the rest that is $183.75 know if the Ruml tax plan is passed doze that mean that I will have to pay the $245.00 all over again if so can I get the $245.00 back again or is thay some other way so I will not have to pay it if the Ruml bill is passed.

March 5, 1943.

My dear General Burns:

I have your memorandum of March 3, asking that copies of the monthly reports on the Soviet Protocol be forwarded directly to you.

I shall be very glad to see that the instructions of the White House are carried out in the future.

Sincerely,

(Signed) H. Morgenthau, Jr.

Major General J. H. Burns,
Executive of the President's Soviet
Protocol Committee,
Room 169 O.S.S. Building,
1901 Constitution Avenue, N.W.,
Washington, D. C.

GEF/dbs

SECRET

THE PRESIDENT'S SOVIET PROTOCOL COMMITTEE
WASHINGTON

March 3, 1943

Room 149 C.C.S. Building
1901 Constitution Ave., N.W.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

By direction of the White House, it is requested that copies of the monthly reports on the Soviet Protocol be forwarded directly to the undersigned, who is Executive of the President's Soviet Protocol Committee.

J. H. BURNS
Major General, U.S. Army

SECRET

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

March 5, 1943

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended February 24, 1943, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

(Init.) E. M. B.

imc:3/5/43

C
O
P
Y

FEDERAL RESERVE BANK

OF NEW YORK

March 4, 1943

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended February 24, 1943, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosure

Copy:imc:3/5/43

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended [illegible]

Strictly Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT) DEBITS Total Debits	Gov't Expenditures(a)	Other Debits	CREDITS Total Credits	Proceeds of Sales of Gold	Proceeds of Sales of Securities (Official)(b)	Other Credits(c)	Net Incr. (+) or Decr. (-) in $ Funds(d)	BANK OF FRANCE DEBITS Total Debits	Gov't Expenditures (e)	Other Debits	CREDITS Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in $ Funds (d)
First year of ware	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3(f)	416.6(f)	449.7	1,095.3(f)	900.2	195.1(f)	+229.0
War period through December, 1940	2,792.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1
Second year of ware*	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1
Third year of ware**	1,235.6	904.8	330.8	1,361.5	21.8	5.5	1,334.2	+125.9	18.5	-	18.5	4.4	-	4.4	- 14.1
1942															
Sept. 3 - Sept. 30	56.1	37.1	19.0	81.6	-	0.5	81.1	+ 25.5	10.1	-	10.1	0.4	-	0.4	- 9.7
Oct. 1 - Oct. 28	46.7	27.4	19.3	57.5	-	-	57.5	+ 10.8	-	-	-	0.3	-	0.3	+ 0.3
Oct. 29 - Dec. 2	96.6	35.5	61.1	83.7	-	-	83.7	- 12.9	0.2	-	0.2	0.3	-	0.3	+ 0.1
Dec. 3 - Dec. 30	30.4	13.3	17.1	51.9	-	-	51.9	+ 21.5	-	-	-	-	-	-	-
1943															
Dec. 31 - Jan. 3	162.5	24.9	137.7	53.5	-	-	53.5	-109.7	-	-	-	-	-	-	-
WEEK ENDED:															
Jan. 3	54.7	7.0	47.7	16.2	-	-	16.2	- 34.5	-	-	-	-	-	-	-
10	24.1	5.3	18.8	53.8	-	-	53.8	+ 29.7	-	-	-	-	-	-	-
17	34.8	4.5	30.3	16.5	-	-	16.5	- 18.3	-	-	-	-	-	-	-
24	14.1(g)	3.1	11.0(g)	30.3(h)	-	-	30.3(h)	+ 16.2	-	-	-	-	-	-	-

Average Weekly Expenditures Since Outbreak of War
France (through June 19, 1940) $19.6 million
England (through June 19, 1940) 27.6 million
England (since June 19, 1940) 32.4 million

*For monthly breakdown see tabulations prior to April 23, 1941
**For monthly breakdown see tabulations prior to October 6, 1941.
***For monthly breakdown see tabulations prior to October 14, 1942.
(See attached sheet for other footnotes)

Transfers from British Purchasing Commission to Bank of Canada for French Account

Week ended February 24, 1943 $ -
Cumulation from July 6, 1940 $ 102.7 million

(a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.

(b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to $334 million.

(c) Includes about $85 million received during October, 1939 from the accounts of British authorised banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.

(d) Reflects changes in all dollar holdings payable on demand or maturing in one year.

(e) Includes payments for account of French Air Commission and French Purchasing Commission.

(f) Adjusted to eliminate the effect of $20 million paid out on June 26, 1940 and returned the following day.

(g) Includes 7.6 million transferred to official Canadian account here.

(h) Includes $10.0 million transferred from New York accounts of British authorized banks,
10.0 million transferred from Commonwealth Bank of Australia;
1.3 million deposited by British Ministry of Supply.

[redacted]

Weekly Confidential

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended February 24, 1943

PERIOD	BANK OF CANADA (and Canadian Government) DEBITS: Total Debits	Transfers to Official British A/C	Other Debits	CREDITS: Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C: For Own A/C	For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in $ Funds	COMMONWEALTH BANK OF AUSTRALIA (and Australian Government) DEBITS: Total Debits	Transfers to Official British A/C	Other Debits	CREDITS: Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in $ Funds(a)
First year of war*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Third year of war***	525.8	0.3	525.5	566.3	198.6	7.7	-	360.0	+ 40.5	107.2	57.4	49.8	112.2	17.2	95.0	- 5.0
1942																
Sept. 3 - Sept. 30	46.3	-	46.3	53.6	13.2	-	-	40.4	+ 7.3	28.0	20.5	7.5	18.1	-	18.1	- 9.9
Oct. 1 - Oct. 28	44.9	-	44.9	51.5	16.6	-	-	34.9	+ 6.6	14.3	12.0	2.3	14.6	-	14.6	+ 0.3
Oct. 29 - Dec. 2	56.5	-	56.5	80.8	14.4	-	-	66.4	+ 24.3	10.2	5.5	4.7	9.4	-	9.4	- 0.8
Dec. 3 - Dec. 30	48.2	-	48.2	43.9	2.9	-	-	41.0	- 4.3	14.1	8.0	6.1	11.7	-	11.7	- 2.4
1943																
Dec. 31 - Jan. 3	52.5	-	52.5	217.1	-	125.0	-	92.1	+164.6	16.2	8.0	8.2	17.3	-	17.3	+ 1.1
WEEK ENDED:																
Feb. 3	9.5	-	9.5	63.2	-	45.0	-	18.2	+53.7	4.4	3.9	0.4	4.4	-	0.4	- 4.1
10	[illegible]	-	[illegible]	34.2	-	-	-	34.2	+32.2	(a)	-	(a)	(a)	-	(a)	(a)
17	14.0	-	14.0	37.4	-	27.1	-	10.8	+23.9	-	-	-	[illegible]	-	[illegible]	+[illegible]
24	8.9(b)	-	8.9	13.8(c)	-	7.6	-	6.2(c)	+ 4.9	[illegible]	[illegible]	-	[illegible]	-	[illegible]	- 7.4

Weekly Average of Total Debits Since Outbreak of War
Through February 24, 1943 $ 8.0 million

*For monthly breakdown see tabulations prior to April 23, 1941.
**For monthly breakdown see tabulations prior to October 8, 1941.
***For monthly breakdown see tabulations prior to October 14, 1942.
(a) Reflects changes in all dollar holdings payable on demand or maturing in one year.

(b) Does not reflect transactions in Treasury bills.
(c) Includes $2.6 million deposits by War Supplies, Ltd.

March 5, 1943.

Dear Eleanor:

A letter recently received by pouch from the American Embassy in London encloses material forwarded by Lady Denman, Honorary Director of the Women's Land Army, and intended for your reading.

I take pleasure in sending you the envelope enclosing this material, and hope that it will be of interest to you.

Affectionately,

[Signed] Henry

Mrs. Franklin D. Roosevelt,

The White House.

By Messenger Harmon 5:14

Enclosure.

GEF/dbs

March 5, 1943.

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A letter recently received by pouch from the American Embassy in London encloses material forwarded by Lady Denman, Honorary Director of the Women's Land Army, and intended for your reading.

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[Signed] Henry

Mrs. Franklin D. Roosevelt,

The White House.

By Messenger Harmon 5:14

Enclosure.

GEF/dbs

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

AMERICAN EMBASSY
London, England,
February 8, 1943.

AIR POUCH

No. 6

Dear Mr. Secretary:

Enclosed is a photograph and a copy of the Women's Land Army Magazine together with a message to Mrs. Roosevelt from Lady Denman, Honorary Director of the Women's Land Army. Lady Denman asked me if I would send this material to Mrs. Roosevelt via the pouch and I agreed to do so.

I have experienced exceptional difficulty in obtaining clear and adequate information concerning the Women's Land Army. I have visited the farm headquarters of the organization (Lady Denman's home) where there are land girls at work as well as a group in training. Tomorrow I leave early for a two or three days' visit to a county headquarters, several farms and an Agricultural College.

I plan to have a report in by the time you receive this.

Sincerely,

L. W. Casaday
per. KATH.

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

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 73

Information received up to 7 A.M., 5th March, 1943.

1. NAVAL

MEDITERRANEAN. On 14th February one of H.M. Submarines sank a small minesweeper in North Adriatic. 3rd. 6 ships in outbound convoy torpedoed south of DURBAN.

2. MILITARY

TUNISIA. Northern Sector. 2nd. Weak enemy attack south west of SIDI NSIR (20 miles N.E. of BEJA) was repulsed and a company of enemy Mark VI tanks engaged. South of MEDJEZ EL BAB our tanks surprised a considerable force of German infantry and inflicted heavy casualties. A total of 25 enemy tanks have been abandoned in this area. 3rd. Enemy renewed his attacks in SEDJENANE area and gained some ground at the expense of heavy casualties. Central Sector. French have re-occupied pass north east of DJEBEL MRHILA (20 miles N.E. of SBEITLA) and their patrols are operating unopposed west of PICHON. SIDI BOUZID and road FEKIANA-GAFSA clear of enemy.

RUSSIA. Russians have captured CLENINO (on railway between RZHEV and VELIKIYE LUKI) as well as localities 75 miles N.W. and 50 miles S.W. of KURSK.

3. AIR OPERATIONS

WESTERN FRONT. 3rd/4th. 896 tons of H.E. and incendiaries were dropped on HAMBURG. 82 R.C.A.F. (1 missing), 23 R.A.A.F. and 8 New Zealand (1 missing) aircraft took part. 4th. HAMM and ROTTERDAM were attacked by 17 and 30 Fortresses (B. 17) respectively. Enemy fighter casualties 14, nil, nil. 5 Fortresses missing. 12 Mosquitos were employed in successful attacks near LE MANS and VALENCIENNES. 4th/5th. Aircraft despatched sea mining 27 (1 missing, 1 crashed), RUHR 6, leaflets 19 (1 missing).

MEDITERRANEAN. 3rd. 7 U.S. Liberators (B. 24) bombed MESSINA harbour. 3rd/4th. A 7,000 ton enemy ship in escorted convoy was torpedoed and set on fire north of PALERMO.

TUNISIA. 2nd. 72 escorted U.S. bombers employed against TUNIS, LA GOULETTE and MATEUR. 2nd/3rd. Enemy concentrations N.W. of MARETH attacked by 25 Halifaxes and Wellingtons. 3rd. EL AOUINA, MATEUR, MEDJEZ EL BAB and airfields in GABES area attacked by 39 U.S. Heavy bombers and 52 U.S. light bombers. Enemy casualties 10, 4, 9. Ours 10, nil, 7.

BURMA. 2nd. MYITKYINA and LUNGLING bombed by 18 escorted U.S. Mitchells (B. 25).