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War Savings Bonds
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March 6, 1943
10:50 a.m.

HMJr: Hello.

Speaker Sam
Rayburn: Yeah, Henry.

HMJr: The name is Henry. Hello.

R: Yes, sir. How are you feeling?

HMJr: I'm fine.

R: That's good.

HMJr: How are you?

R: Oh, I'm all right, if I could ever get this damn cold out of me. I've had it nearly all year, and I - one day I feel all right and the next day I hit the bottom.

HMJr: Well, that's a shame.

R: Henry....

HMJr: Yes, sir.

R: Over in Fort Worth, Texas, out of my beat....

HMJr: Out of your beat?

R: However....

HMJr: Yes.

R:but some great friends of mine over there are very much interested in the thing.

HMJr: Yeah.

R: Now they've got all of these airplane factories and every kind of a war industry on earth and many, many federal activities, and they've got one bank in that town that's a U. S. depository.

HMJr: Yeah.

- 2 -

R: And my friends over there, who are with the Fort Worth National Bank, are very anxious to be made a depository.

HMJr: Now what's the name of the bank?

R: Fort Worth National.

HMJr: Fort Worth National.

R: Now I've....

HMJr: At Fort Worth.

R:acted a chump about this....

HMJr: I don't believe it.

R:and when I was down there one day with you talking about another....

HMJr: Yes.

R:bank being made a depository, some little bank in South Texas somewhere -- they write me all around....

HMJr: Yeah.

R:and you called in - in Dan....

HMJr: Yes.

R:and so I called there one day and you were out, and I took this up with Dan, and he wrote me a long letter telling me why it couldn't be done....

HMJr: Yeah.

R:and so I've been thinking every time I saw you to speak to you about it.

HMJr: Didn't he ever do it?

R: No, he didn't do it. He gave me a long reason - a long letter why it couldn't be done, that it would cost the Government a certain amount of money every time they sent....

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HMJr: Well, now refresh - I could look it up to refresh my memory. What was the town that you asked in the first case?

R: Fort Worth, Texas.

HMJr: But not this - this isn't what you're talking about....

R: No, it was some little town in South Texas. You did that.

HMJr: Well, didn't I do that?

R: Yes, sir.

HMJr: Well, that's what I thought.

R: And why I say - but the reason why after I called for you one day and you were out of pocket - you weren't out of town - and I remembered the day we were talking about that one....

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

R:you called in Dan, and then I talked to Dan instead of talking to you first, and he wrote me a long letter telling me why he couldn't do this Fort Worth National Bank thing.

HMJr: But the first one that you wanted, that's been done.

R: Oh, yes.

HMJr: Well, that's what I....

R: Oh, that was done last fall.

HMJr: I was just beginning to get upset.

R: Yeah.

HMJr: But now this is a second one which you asked Dan, and Dan wrote you a letter and said that it couldn't be done. Is that right?

R: That's right.

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HMJr: And now what you'd like - you'd like it done?

R: I sure would, Henry.

HMJr: Well, of course, having - having written a letter and all that will make it a little harder, but give me a chance.

R: All right, Henry.

HMJr: How's that?

R: Thank you, old fellow. You betcha.

HMJr: And old - we got a - you got a minute?

R: Yes.

HMJr: We got a rule on that debt limit thing....

R: Yes....

HMJr:and....

R:we'll have it up this coming week.

HMJr: And I suppose what will happen is it'll - it'll pass with that rider, won't it?

R: Unless we can wrangle it some way that we can get a separate vote on that, I don't believe the fellows will vote for that damn thing....

HMJr: Yeah.

R:in the shape it's in if - if you come to a roll call on it, but the trouble about it is we've got to knock it out in the committee of the whole if we knock it out, where there can be no roll call, and if it's knocked out then we can have a separate vote on it in the House if anybody asks for it, you see? But the motion to recommit, of course, will be made by the minority as that's their privilege....

HMJr: Yeah.

R:and they won't make it on this.

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HMJr: They will not.

R: We're going - no, they'll make it on something else, you know, or just a simple motion to recommit or something of that kind....

HMJr: Yeah.

R:and - but I don't know. We're going to try to wrangle it some way so we can get a separate vote on that thing, and I think we can knock it out if we can.

HMJr: I hope so.

R: But anyhow we can get through with your business, your end of it next week sometime.

HMJr: I hope so.

R: Well....

HMJr: Well, I - I'll do my best. In any case, I'll let you know what happens.

R: All right, Henry.

HMJr: Thank you.

R: Thanks, old fellow.

March 6, 1943
12:08 p.m.

HMJr: How are you?

Secretary

Frank Knox: Fine, Henry. Henry, now I want you to tell me the honest truth, say cross your heart and you hope to die.

HMJr: Yeah.

K: We were just going over the program for Atlanta
....

HMJr: Yes.

K:and both of us are on the program....

HMJr: Yeah.

K:speaking.

HMJr: Yeah.

K: They put me last, I presume, because that's - it's a Navy show.

HMJr: Yes.

K: We only have half an hour on the air. I just had to wrangle out of the National Broadcasting the fifteen minutes additional time.

HMJr: Yes.

K: So we have a half an hour.

HMJr: Yes.

K: Now promise me you'll tell me the truth.

HMJr: Yes, I will.

K: I want you to suggest the division of that time, between the two of us.

HMJr: Well, I think you should have the major portion.

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K: Well, all right now. What do you - what do you think? How - how long - they - they've asked me to tell them how to divide it, and I'm just putting it up to you and then you and I'll talk it over as two friends and tell each other exactly what we think.

HMJr: You've got a half an hour?

K: Yeah, and twenty minutes is all I want at the most, so....

HMJr: Well, I don't want more than five.

K: Well, would ten suit you all right?

HMJr: I don't need ten.

K: Would you rather have five? You're telling me the truth now.

HMJr: No, I - I - I have no special message at this time....

K: Yeah.

HMJr:and if I have five minutes, it's plenty.

K: You're sure of that now, Henry. I....

HMJr: Oh, yes. No, I'm - on this sort of thing, Frank, I'm the easiest fellow in the world.

K: I - I am too, as far as that's concerned. All I want is the results.

HMJr: No, five minutes would be plenty.

K: Be plenty?

HMJr: Yeah.

K: Now you're giving - being very frank, because I'd just as soon as have - twenty minutes is all I really want.

HMJr: I - I'm being completely frank.

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K: All right, fine.

HMJr: Because I had thought we were only going to have fifteen, and I'd only counted on from three to five minutes.

K: Uh huh.

HMJr: I - I thought that you'd take the bulk of the time.

K: Well, it's - it's a good deal of a Navy show, of course, and....

HMJr: Well, I wouldn't have gone down there if you....

K: Well, I want you to go.

HMJr:if you hadn't of asked me.

K: I know it, and I - but I think it very appropriate for you to go.

HMJr: Well....

K: Because this isn't the end of these things. We had one at Houston, now one at Atlanta, and we'll soon have one in Chicago....

HMJr: Right.

K:and another one in Indiana, and we may have others later. So I think it's well to tie the Navy - the Treasury in on this thing....

HMJr: Good.

K:and that's what your going down there does.

HMJr: Right.

K: All right then. We'll say five minutes, and I'll take the other twenty-five.

HMJr: Fine.

K: I won't take twenty-five. What I'll do is take twenty....

HMJr: Yeah.

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K: and give the man that introduces you and the man that introduces me two-and-a-half minutes each.

HMJr: Right.

K: Okay, Henry.

HMJr: Now while I've got you on the phone, I certainly appreciate the speed with which you got that Lockheed for me.

K: Have you seen it yet?

HMJr: No, they're making a few alterations on it, and they said that - on the radio and that sort of thing principally....

K: I see.

HMJr:and they said it would be a week or ten days before it was ready.

K: Uh huh.

HMJr: But you certainly broke all speed records.

K: Well, that's the way the Navy does business, Henry.

HMJr: Yeah.

K: That's the way the Navy does business.

HMJr: And....

K: (Laughs)

HMJr: But I take it -- I know they do -- that we're - that....

K: Huh?

HMJr:you're going to fly your ship down there.

K: Yeah, and you're going with me.

HMJr: Right.

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K: Okay.

HMJr: Thank you.

K: All right, Henry.

HMJr: Goodbye.

CONFIDENTIAL 11



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 6, 1943

MEMORANDUM TO THE SECRETARY:

Confirming my conversation with you this morning, the following is a brief summary of the matters discussed:

1. LEND-LEASE BUDGET

Mr. Stettinius has advised that it has been decided not to present the budget for the period 1-1 to 6-30-43 but instead to prepare the estimates for the period from 5-1-43 to 6-30-44. We are accordingly cooperating with OLLA to obtain, review, and screen the estimates of the participating Lend-Lease countries insofar as they relate to requirements to be purchased through the Procurement Division for the 14-month period.

On the basis of the estimates submitted for the 6-month period 1-1 to 6-30-43, totaling approximately \$1,050,000,000, it is expected that the funds required for purchases to be made through this agency for the period 5-1-43 to 6-30-44 will be about \$2,500,000,000.

2. INDICATED ACCELERATION OF LEND-LEASE SHIPPING

I had a meeting with Sir Clive Baillieu and representatives of his office concerning the proposed substantial increase in shipping for the United Kingdom. He stated that the schedule called for forwarding 1,400,000 tons of steel products the first half of this year and greatly increased quantities of other supplies. Accordingly we have laid plans to verify our records of available Lend-Lease stocks, production schedules, and the forecast of the future expected deliveries with the objective of meeting the situation, as it has particular military significance. He suggested the consideration of



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suitable WPA and NYA equipment which is in the process of being declared surplus as a possibility of making equipment available readily. The reaction was favorable and the opinion expressed that a substantial amount of equipment might be placed in areas which would be subject to military action and used equipment would be acceptable.

3. PROPERTY UTILIZATION AND H.R. 1610

Hearings have been held before the Committee on Expenditures in Executive Departments with reference to H. R. 1610 which relates to the disposition of surplus property and provides for the use of property which has not been declared surplus under certain circumstances.

This legislation includes substantially all of Executive Order 9235 and was cleared with the Treasury Department in its original form. During the hearings, however, the Bureau of the Budget submitted a proposed amendment which would transfer to that Bureau supervision of the operations of the sale of surplus property, including the vast surplus which will be available following the war. I protested this change and took up the matter with Mr. O'Connell. As a result, Mr. O'Connell and I had a discussion with Congressman O'Leary, Chairman of the Committee on Expenditures, at the latter's office. At Chairman O'Leary's request, we are submitting a draft of the language which we consider to be suitable and which will retain the original intent of the legislation.

4. FIELD WAREHOUSE PROGRAM

As a result of inquiries, it has been determined that there are 330 warehouses used by Federal agencies other than the military services and Lend-Lease. Steps are now being taken to consolidate the warehouse activities within the West Coast region, specifically, at San Francisco to serve California, Arizona, and Nevada, also Western Utah. Other consolidations will follow.

A large map showing the location and type of Federal warehouses is in Mr. Snyder's office and I feel

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sure that you would be interested to see it and to hear more about this program if you have occasion to take the time for a visit. This is the first composite picture of the Federal warehouse operations, and the information obtained is most interesting. The striking feature of the map survey as shown is the concentration of warehouses operated by various agencies in the same areas. For example, the analysis has shown that 28% of the total warehouse inventories are within the District of Columbia and 56% of the balance are within five states, as compared to approximately 20% of the total Federal personnel within the District of Columbia and 80% in the field; the locations of the warehouses containing the large proportion of the total inventories are not consistent. Further, twenty-one warehouses are reported as having a distribution of supplies on a national basis, of which total nine are located in the District of Columbia.

5. DISTRIBUTION OF BUSINESS, (COORDINATION WITH SMALLER WAR PLANTS).

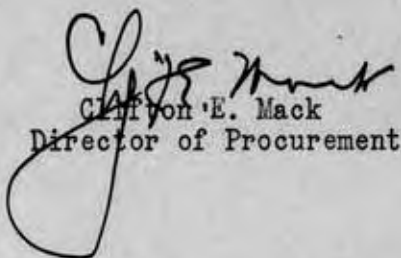
As the result of a recent discussion I had with Colonel Robert W. Johnson, Vice Chairman of WPB and Chairman of Smaller War Plants Corporation, arrangements are being made to place representatives of the Procurement Division at the twelve WPB regional headquarters to cooperate with the Smaller War Plants representatives in an effort to extend the distribution of business placed by the Procurement Division to the fullest extent possible. We have been distributing business from the inception of the Lend-Lease program, but it is believed that there are possibilities of accomplishing further results by having Procurement Division representatives nearer to the locality within which the distressed areas are located.

6. REHABILITATION PROGRAM

I received word last week from Governor Lehman's office that WPB had approved the clothing program which has been in abeyance for some time subject

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to the use of substituted items of wearing apparel. Accordingly, I have assigned one of our people to work with WPB to determine the substitutions which should be applied. This is a splendid opportunity for the distribution of business, and that phase will be emphasized because it is for the most part a stockpiling program and short delivery schedules are not involved, as is the case in most of our purchases.



Clifford E. Mack
Director of Procurement

UNITED STATES TREASURY WAR FINANCE COMMITTEE

Bulletin No. 1
March 6, 1943,

Presidents, Federal Reserve Banks:

It has become necessary for us to crystallize our method of operation here in Washington during the present period of preparation for the April Drive. In order that you may understand how we have agreed to operate among ourselves, there are listed below two brief paragraphs explaining our method of operation, which will prevail until further notice.

1. Mr. Graves will continue to operate in direct contact with members of the War Savings organization on all matters of current operation which are not a specific part of the April campaign. On matters pertaining to the campaign, Mr. Graves will see to it that no policy decisions or specific instructions are issued until proper clearance has been made with the President of the Federal Reserve District concerned.

2. Mr. Buffington will continue to operate directly with the Executive Managers or the Presidents of the Federal Reserve Banks on all matters relating to the Victory Fund Committee's activity. His authority is clear to continue operations on all matters except those involving major policy, which should be cleared with Mr. Robbins prior to action.

- - - - -

It has been decided that for the purpose of the April Drive we will adopt the use of "United States Treasury War Finance Committee" as a heading on stationery and sales literature, with a subheading on the left, "War Savings Staff," and on the right, "Victory Fund Committee."

It is our wish that none of the present stationery or supplies which carry the identifying name of either organization should be destroyed. We recommend, however, that all replacements be designed as indicated above. In using present supplies, they should be channeled, so far as possible, through the organizations which have previously been individually identified.

- - - - -

We are planning to have a one-day meeting for the publicity men who will handle the publicity work in each of the Federal Reserve Districts. We cannot, at this time, tell you the specific date the meeting will be called, but it will probably be somewhere about the 20th of the month. Our plan would be to ask for one man only from each Federal Reserve District and we would organize ourselves to cover the entire subject in one day.

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Pending this meeting, or until you have further notice, we suggest that you hold your publicity plans somewhat in abeyance. We realize in asking this there will be impatience, but perhaps the delay will be worthwhile if we can develop a coordinated program. By all means urge your publicity men to bring with them to Washington any specific plans and programs which they think can be effectively worked in each region.

W. M. Robbins,
National Director of Sales.

FEDERAL RESERVE OPERATIONS IN GOVERNMENT SECURITIES

Page 1

Column A shows Federal Reserve operations in millions of dollars as follows:

Marketable Issues

Market purchases 1/.....	-
Market sales 1/.....	-
Direct purchases from Treasury	10
Naturities.....	-

Special one-day certificate \$14.

Net increase.....	+6
Net decrease.....	-4

Column 3 shows price changes in 1/32nds
for all securities except certificated.
For certificated, Column 3 shows
yield changes in decimals.

STRICTLY CONFIDENTIAL

Last Week										Index	Description	This Week										
Monday		Tuesday		Wednesday		Thursday		Friday				Saturday		Full Week		Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Full Week
Feb. 22		23		24		25		26				27		A B		1		2		3		4
A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	
I. Summary																						
Marketable Issues:																						
Market purchases																						
Market sales																						
Direct purchases from Treasury																						
Maturities																						
Special one-day certificates:																						
Net change																						
Total net increase (+) or decrease (-)																						
Wednesday report of total portfolio																						
II. Marketable securities																						
All in - all issues combined																						
Market purchases																						
Market sales																						
Maturities																						
Total net increase (+) or decrease (-)																						
Certificates																						
1-6% C - 5-1 43																						
7/8 B - 8-1 43																						
7/8 D - 11-1 43																						
7/8 M - 12-1 43																						
7/8 A - 2-1 44																						
Special one-day certificates																						
Treasury notes																						
3/4% B - 3-15 43																						
3/4 D - 9-15 44																						
1-1/4 C - 3-15 45																						
3/4 B - 12-15 45																						
1 A - 3-15 46																						
1-1/2 B - 12-15 46																						
Treasury bonds																						
2% - 3-15 46-50																						
1-3/4 - 6-15 48																						
6-15 49-51																						
9-15 49-51																						
12-15 49-51																						
3-15 50-52																						
12-15 51-55																						
3-15 52-54																						
2-1/4 - 5-15 52-59																						
3-15 56-58																						
2-1/2 - 6-15 60-67																						
2-1/2 - 12-15 63-68																						
3-15 67-72																						
Guaranteed securities																						
DOC 1-1/4% C - 3-15 45																						
MPC 1-1/4% F - 1-15 49																						
MPC 1 W - 4-15 54																						
All taxable securities																						
Marketable Issues:																						
Market purchases																						
Market sales																						
Direct purchases from Treasury																						
Maturities																						
Special one-day certificates:																						
Net change																						
Total net increase (+) or decrease (-)																						

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

r Original figures revised.

* Less than \$55,000.

1/ Purchase and sales recorded as of day of transaction and not day of delivery. Transactions after 4 o'clock are included in the next day.

2/ Transactions are entered as of the day following that to which they apply, since data are not available until the following business day.

Note: Data are rounded and may not add to the totals.

Regraded Unclassified

FEDERAL RESERVE OPERATIONS IN GOVERNMENT SECURITIES

Page 2

Column 4 shows Federal Reserve
operations in millions of
dollars as follows:Market purchases 1/..... +
Market sales 1/..... -
Maturities..... -

Column 5 shows price changes in bonds.

STRICTLY CONFIDENTIAL

Last week										Index	Description	This week									
Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Full Week						Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Full Week			
Feb. 22	23	24	25	26	27	A	B	C	D			Mar. 1	2	3	4	5	6	A	B	C	D
A	B	A	B	A	B	A	B	A	B			A	B	A	B	A	B	A	B	A	B
III. Tax-exempt securities																					
Treasury notes																					
Holiday				-1	-6.0				-6.0	-1	101 1-1/8 A 5-15 43	-1.4		-2.0		-5.0			-16.0	-23.4	
					-1					-1	102 1 C 5-15 43	-1.2								-2	
			-1							-1	103 1-1/8 B 12-15 43		-1							-1	
				-5.0		-5.0	-1		-10.0	-1	104 1 B 1-15 44										
				-3	-5.0				-5.0	-1	105 3/4 A 5-15 44			-1.0					-1.5	-1.5	
				-1						-1	106 1 C 5-15 44	-3.5							-3.5	-3.5	
				-1					-1	-1	107 3/4 A 1-15 45	-2.0			+1				-2.0	-1	
											Treasury bonds										
											101 3-3/8 6-15 43-47										
											102 3-1/4 10-15 43-45										
										103 3-1/4 10-15 44-46											
										104 4 12-15 44-46	-1										
										105 2-3/4 9-15 44-47		-1		+1.0					-1.0		
										106 2-1/2 12-15 45			-1	-1.5		-3.0	-1	-2.0	-6.5		
										107 3-3/4 3-15 45-46			-1			-1			-1		
										108 3 5-15 45-46			-1			-1			-1		
										109 3-1/8 6-15 45-49	-1	-1.0	-1			-1			-1.0		
										110 4-1/4 10-15 47-50			-1			-1					
										111 2 10-15 47			-1								
										112 2-3/4 3-15 48-51			-1								
										113 2-1/2 9-15 48			-1								
										114 2 12-15 48-50											
										115 3-1/8 12-15 49-52			-1			-1					
										116 2-1/2 12-15 49-53			-1.5	-1			-3.0	-1	-6.5		
										117 2-1/2 9-15 50-52	-2.0		-1	-1.5		-2.0	-1	-4.5	-4.5		
										118 2-3/8 5-15 51-54	-1.0		-2.5	-1		-2.0	-1	-3.5	-3.5		
										119 3 9-15 51-55			-1			-1.5	-1	-2.5	-2.5		
										120 2-1/4 12-15 51-53			-1								
										121 2 5-15 53-55		-1		-1		-2.3	-1	-2.3	-2.3		
										122 3-1/4 5-15 54-56			-1		-1						
										123 2-7/8 3-15 55-60		-1	-1.1	-1		-8.2	-1	-3.8	-3.8		
										124 2-3/4 9-15 56-59			-1			-2.6	-1	-3.5	-3.5		
										125 2-3/4 5-15 58-63		-1.0	-1			-1		-1.0	-1.0		
										126 2-3/4 12-15 50-65		-1	-2		-1						
Guaranteed securities																					
										101 CDO 3/4 5-1 43											
										102 FPMC 3-1/4 3-15 44-54			-1								
										103 FPMC 3 5-15 44-49											
										104 HCLC 3 A 5-1 44-52			-1								
										105 HCLC 1-1/2 M 5-1 44-47			-1								
										106 FPMC 1-3/8 2-1 44	-1										
All tax-exempt securities																					
										Market purchases											
										Market sales	-3.1	-11.9		-8.5		-15.6	-23.9	-59.0	-59.0		
										Maturities											
										Total net increase (+) or decrease (-)	-3.1	-11.9		-8.5		-15.6	-23.9	-59.0	-59.0		

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

v Original figures revised.

* Less than \$50,000.

1/ Purchases and sales recorded as of day of transaction and not day of delivery. Transactions after 4 o'clock are included in the next day.

Notes: Data are rounded and may not add to the totals.

Regraded Unclassified

MAR 6 - 1943

Dear Eleanor:

We have examined the "food tax" plan submitted to you by Mr. Constantin Paul Lant with his letter of January 27, 1943.

Under the plan the Government would purchase from the producers all farm products and distribute them to the population without charge. The cost would be financed by a special food tax levied according to income. The plan is designed to reduce the cost of marketing food in the postwar reconstruction period, in order to "supply the masses a definite amount of food relief."

The plan would in effect do two things. It would nationalize the food industry for all stages of marketing and distribution beyond production on the farm. In addition, it would provide the entire population with food as a free public service.

Mr. Lant considers nationalization of the food industry to be necessary because present food prices are too high, due to excessive distribution costs and monopolistic practices. He proceeds on the assumption that Government marketing and distribution would result in sufficient economies to cut the price of food in half.

The statement submitted does not contain detailed information on the proposed method of distribution or its financing. It appears, however, that nationalization is particularly ill-adapted to the food industry, a sector of our economy which is highly individualistic in its organization. Mr. Lant considers his plan to be an expansion of the present food stamp plan. That plan, however, was devised for the distribution of a number of surplus commodities to the lower income groups and is believed to hold little promise of expansion to replace the present food production and marketing methods.

Affectionately,

(Signed) Henry

Mrs. Franklin D. Roosevelt

The White House

RECEIVED
2-3-43

FILE COPY

Wm m.f.

THE WHITE HOUSE
WASHINGTON

February 5, 1943

Dear Mr. Secretary:

Mrs. Roosevelt would appreciate
the opinion of the Treasury Department
on the plan submitted by Mr. Constantin Paul
Lent in the enclosed correspondence.

Very sincerely yours,

Marion C. Thompson

Secretary to
Mrs. Roosevelt

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

13
13

CONSTANTIN PAUL LEHT

New York, N. Y.
January 27, 1943
521 Fifth Avenue

Jan. 30, 1943

Mrs. Eleanor Roosevelt
Hyde Park,
N. Y.

Dear Mrs. Roosevelt:

I am taking this opportunity of bringing to your attention an outline of a plan for Social Post War Reconstruction, focusing upon the establishment of a "FOOD TAX" to help raise needed funds for a System of National Food Insurance as expounded in my book on "TRUE DEMOCRACY" published some time ago. I am mailing a copy of my "FOOD TAX" plan under separate cover.

The "FOOD TAX" will make it possible for the Federal Government to supply free food to each and every citizen and help pay for Post-War reconstruction. It will be low enough to allow for substantial savings to all wage-earners as an estimated sum of \$150.00 yearly per each working person will cover all cost for growing and distributing the food.

The Beveridge plan now under consideration in Britain with its requirements of taxing the already overburdened taxpayers to the extent of \$4,000,000,000 yearly, falls short of its mark as its operation will eventually bankrupt that Nation. Differentiating, my plan is only a means to raise funds to cover the cost for growing and distributing foodstuffs under government supervision. Under my system, a great deal of money now wasted through profiteering and inefficient growth and distribution of food will be eliminated. The funds collected will be utilized by the Federal Government to reimburse the farmers for raising the food, to pay the packers and retailers for supplying it to the consumer free of charge, and to cover the cost of the railroads for its nationwide distribution. In short, the growing and distribution of food to become a public utility, the cost for operating same payable through taxation. This plan might be practical and feasible for such countries as England, Russia, Germany and Italy after the war, and also possible in our own U.S.A. Its establishment will raise the standard of living throughout the world.

Hoping you might spare a few moments of your time to read it and that it will find your approval, I beg to remain,

Respectfully yours,

(Signed) CONSTANTIN PAUL LEHT

CP:lf

COPY

CONSTANTIN PAUL LENT

New York, N.Y.

521 5th Avenue

Feb. 2, 1943

Mrs. Eleanor Roosevelt
Hyde Park
N.Y.

My dear Mrs. Roosevelt:

Enclosed please find a copy of my
"FOOD TAX" plan referred to in my letter of
Jan. 27, 1943.

Respectfully yours,

(Signed) CONSTANTIN PAUL LENT

-FOOD TAX-

A Plan For Social Post-War Reconstruction

By Constantin Paul Lent

Diploma Engineer

Nov. 21, 1942.

In the comparatively peaceful years preceding the "Global War" and during the Golden Age of the economic depression, America passed through a stage of the most intense and practical realism. To help millions of idle and unemployed men and women, the Federal Government seriously embarked into the passage of legislation to supply rich and poor alike with some kind of economic relief. Some of it such as Workman's Compensation, Old Age Insurance, Unemployment Relief and many others have been highly successful; others like the N.R.A. failed. But, this realistic state of affairs fortified the belief of our pre-war society that the citizenry had a real claim for economic relief against their respective government which was theirs by some higher authority of Nature. There was also a considerable discussion as to such things as "personal liberties." Many argued that an individual had now many more "rights" than in any other time in our history. But many also said that these "rights" had infected a lot of people with undue liberalism, which implied that they had been born with certain rights, "Natural Rights", and that their government owed to them something which they had to receive and for which no price had to be paid.

The expression "born free and equal" was broadly misused and was taken to mean that all of us had equal rights to all blessings of Nature or works of society. Very few paused to reflect that the meaning of the words "born free and equal" is only an aphorism and was brilliantly given by John Locke who said that, "all men

have an equal right to resist exploitation and, also, to resist the inclination to exploit others". In short, to "love one's neighbors as ourselves", and nothing more.

But, the real question in everybody's mind was, does a democratic government owe to every one of its citizens an equal opportunity? Many of us thought that although our government did not owe us what is known as the "luxuries of life", riches, social recognition, etc., at least it did owe us its support to help us earn what are called the necessities of life.

As the consciousness of these facts arose in the minds of the pre-war individual great efforts had been made to bring the dynamic power of capital into the social frame of democracy. Attempts were made to regulate the hours of labor and wages and renewed interest was taken in social problems. Large public improvements were financed by the government and social workers, economists, and even political parties outlined campaigns of social and economic justice. Still it was felt that it was something fundamentally wrong with the whole set-up; that the government could not continue forever to hand out money. There was simply not enough money around and that eventually the government had to be faced with a crisis.

Now, it came to pass, that the government was forced to subsidize the farmers and buy great amounts of their crops yearly to save them from bankruptcy. Great quantities of these foodstuffs had been rotting in government owned storehouses while people starved in a country of plenty. It was then ^{realized} released that these foodstuffs could have been distributed to the needy, in lieu of a part of their relief checks. This is how the well known Food Stamp Plan was born.

The plan has been highly successful, and if not for the intervention of the war it had an opportunity to develop into something substantially big. There was a chance that the plan could have been made into a permanent organization to help not only the unemployed, maimed and needy, but each and every citizen. It lacked but one function and that was that it had been depending upon grants by the Federal Government. To be fully self-supporting it required independent financial foundations and this could have been accomplished through the use of a central exchange or bank patronized by the general food industry and especially the farmers.

The Food Stamp Plan has really been the one and only true public service ever attempted by a government and directed towards providing better future for the average wage-earner. Its continuation would have been of untold benefit, not only in this country, but as an example to other democratic nations, and should have raised the standard of living all over the world. The problem of adequate distribution of foodstuffs to the masses is vitally wrapped up with the solution of present and future economic conditions in all of the countries in the world. In the past, growth of a nation depended on the exploitation of virgin resources and on the development of new industries. From now on, however, growth must hinge more and more upon the efficiency of distribution, to cope with the ever increasing population. In the future that country will have the best civic and industrial prosperity who will first perfect plans whereby the food cost to each and every citizen is reduced.

These facts make one realize that there is a pressing need for some sort of economic relief that would not draw cash from the public

treasury; some sort of organization to help the citizen get more for his money without outside help. In short, the citizen has to get for his hard earned dollar more and better food, which implies that the cost of the food must be drastically reduced. During the depression it was released that the cost of living had to be reduced to allow the small wage-earner to get a better livelihood. But, how the cost of commodities could have been reduced without impairing the structure of national economy; not much could have been done, yet there was some relief in sight. It was known statistically that half of the wage-earners in the country annually spend 60% of their income on food. One felt that to obtain more per earned dollar the food cost had to be drastically reduced, or more food had to be sold for less.

It is difficult for the imagination to grasp how the high cost of growing and distributing the food influences the prosperity of the citizenry. The urban resident gets easily excited over such things as social justice, the preservation of democracy, etc., but few people have the patience to stop and ponder the extent to which the high cost of food detracts the individual from investing his hard earned dollars into more productive social and educational advancement. Very few can understand that the lowering of the cost of farm produce will automatically release immense amounts of money that can be used by the citizenry in procuring better living conditions, more and higher education, and which in turn helps in preparing all of us to be better citizens, and a more democratic government structure. Under the present condition of food distribution, not only the masses and the consumers suffer, but also the man that raises the food, the farmer. To illustrate how much more the consumer has to pay for food, due to its

inefficient growth and distribution, and to the amount of food wasted by profiteering, and the nominal sum of the consumer's price that goes to the man who raises the food on the farm, a report issued by the government in an effort to answer this question, has been brought to light. It is stated therein that the excess price paid by the consumer over the price received by the producer ranges from 65 to 275 percent, the average being 140%. For instance, for butter the farmer receives from the jobber 25 cents per lb., which is sold by the retailer to the consumer at 75 cents, an increase of 200%; for eggs the farmer received 20¢ a dozen, which are sold to the consumer at 65¢; for potatoes the farmer receives 63¢ a bushel, and the consumer pays \$2.00 to \$2.50; for tomatoes the farmer gets 30¢ per peck, and the consumer pays sometimes as much as \$3.00, an increase of 1000%, etc. This increase of price to the consumer over what the producer receives for raising the food, and what the cost of distribution of farm produce means in lower prices to the farmer, and higher prices to the consumer, can also be illustrated through a statement in the report, that from a shipment of foodstuffs to New York City of about \$645,000,000, the farmer received only the sum of \$350,000,000; the balance of \$250,000,000 has been paid by the consumer to have the food taken from the wholesaler's warehouses to their kitchens. Of a sum of \$146,000,000 paid by the people of New York City for eggs, only \$50,000,000 was received by the farmers, and for certain produce that the eastern farmer received \$1.00, the consumer paid \$2.50.

It is needless to point out any further results of this inefficient method of food distribution, and one questions the efficiency of an operation which wastes billions of dollars yearly and prevents

the citizens from obtaining better use for their hard earned dollar. This condition makes it abundantly clear that a different method of food distribution is imperative if the average wage-earner, that is the foundation of our democratic society, can procure a better living standard under our present democratic form of government, and if democracy can survive the ravages of post-war depressions which are sure to come after this "Global War" and many others. There are those that believe that drastic changes in our national economy are not necessary to better the living conditions of the citizenry and that if Nature is left to itself it will solve these problems the best it can. Now, Nature is very prodigal in life, but life once given has to be kept in being, and Nature, which is prodigal in bringing life into existence, is niggardly in maintaining it. If Nature is left alone there will be always a greater possibility of increase in life than in the increase of growth of substances to maintain life. It has been found that while population increases in a geometrical ratio of - one, two, four, eight, etc., - the food supply increases in arithmetical ratio of - one, two, three, four, etc., - so that when the population of a community doubles, the supply of food increases only from 20 to 25 percent. In countries where Nature has been lavish of resources and advantages, the races inhabiting them tend to become somnolent and are unprogressive; likewise in countries that tend to other extremes, where Nature has been too niggardly, the races inhabiting them are also unprogressive. Only in those countries that have a certain amount of resources and advantages, and only need effort to render them utilizable, the races inhabiting them are the most progressive. So it can be seen that where Nature has been moderately kind, man has got that spur

which impels him to improve his condition by providing more food-stuffs for himself, better living conditions, more education and more time for leisure.

But even under the best natural conditions, and while mankind will not provide that extra food needed for an increase in population. Nature left to herself will only provide checks to such growth of population through famines, illnesses and ruthless wars to keep the equitation between the increase of population and the food supply equalized.

When the population tends to increase to the means of subsistence, and being that great masses of people only get a bare existence, great numbers of the lower classes die out and of the remainder many live on a bare subsistence which keeps the mass of mankind alive, and that is all. Those that believe that the problem can be solved by fixing a higher minimum wage or by other humanitarian measures forget that as wages go up the cost of subsistence also increases. Neither this problem can be solved by voting a large sum of money to help the needy by having the state pay the difference between the high and low minimum wage, the dole. To continue a cash relief policy forever will be a folly, as there is simply not enough money in the whole world to take care of the needy, and it eventually will lead to an economic chaos. While the masses also need humanizing and education, they need more lots of wholesome and inexpensive supply of food to keep them healthy and alive. In past also in present times, inadequate supply of food and its high procuring value have been the cause of famines, wars and revolutions. These things have all caused immense misery in the world. We want to get away from them and heroic remedies, such as doles, minimum wages, and other palliatives do more harm than

food in the long run as they make the masses lazy and help develop the feeling that the government owes them something for which nothing has to be paid.

These facts bring us to the inevitable conclusion that there is a great need for a national organization under the control of the government, that will supply the masses with a definite amount of food relief that would enable the masses to get away from a great deal of grief and trouble and horror in life. To prevent the ever present famines and the accompanying wars and revolutions, the world needs to fix for all and every inhabitant as nearly as possible a fixed standard of food comfort. The standard of food at which the average mass of people will be content to live without undue strife, and that would give them a greater opportunity for leisure and education. This standard should be established not only in our country, but if possible in the countries of the world apt to have large increases of population, and the food products of these countries should be distributed to the masses at a much lower price than they are sold now, so as to allow the average wage-earner to spend less of his hard earned money for more and better food and still have enough left to procure for himself and his family, some of the luxuries of life plus adequate education. Through a plan of nationwide distribution of food by their respective governments in lieu of doles, countries like our own, England, Russia, China, and especially such warlike countries as Germany, Italy and Japan can be most benefitted. Particularly the German Nation where the German people for years past have been made to believe that they must fight the other nations to protect their livelihood. The plan of a National Food Insurance will supply adequate food to the populace and destroy the falacious economic

and political beliefs that the German people have been fed for generations and advanced by the German ruling class to make the people follow their leadership.

After the present conflict and the staggering expenditures to conduct the war it seems unimaginable that our government will be in a position to hand out more cash for the relief of the post war unemployed and the men that will return from the battlefields.

But that it will be required to do such a thing is as sure as day follows night, unless other remedies are provided. The country has already been taxed to the limit to raise funds for the conduct of the war and it seems that still more capital is needed, and that higher taxation has only been begun. Where, therefore, will come the extra funds for the support of the post-war unemployed? Certainly not from additional taxation levied upon the already overburdened taxpayer. Is it not enough that higher taxes will have to be paid for generations to come to cover the cost of the war, should there be more taxes levied to pay for the relief of the unemployed. The government's reports show that half of the present income of 65% of the wage-earner is spent for food. Any plan therefor that will lower the cost of living and help pay higher taxes should have the hearty cooperation not only the country as such, but also every individual interested in the continuation of our democratic form of government. While in the present war crisis it is imperative to raise taxes and borrow more money, the continuation of this practice after the war, will bankrupt the country and will bring the downfall of democratic institutions. Dictatorial powers will then be required to save what can be saved, if any, and we will be on the verge of an economic and political revolution with its dire consequences. It is quite obvious that not all food prices can be readily reduced, but one means of reducing the

cost of living is to eliminate the huge profits of the food wholesalers and the middlemen, another to speed up the tempo of farming operations through chemical processes and the invention of labor saving machinery, a still other one to save perishable produce now wasted in great quantities by profiteering, and at least to provide for better and more efficient distribution of food produce. But this is not all. There is a need for a more substantial change which will require the intervention of the government. And that brings us back again to the Food Stamp Plan and its continuation, but on a nationwide and much larger scale, and with facilities to finance the raising and distribution of foodstuffs in great quantities not only to feed our own people but provide lots of inexpensive produce to help rehabilitate the ravaged countries of our allies and even the countries of our enemies. The cost for raising and distributing the food will have to be paid by all, and every citizen by means of a special taxation, - the Food Tax.

For the sake of clarifying the above statement it must be said that the cost for producing and distributing foodstuffs should be paid by the citizen so much per person, and depending on his gross income similar as it is done in regular taxation. The reader should not suppose that the proposed tax is another means of taxation to help drain the earnings of the hard working wage-earner. Differentiating from regular taxation wherein a person is taxed for funds to run the governmental structure, Food Tax will become a means for financing inexpensive growth and distribution of foodstuffs. The Food Tax referred to, in fact, will drain much less money from the pockets of our citizenry (less than half) that what is actually now spent by an individual for the procurement of his yearly supply of food. (It has been estimated that \$150.00

per year per person will cover the amount needed to run the plan).
Thus the difference between the payment of the food tax and the amount now spent on food will remain in the pockets of the masses to be used in buying other commodities, and increasing the savings of the needy for the rainy day.

The enlargement of the food stamp plan will automatically eliminate the use of the services of the middlemen and wholesalers and the food will be supplied by the government directly to the retailers and to restaurants as much as needed at a time to be distributed to the populace free. It is understood that the government will pay the retailers and the restaurants for their services from the funds collected through the Food Tax. In short the Food Stamp Plan will be eventually a nationwide Food Insurance System or National Food Insurance. The farmers will be also paid by the Federal government for their labors in growing and distributing the foodstuffs, such payments made from the funds collected through the Food Tax.

It should be understood, that a truly democratic government must not control or tend to regulate private enterprise or organizations. The proposed Food Tax Plan is not Socialism. But, the growth and distribution of foodstuffs must be administered by the Federal government for the good of the whole populace. Being that it is axiomatic that food is the most important and urgent of life's necessities, "if thou dost eat, thou canst not live," the passage of legislature affecting the distribution of foodstuffs should be of interest and benefit to all. Although under the Food Tax Plan, the business of the food wholesalers will be affected, the advantages derived under it will overbalance the seeming disadvantages. Without question it will raise the standard of living and provide

a better livelihood for the populace which in turn will strengthen the foundation of the democratic form of government. In the long run it will certainly benefit the farmers as their produce will receive better prices under this plan, and the city dwellers will be favored as the Food Tax will drain less money from their pockets than actually they have to pay for food at present prices. It has been estimated that at least 50% of the moneys now expended on food will be saved under this plan, - a great saving for the average wage-earner. In addition, the merchants and manufacturers will be helped as the moneys saved through the plan will allow the purchase of more commodities and will considerably, if not wholly, lower industrial unemployment.

Truly, democracy, that organization of free individual thought and of free enterprise as it is known now, will not survive this war unless the masses retain their beliefs in the democratic form of government and its institutions. To enlarge the scope of democratic government in this country and abroad many suggestions have been advanced by the well meaning individuals in the upper brackets of society. In England, for instance, it is contemplated the passage of legislation to guaranty cash payments or dole to practically every citizen including the housewife and to the extent of a yearly expenditure of four billion dollars, (\$4,000,000,000), a lot of money. Now, where is this money to come from? From the Tax Payer? But, who will pay taxes if every one can stay on relief. Differentiating from the English plan, the Food Tax Plan does not require additional taxation as its function is nothing else but the collection of funds to pay for the growing and distribution of food-stuffs which, then, are supplied free of charge to the populace. The Food Tax is really not a tax at all and no one has to suffer

therefrom. Under it, private enterprise will be wholly maintained and the best qualities of the capitalistic system such as individual initiative and competition will be retained. In addition the inexpensive supply of food will help to tide over the unemployed in times of economic depression.

After all the fact is, that: "No individual is born of his own free will and that all the members of mankind are responsible for the life of their offsprings which includes the feeding of the new born individuals. Therefore, it is clear that a true, free democratic society must owe to every one of its citizens the right to free food as much as the right to free water and air". It should be remembered that the only feasible way to create that most cherished Jeffersonian equality between each and every citizen, which is the true foundation of our present day democratic society of free individuals, is to guaranty adequate supply of food for all as "in death only all men are created equal, but in life, an empty stomach makes a free man another man's slave". And there can be no slavery in a democracy.

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By: CONSTANTIN P. LENT

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

March 6, 1943

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

Enclosed are the minutes of the meeting of the Board of Economic Warfare which was held on February 25, 1943.

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

Sincerely yours,

W. H. Perkins
Executive Director

Enclosure

SECRET

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Minutes of the Meeting of the Board of Economic Warfare Held February 25, 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 25, 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
Mr. Charles Fahy, representing the Attorney General
The Secretary of the Navy
Mr. L. A. Wheeler, representing the Secretary of Agriculture
Mr. Wayne 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. E. G. Collado, State Department
Mr. Adlai Stevenson, Navy Department
Mr. Harold H. Neff, War Department
Mr. J. C. Corbett, War Shipping Administration
Mr. Charles Knox, State Department
Mr. L. W. Douglas, War Shipping Administration
Mr. Arthur Gardiner, Board of Economic Warfare
Mr. James B. Herzog, Board of Economic Warfare
Mr. Milo Perkins, Board of Economic Warfare
Mr. E. W. Gaumnitz, Board of Economic Warfare

Shipping to other American Republics

A "Report to the Board of Economic Warfare Regarding Merchant Shipping Services to the Other American Republics", dated February 23, 1943, prepared by a committee established at the Board meeting of January 14, 1943, had been circulated.

Mr. Perkins stated that target tonnages were of necessity to be considered as being flexible, and raised the question of whether in the event of the undershipment of targets, the shortage was to be made up in succeeding months.

In the discussion it was clear that, since all shipping was tight, the most complete utilization of all shipping was of major importance, as was also the balancing of the various demands for shipping. With reference to the flexibility of targets it was pointed out that even though a shipping program might be carefully laid out for a future

period, unexpected development in active war theaters, or interference with shipping, might require the short term diversion of shipping. In such cases, it was improbable that reduced shipments to other areas could be offset within any reasonable future time.

With reference to more complete utilization, there was discussion of the use of neutral shipping, mainly Argentinian, Brazilian, and also French. Mr. Collado reported that the committee report had made no mention of the Argentinian situation since exports to Argentina were handled very largely by Argentina ships. Upon question by Mr. White, Mr. Douglas reported that by agreement 75% of the Argentinian tonnage was available to the United States for imports and was in fact bringing in materials which served to release U.S. vessels. He questioned whether further gains would be possible.

With reference to Brazilian vessels, Mr. Douglas stated that the U. S. had taken 13, and the Brazilians were operating 22. As the ships operated by Brazil are getting back into service and operating more efficiently, the War Shipping Administration is reducing the use of U.S. ships for Brazilian shipment.

With reference to ships at Martinique, which were reported to number six tankers and two merchant ships as well as certain war vessels, it was stated that negotiations were being directed by the Department of State. While the area is now under blockade, a factor in the situation is the danger of the ships being scuttled.

In discussing more efficient utilization of shipping, Mr. Douglas suggested that certain military construction and maintenance work abroad should be carefully screened, and drew attention to the use of ships as floating warehouses in the Southwest Pacific area. It was appreciated that unloading conditions could not readily be overcome, but from a shipping standpoint such use of ships meant a reduction in total availability.

Mr. Patterson stated that he was under the impression that military demands for shipping had not been met, and suggested that all civilian uses should be reviewed and possibly pared further. Usually, demands, however, carefully screened, were likely to be higher than war conditions would justify. Mr. Douglas stated that all military demands in the last sixty days had been met. He also stated that three times as much shipping was available to the military service as had been the case in the last war. He also drew attention to the fact that civilian shipping had been cut about as far as it was wise, also stating, however, that any highly serious military situation might require further action.

- 3 -

The Vice President drew attention to January shipments included in the committee report, noting that for some countries shipments were at a level of approximately 50% of average shipments in 1942. He also called attention to Table 6, showing the percentage of total shipping tonnage represented by "projects".

In discussing the "project" data of Table 6 several points were developed. While the term "projects" is used to indicate an enterprise in which the United States is directly interested, as rubber, quartz crystals, or balsa, certain of the materials necessary for projects are also of use to the civilian economy, as railroad and mining supplies. Segregating "projects" supplies, therefore, results in an overstatement of the reduction of civilian supplies. Furthermore, certain supplies listed as civilian or non-project were in fact related to materials more directly military. Such data as those given in Table 6 are therefore useful as indicators, but should not be interpreted as exact. It was apparent, however, that the supplies for more strictly civilian uses have been reduced materially, and that further reduction would endanger the production of supplies urgently needed by the United States as well as further strain the domestic economy. Mr. Perkins stated that in export control, preference was being given to project materials required to stimulate imports of strategic materials.

It was the consensus that the report be adopted, with emphasis on the necessity of continued careful screening of all shipping demands, and with the full realization that targets were flexible, particularly in a military emergency. It was noted also that allocations needed to be projected well in advance for planning purposes, and changes in allocations considered with the affected agencies.

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60-1174-39
60-1174
MAR 6 - 1943

To: Mr. Morgenthau

From: Mr. Paul.

On Monday, March 1, 1943, the Supreme Court in the case of Commissioner v. Griffiths, refused to reverse Eisner v. Macomber, in which the Supreme Court held in 1920 that a stock dividend in common stock issued on common stock is exempt from income tax. The decision was written by Mr. Justice Jackson. Mr. Justice Rutledge did not participate. Mr. Justice Douglas, with whom Mr. Justice Black and Mr. Justice Murphy concurred, dissented. The decision is quite lengthy and it doesn't seem necessary to go into the detail of it at this time, but there is one aspect of it which I thought should be called to your attention. The Court holds that inasmuch as Congress has not passed a statute taxing dividends of this kind, it cannot pass upon the question of the constitutionality of the subjection to tax of such a dividend. They seem to take the position that Congress should not concern itself with the constitutional aspect of any such statute; but that if it is their purpose to tax dividends of this kind they should pass appropriate legislation and when that legislation gets to the Court, the Court will determine whether it is constitutional.

The problem now arises as to what effect the rationale of this decision might have upon the further prosecution of our cases looking to the taxing of interest on the bonds of New York Port Authority. Congress has, on two occasions since the President's message to it in April, 1938, declined to enact legislation to tax interest on State and municipal bonds. You will no doubt recall your letter to the President March 17, 1941, in which among other things you called his attention to the fact that the Bureau of Internal Revenue had on the preceding Friday begun "a test case against seven bondholders of the Port of New York Authority for the purpose of settling the constitutionality of a Federal income tax on future State and local obligations." The thought of the Treasury at that time was that the decision of the Supreme Court in the Gerhardt case taxing the salaries of employees of the Port Authority,

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had cleared the way for taxing the interest on its bonds. However, even after the Gerhardt decision, the Congress continued to refuse to pass legislation to tax interest on State and municipal obligations; and it might be argued by necessary implication in view of all the circumstances, that that refusal extended also to the interest on bonds of State and municipal instrumentalities. If we continue to prosecute the so-called tax cases involving the Port Authority bonds, the Supreme Court might conceivably, when the case gets to it, take the same attitude as they have just exhibited in regard to the stock dividend issue; and if they take that attitude they would say that Congress should first enact the legislation and they would then, upon a proper case, determine its constitutionality. The Chief Counsel and his assistants believe the prosecution of the cases should be carried on to a conclusion and in this decision I concur. The reason for this recommendation is that if we consider only the context and reasoning of the decisions of the Supreme Court in the Gerhardt and O'Keefe cases, the situation from the legislative or technical standpoint can be distinguished from the situation in the stock dividend cases. Unless you otherwise direct, the test cases will proceed as heretofore planned. Incidentally, the cases are now set for hearing before the Tax Court at New York, beginning April 19, 1943. Several outstanding economists have been engaged to testify on the economic aspects of the case. The facts generally which are to be submitted to the Tax Court have already been incorporated in a stipulation which has been agreed to by the parties and preparations for the hearing are substantially complete, so that there is not a great deal of ground work left to be done before the beginning of the trial.



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE

MAR 6 - 1943

TO Secretary Morgenthau
FROM Mr. Paul

In accordance with the existing instructions,
there is submitted herewith a summary report of
activities and accomplishments carried on by the
Legal Staff for the month of January 1943.



Attachment.

IN THE OFFICE OF THE GENERAL COUNSEL
JANUARY 1943.

The following matters received attention in the Office of the Chief Counsel for the Bureau of Internal Revenue:

1. Recommendation to Joint Committee based on Litigation Hazard (See November 1942 report, item 4). The proposed settlement in the case of Mrs. Ruth B. Lilly and her husband and children has been criticized by the Joint Committee. The probability of criticism was anticipated; but it may be interesting to note that the criticism is based upon the decision of the Supreme Court in the Stuart case (handed down on November 16 - after the Lilly case had left the Review Division), and that after pointing out that the Supreme Court had remanded the Stuart case to the Board of Tax Appeals for further proceedings, it concludes with the following paragraph:

"Although the Tax Court's findings in the John Stuart trust case will not be determinative of the question here, it does seem desirable to withhold this case until that time. Perhaps that decision will furnish the basis for a better settlement here. Possibly that decision will render this case a good one to litigate in order that the scope and coverage of the Clifford principles may be more definitely determined - to the gratification of both taxpayers and the Bureau."

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2. Approved Overpayments. Overpayments were approved by the Staff of the Joint Committee during December in the following cases:

Brooklyn Edison Company - income tax	\$ 310,650.10
Duke Power Company - income tax	80,297.51
E. I. duPont de Nemours and Company, Inc. - income tax and interest	1,012,642.27
W. E. Hightower - income tax and interest	81,854.93
New York and Queens Electric Light and Power Company - income tax	314,735.85

3. Tsukasa Kiyona (See October 1942 report, item 8).

Recommendation was made to the Department of Justice that Kiyona be prosecuted for willfully attempting to evade and defeat a large part of his individual income taxes for the calendar years 1936, 1937 and 1938. On January 5, 1943, Justice advised that in view of the fact that the civil liability will be fully satisfied and that the statute of limitations will not operate during the taxpayer's absence from the United States (he is now in Japan), it is not believed "that any useful purpose would be served by indictment at this time."

4. Fred Perkins (See September 1942 report, item 4).

Mr. Perkins was found guilty January 12 of failing to pay

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social security taxes for his battery shop employees during the last five years. Perkins, a perennial anti-New Dealer, went to jail in 1934 when he refused to comply with NRA provisions but he was subsequently released when the Supreme Court invalidated the agency. On January 12 he was given a suspended six-month sentence and put on probation for two years. "I won't make any promises now," he said, "but I don't have any intention at present to disobey the law."

5. Northern Trust Company, et al., Executors, Estate of Henry M. Wolf, Deceased. This case was decided by the Supreme Court on January 11, 1943. It turned upon whether the amount to be deducted from decedent's gross estate on account of the bequest of his residuary estate to charity was the actual amount of such bequest, after payment of Federal estate taxes, or what would have been the amount if there had been no such taxes. The fact was that charity only got \$3,223.51, yet the Seventh Circuit Court of Appeals, following what it thought was the rule of the Supreme Court's decision in Edwards v. Slocum, allowed a deduction of \$463,103.08. The Circuit Court refused to

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examine the legislative history of section 807, Revenue Act of 1932, on the ground that the section was unambiguous. The Supreme Court, reversing the Circuit, said "words are inexact tools at best and for that reason there is wisely no rule of law forbidding resort to explanatory legislative history no matter how 'clear the words may appear on superficial examination'." The Court then pointed out that the legislative history demonstrated that Congress intended "a legislative reversal" of Edwards v. Slocum; that the legislative history was conclusive in favor of the Government's contention that the estate was entitled to deduct only the amount actually passing to charity after payment of the Federal estate tax; in other words, \$3,223.51 instead of \$463,103.08. The decision is important in estate tax administration.

6. Murray R. Spies. Spies was convicted of attempted evasion of income taxes. The Second Circuit affirmed. The Supreme Court granted certiorari and reversed on the ground, in short, that two misdemeanors, namely, (1) willful failure to make a return, and (2) willful failure to pay the tax, standing alone could not make a felony. Spies had asked

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the trial court to instruct the jury it could not find him guilty of the felony, namely, evasion, if they found only that he had willfully failed to make a return and had willfully failed to pay the tax. The requested instruction was refused and the court charged the jury that if the defendant had a net income upon which some income tax was due, and if they found the defendant willfully failed to pay the tax, and if they found the facts and circumstances warranted it, they could find the defendant guilty of evasion. The court also refused to instruct the jury that an affirmative act by the defendant was necessary to constitute evasion, and charged the jury otherwise, saying that an attempt (to evade tax) might be found on the basis of inactivity or on refraining to act. The Supreme Court thought Congress intended some willful commission in addition to the willful omissions that make up the list of misdemeanors; it said in substance if the jury had found that certain other acts which were in evidence, taken "together with willful failure to file a return and willful failure to pay the tax" constituted a willful attempt to defeat and evade tax, it would consider conviction sustainable. A first reading of the

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Supreme Court's decision does not indicate the necessity for any marked departure from present Internal Revenue Bureau practices in developing and recommending prosecutions for tax evasion, but rather that charges to juries must be broader. It was made clear that failure to make a return and failure to pay a tax are not to be disregarded in any such prosecution, but are to be taken together with other acts of commission, such as keeping a double set of books, making false entries or false invoices or documents, destruction of books or records, concealment of assets, or covering up sources of income, etc. However, proposed legislation is being considered.

7. Post War Refund of Excess Profits Tax. Representatives of the Office of the General Counsel, Bureau of Accounts, Bureau of the Public Debt, Income Tax Unit and Office of the Chief Counsel of the Bureau of Internal Revenue held a conference on January 7, 1943, to discuss post-war refund of excess profits tax. The Bureau of the Public Debt contemplates issuing post-war refund bonds and handling their transfer and redemption, and preparing the regulations with respect thereto. Tentatively, it was suggested that the

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post-war credit account of each corporation paying excess profits tax be maintained in the Bureau of Internal Revenue, and that such Bureau make monthly certifications to the Secretary on the basis of which Public Debt would issue the bonds, and when necessary (by reason of deficiencies and refunds) adjust the amount of bonds outstanding.

8. Estate of B. H. Kroger. As a consequence of the holding of the Board of Tax Appeals (now Tax Court) in its decision in the case of Mary H. Hughes that the decision of the Supreme Court in May v. Heiner was no longer the law, a deficiency in estate tax was proposed against the Estate of B. H. Kroger, Deceased, from which an appeal has been taken to the Tax Court. Recently counsel for the estate filed a motion with the Tax Court to advance the hearing in the case, and as grounds stated, among other things, that the major issue involving approximately \$8,500,000 of a total proposed deficiency of \$12,524,987.81 was attributable to the decision of the Tax Court in the Mary H. Hughes case and like decisions following it; that interest on the deficiency is accumulating at the rate of approximately \$2,000 per diem; and that unless the Tax

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Court reverses itself, the estate will seek review in the Circuit Court of Appeals, and if it does reverse itself, the Commissioner "undoubtedly will seek review." The motion then recites that in view of "this forecast of litigation" it is of the utmost necessity, from the standpoint of financial cost to the estate, that the matter be tried and disposed of at the earliest possible moment. Representatives of this office are cooperating with the estate to the end that the case may be heard as expeditiously as possible, and it has now been set for hearing at Louisville, Kentucky, April 15, 1943.

9. Estate of Genevieve Brady Macaulay. A proposed refund of \$109,682.91 estate tax to this estate was reported to the Joint Committee December 1, 1942. Mrs. Brady, the widow of Nicholas F. Brady, who had left her some fourteen million dollars, married William J. B. Macaulay, Minister to the Papal Court from the Free State of Ireland on March 8, 1937. On October 6, 1937, she made a will bequeathing one million dollars to her husband, and stipulating that any advances to him during her lifetime should be deducted therefrom. On April 20, 1938, she advanced to him

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property worth approximately \$485,000; and on November 24, 1938, she died. The Staff of the Joint Committee has criticised the proposed refund. It is of the opinion that the \$485,000 advancement to the husband was taxable as a transfer in contemplation of death. It particularly criticises the sentence in Article 16 of the estate tax regulations which reads: "The fact that a gift was made as an advancement to be taken into account upon the final distribution of the decedent's estate is not, in and of itself, determinative of its taxability." Referring to this sentence, the memorandum states: "I recommend it be by Treasury Decision immediately eliminated from the regulations on the ground that it is contrary to the plain meaning of the law."

10. William D. Frad (See October 1942 report, item 3). Frad was indicted January 4, 1943, and bail set at \$1,000. He is a notorious gambler who "fleeced" several prominent business men while traveling in the Carribean Sea area.

11. Cox Steel & Wire Co., Inc. This case was referred to the Department of Justice January 15, 1943, recommending that its president, W. T. Cox, be prosecuted for willfully attempting to evade and defeat the social security taxes of

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the corporation for the years 1936 to 1939, inclusive. Apparently Cox is one of those exceptional individuals who has made up his mind not to pay taxes to the Government. Similarly, Brevoort Enterprises, Inc., was referred to the Department of Justice January 15, 1943, recommending that its president, A. Brigham Rose, be prosecuted for willfully attempting to evade and defeat the social security taxes of that corporation for 1936, 1937 and 1938. Mr. Rose is a fairly well known lawyer in Los Angeles, having had something to do with the William Bioff case (See October 1942 report, item 1). These cases are interesting in that they are among the few social security cases which have been referred for prosecution.

12. Social Security Taxes on Mining by "Leasers". The Commissioner of Internal Revenue has ruled that operations under a proposed form of mining lease in Utah would not involve employment by the owner of the mine within the meaning of the Social Security Act. Approval of this ruling by the Chief Counsel's office was given only after it was ascertained that the Labor Department has ruled the same way for purposes of wages and hours laws and after

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assurances that the Labor Department would continue to take that position. The Social Security Board has been kept advised. The War Production Board hopes to stimulate mining for war purposes through the leasing system. It is represented leasing was a common method of operating marginal mines until recently.

13. William F. Hess, et al. Hess and others, who were electrical contractors and were employed to work on PWA projects in the Pittsburgh area, were indicted and paid substantial fines for conspiring to defraud the United States. Afterwards one Morris L. Marcus, on behalf of the United States and in his own behalf, brought a suit against the contractors for damages because of the frauds committed against the United States. The authority for bringing the suit is a statute which had its origin during the Civil War, whereby any person could bring a suit to recover damages against every person who caused to be presented for payment any claim upon or against the government of the United States knowing such claim to be fraudulent; and the suitor got one-half of the amount of the recovery as a reward. A judgment was rendered in this case for \$315,000, of which

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\$208,000 was for double damages and \$112,000 was an aggregate of \$2,000 sums for 56 violations. On appeal the Circuit Court reversed. The case then went to the Supreme Court, where the Circuit Court was reversed and the District Court was affirmed. The Government appeared in the Supreme Court *amicus curiae*. In connection with the Government's argument on the general question of policy, the Supreme Court pointed out that this suit resulted in a net recovery to the Government of \$150,000, "three times as much as the fines imposed in the criminal proceedings; and this recovery was obtained at the risk of a considerable loss to the petitioner since" the law explicitly provides that the informer must bear the risk of having to pay the full cost of the litigation. The Court also said: "One of the chief purposes of the Act, which was itself first passed in war time, was to stimulate action to protect the Government against war frauds," citing a report of the House Committee on Government Contracts, March 3, 1863, the Congressional Globe and Randall, Civil War & Reconstruction. This proceeding did not involve federal income taxes, but a study will be made of it to determine whether and to what extent

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it would be applicable to a like suit for the recovery of federal taxes fraudulently evaded.

14. Joseph C. Grew. Mr. Grew has given all of his right, title, and interest in and to his book "Report From Tokyo," and his right to copyright the manuscript, to the American National Red Cross. The Red Cross has entered into a contract with Simon and Schuster, Inc., who agree to publish the work and to pay royalties to the Red Cross. Mr. Grew is a party to the contract and has certain obligations arising from it, but he will receive no payments under it. It has been ruled that Mr. Grew will not be liable for income tax, nor is he required to file a return on the royalties which will be paid to the Red Cross upon publication of the book inasmuch as he is no longer the owner of the property which will produce the income. However, Mr. Grew was advised that he would be required to file a gift tax return, provided that the gift was not excluded under section 1003(b)(2) of the Code from net gifts, but that he would be allowed a deduction under section 1004(a)(2)(B) of the Code since it was a gift to a charitable organization.

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15. Compromise Cases. In (1934) 38 Op. Attorney General 124 (a letter from the Attorney General to the Secretary of the Treasury) it was held that under Executive Order No. 6166 of June 10, 1933, the Treasury Department had no discretion to review on the merits the action of the Attorney General in accepting an offer of compromise in a case under his (Attorney General's) control; that the Attorney General had plenary power to compromise any case over which he has jurisdiction upon such terms as he might deem fit; and that the duty of one executive officer to carry into effect the discretionary acts of another was ministerial. Recently, the Department of Justice directed an administrative refund, inclusive of costs, in the case of City Bank Farmers Trust Company, Trustee for Mary McKay McCreery v. Collector. The directive letter was submitted by the Bureau of Internal Revenue to the Comptroller General upon the question whether the payment of court costs in a settlement prior to payment of the costs would be approved. January 5, -1943, the Comptroller General, in a letter to the Secretary, holding court costs in the circumstances of this case could not be refunded, said, among other things,

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that in view of the holding of the Supreme Court in Sage v. United States, and United States v. Kales, "it is not clear that the Attorney General is authorized to compromise suits filed against collectors of internal revenue for refunds of taxes." The Comptroller General's letter said in connection with that statement that he had not overlooked 38 Op. Attorney General 124. But the Comptroller General concluded in the particular case that however that might be, "you are informed that if the Commissioner of Internal Revenue is willing to make payment of the said amount of \$69.31 plus interest as being equivalent to an allowance by him as a refund of taxes, this office will raise no objection thereto in this case."

16. Tobacco Products Corporation of New Jersey.

Pursuant to a contract entered into in 1923 the American Tobacco Company "leased" from the Tobacco Products Corporation of Virginia and its subsidiaries their recipes, processes, trade brands and good will for 99 years at an annual rental of \$2,500,000. Early in 1932 two new corporations, of like name, were formed in New Jersey and in Delaware, the latter becoming parent of the former which took over the

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lease rights of the Virginia company. In 1935 the American Tobacco Company exercised its option under the original contract and paid \$36,286,128.85 for the intangibles so leased to it. Since the New Jersey company in 1932 had issued trust debentures of \$35,591,235 against the contract, the Bureau of Internal Revenue has been engaged since 1937 in efforts to determine and collect whatever taxes might result from the 1935 transaction. As only \$725,638.27 was found collectible from the New Jersey company, and its subsidiaries were without assets, resort was had to transferee proceedings which caused some 229 petitions to be filed with the Board of Tax Appeals. After protracted negotiations, a settlement was effected whereby the Government has collected \$2,250,638.27, including \$1,525,000 from alleged transferees represented by United Stores Corporation, American Tobacco Company, and interests connected with the Estate of T. F. Ryan and the Duke family. Since the transferee payers insisted on flat sum payments without interest added, the Bureau representatives insisted on collateral agreements waiving the right to deduct their payments from gross income in any year. The Tax Court decisions were entered for the sums paid, without interest.

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17. Chambersburg Engineering Company. In this case the Defense Plant Corporation will not own the land on which the buildings, machinery and equipment are located, but is to be given a 25 year lease by the taxpayer, the Defense Plant Corporation then subleasing the land to the taxpayer for seven years. Both the lease and the sublease may be terminated by the taxpayer at any time the facilities are no longer required for defense purposes. Upon termination the taxpayer has an option to purchase, but may demand that all buildings, structures and machinery be removed from the land, (and upon failure to remove, taxpayer would apparently be entitled to convert the facilities to its own use). In view of these provisions, and the position taken in respect of the Glenn L. Martin Company case (see October 1942 report, item 13), it is proposed not to give a closing agreement that the rentals are deductible, unless the taxpayer agrees to adjustments in the event that it acquires the property or exercises rights inconsistent with ownership by the Defense Plant Corporation. This appears to be the first case of a type in which the taxpayer is given a right by the Defense Plant Corporation to demand demolition of the facilities.

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18. Walter Winchell. Winchell requested a ruling as to whether the agreement entered into June 9, 1940, by him with the Andrew Jergens Company and Lennen & Mitchell, Inc. constitutes an employer-employee relationship or a contractor-contractee relationship under the Salary Stabilization Regulations. It was ruled that the agreement in question does not constitute the legal relationship of employer and employee as defined in section 1002.2 of the Salary Stabilization Regulations.

19. State of Florida. In response to questions presented by the Comptroller of the State of Florida, it was held (1) that where a salary is paid by more than one paying agent, as where a county agent is paid from federal, state and county funds by different disbursing officers, each such officer must deduct from the amount which he disburses the victory tax computed on such amount, and the complete withholding deduction is allowable against the wages paid by each withholding agent; (2) that the value to employees of state institutions of living quarters and meals furnished them should be considered compensation for services for the purpose of withholding the tax unless the

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living quarters or meals are furnished for the convenience of the employer (The rental value of the governor's mansion does not constitute gross income to the governor and hence is not subject to any provision of the victory tax); (3) that payments on account of unemployment paid by a state agency out of funds received from federal unemployment trust funds are not includible in the gross income of the recipient and are, therefore, not subject to any of the provisions of the victory tax; (4) that the amount of an allowance for traveling expenses or the amount of reimbursement therefor must be included by the employee in his gross income but he may deduct his actual expenses in determining the victory tax net income subject to tax (The amount of such allowance or reimbursement, however, need not be taken into consideration in computing the amount to be withheld by the employer); (5) that pensions paid to retired officers and employees of the state constitute remuneration for past services, rather than annuities, and therefore constitute wages subject to the tax and to the withholding provisions.

20. State of Georgia. The Treasurer of the State of Georgia inquired whether State officers whose salaries are

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fixed by the State Constitution or State statute will have cause of action against him if he withholds the victory tax from such salaries. He was advised that the withholding of the victory tax does not constitute a diminution of the salary and his attention was called to section 467(b) of the Internal Revenue Code which provides that "every person required to withhold and collect any tax * * * shall be liable for the payment of such tax, and shall not be liable to any person for the amount of any such payment." Members of the State legislature receive per diem of \$7.00, or \$490 for the entire session. They draw their compensation at irregular intervals as they see fit. They were advised that the amount of victory tax to be withheld should be computed under section 466(b)(4) dealing with wages paid without regard to any payroll period, and that it is immaterial that the entire salary for the year is less than the victory tax exemption for a yearly period. It was further held that the Treasurer need not withhold a tax upon the per diem of \$70 and \$60 paid respectively to the Clerk of the House and the Secretary of the Senate since those amounts constitute funds provided for those officers to meet the expenses of

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their own offices, including their own compensation and that of their employees. Those officers must withhold the victory tax upon amounts paid to their employees and upon their own remuneration. The victory tax legislation contains no exception which would exempt pages, who are minors, from the tax and the withholding provisions.

The Council of State Governments met in Baltimore and were furnished copies of the rulings in the Florida and Georgia cases, in which they were interested.

The following work was done under the supervision of Assistant General Counsel Cairns and Mr. Feidler, Special Assistant to the General Counsel:

21. Pay of Treasury Employee (T. Maxwell Anderson)
Captured by the Enemy. An opinion, addressed to Mr. W. N. Thompson, which was prepared by Mr. Tobolowsky and Mr. Gilmore, and signed on January 11, 1943, concluded that (1) Mr. Anderson is entitled to a per diem allowance during his internment by the enemy; (2) he is entitled to per diem at the rate as increased subsequent to his capture, for such period until he returns to his post of duty; and

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(3) the Treasury Department may send the salary and per diem checks of Mr. Anderson to a bank designated by him as his agent to receive his salary.

22. Traveling Expenses and Per Diem for Assistant to the Secretary (Ted R. Gamble). An opinion, addressed to Mr. W. N. Thompson, which was prepared by Miss O'Connor and Mr. Gilmore, and signed on January 11, 1943, concluded that since Mr. Gamble is a dollar-a-year man, he may be paid compensation equivalent to \$1 per annum plus actual traveling expenses between his place of residence and Washington, D. C., and per diem in lieu of subsistence while in Washington, D. C., notwithstanding his official post of duty is Washington, D. C.

23. Pay of New Appointees to the White House Police Force. An opinion, addressed to Chief Wilson, Secret Service, which was prepared by Mr. Tobolowsky and Mr. Gilmore, and signed on January 14, 1943, concluded that privates appointed to the White House Police force from sources outside the Metropolitan Police force and the United States Park Police force may be initially appointed at a salary in excess of \$1,900.

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24. Dutiability of Wool Thread Waste Sold out of Bond.

An opinion, addressed to Assistant Secretary Gaston, which was prepared by Mr. Feidler, and signed on January 30, 1943, concluded that colored Axminster thread waste resulting in the usual course of the manufacture of rugs or carpets is probably not dutiable when sold by the manufacturer. The opinion takes a position contrary to that taken by the Commissioner of Customs.

25. President's Power to Lower the Price of Bread. A memorandum pertaining to the President's power to lower the price of bread, addressed to Mr. Haas, Director of the Division of Research and Statistics, was prepared by Mr. Gilmore, and signed on January 16, 1943.

26. Litigation. In the case of United States v. Graham and Zenger, Inc. (Reap. Dec. No. 5751), decided on October 29, 1942, the Customs Court held that no freely-offered foreign value for the merchandise involved existed within the meaning of the tariff act, because when such merchandise was sold in the foreign country of origin for home consumption, a licensing control system of that country prevented the merchandise from being exported subsequently.

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A letter was prepared by Mr. Chambers requesting the Solicitor General to take an appeal from the court's decision. It was pointed out therein that the governments of many countries, including the United States, are now exercising various types of control over merchandise and that, if the decision was allowed to stand and its underlying principle extended by the court to other types of governmental control, the result might be that the Customs Service would eventually find itself unable to determine in accordance with the tariff act the dutiable value of many types of merchandise. The Department of Justice has since advised that an appeal has been taken.

27. Disclosure of Confidential Information. The General Accounting Office wrote to the Department regarding the refusal of a field office of the Customs Agency Service to allow General Accounting Office investigators access to files involved in a customs case which was the subject of an active investigation by the Customs Agency Service. The General Accounting Office requested that general instructions be issued that all records be made immediately available to its investigators upon request.

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A reply prepared in the Chief Counsel's Office of the Bureau of Customs pointed out to the Comptroller General that the statutory provision giving his office access to Government records is subject to a constitutional limitation that an executive agency may refuse to disclose information if such disclosure would be against the public interest. The letter stated that the General Accounting Office is given access to the great bulk of customs records but that in special circumstances, such as cases undergoing active investigation, the question of disclosure is properly referred by the field officers to the Department for decision.

The following work was done under the supervision of Assistant General Counsel Tietjens:

28. Investment of State Funds in United States Securities (See December 1942 report, item 20). Mr. Tietjens and Mr. Reeves attended meetings of the Drafting Committee, Council of State Governments, held at the Department of Justice at which were considered the enactment by the various states of legislation authorizing the investment of funds of the states and of their political subdivisions in United States securities. A draft of legislation

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satisfactory to this Department was prepared and recommended to the various states for enactment.

29. Transmission of Veterans' Pension Checks to Switzerland. Mr. Reeves was present at a conference in Mr. Bartelt's office which was attended by representatives of the Veterans Administration, State Department, Division of Foreign Funds Control and Bureau of Accounts, which was called to discuss the possibility of establishing a procedure whereby payments of benefits to veterans residing in Switzerland would be made through the facilities of the State Department. Such payments are now being withheld due to the impossibility of transmitting checks to Switzerland. The matter is receiving consideration by the Department and, in the event that a satisfactory procedure can be worked out for Switzerland, such procedure will be extended to Sweden, Spain, and Portugal, from which veterans' and other payments are also being withheld.

30. Release of Securities Deposited with Former High Commissioner of the Philippines (See August 1942 report, item 25). An agreement of indemnity was drafted for use in connection with the release to the Nederlandsch Indische

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Handelsbank N. V. of certain securities which were deposited during the emergency in the Philippines by the Manila branch of that bank with former High Commissioner Sayre and are now being held in custody by the Federal Reserve Bank of San Francisco subject to the direction of the Secretary of the Treasury.

31. Donations to Office of Foreign Relief and Rehabilitation Operations. Mr. Tietjens and Mr. Reeves conferred with Mr. Heffelfinger and M. S. McDougall, General Counsel of the Office of Foreign Relief and Rehabilitation Operations, concerning the acceptance of gifts of money and property made to that agency. It appears that the provisions of Title XI of the Second War Powers Act with respect to the acceptance upon behalf of the United States by the Secretary of the Treasury of gifts conditioned upon their use for a particular war purpose and the procedure established by the Department for the acceptance of such gifts are adequate to cover any donations which may be made to the above agency.

32. Embezzlement of United States Savings Bond Funds by Postmaster at Brodhead, Wis. Messrs. Tietjens,

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Cunningham and Reeves conferred with Mr. Heffelfinger and representatives of the Bureau of the Public Debt concerning (1) a claim by the Post Office Department for the replacement from the fund for the payment of government losses in shipment of certain United States Savings Bond funds embezzled by a former Postmaster at Brodhead, Wisconsin, and (2) the procedure to be followed in reissuing bonds wrongfully withheld by the postmaster. It was determined that under the provisions of §3a of the Government Losses in Shipment Act, as amended, the fund is available for the replacement of the principal amount of the funds embezzled, but not for the payment of interest thereon. Mr. Cunningham has worked out a procedure for the reissue of the bonds in question.

33. Effect of Soldiers and Sailors Civil Relief Act of 1940 Upon Recovery of Travel Advances. In response to an informal inquiry from the Division of Disbursement concerning the effect of the Soldiers and Sailors Civil Relief Act of 1940 upon the recovery of travel advances from Government employees who have gone into military service, a memorandum was prepared and transmitted to that Division, stating that in so far as the Act is concerned there is

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no reason why the Government should refrain from attempting to collect from such employees or their sureties amounts due on account of travel advances. However, the memorandum stated that the extent to which the Government should go in attempting to collect amounts due on account of such advances appears to present a question of policy for administrative determination.

34. Proposed Amendments to Government Losses in Shipment Act. The Commissioner of Public Debt submitted to Mr. Cunningham for consideration and advice proposed amendments to the Government Losses in Shipment Act, proposing to extend the purposes of the Act to cover losses from cashing or paying United States Savings Bonds by the Treasurer or other authorized agencies, and also providing for relief without bond of indemnity where the lost security is in the possession of any organization authorized to cash or redeem such bonds. This proposed legislation will necessarily require some redrafting, particularly as it involves an apparent mistake in the compilation of the Code.

35. Report on S. 26, to Provide for Bonding of Federal Officials and Employees. Mr. Reeves conferred with

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Messrs. Shea and Bartelt and members of the Bureau of Accounts concerning the preparation of a report to the Senate Committee on Education and Labor on S. 26 which would direct the Secretary of the Treasury to secure a blanket bond covering all officers and employees of the United States and to pay the premium thereon. It was tentatively agreed that an adverse report on the bill would be prepared which would recommend consideration be given to the enactment of legislation providing for the self-bonding by the Federal Government of its officers and employees in the manner contemplated by a bill which was drafted some time ago by the Legislative Section.

36. Procedure with Respect to Withholding of Payments Under Act of October 9, 1940. A letter was prepared in response to an inquiry from Louis Ludlow, a member of the House Committee on Appropriations, pertaining to the necessity of drawing government checks and depositing the proceeds thereof in a special deposit account in cases where it has been determined by the Secretary of the Treasury pursuant to the Act of October 9, 1940, (U.S.C., title 31, sec. 123, et seq.) that the checks should not be transmitted

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for delivery in a foreign country or where the payments involved are prohibited by Executive Order No. 8389, as amended. The letter advised Mr. Ludlow that under the provisions of the Act of October 9, 1940, the Department is required to draw these checks and to deposit the proceeds thereof in a special deposit account but that the Department would be glad to cooperate in the preparation of legislation which would eliminate the necessity for this procedure. The letter further advised that a saving of approximately \$45,000 could be effected if the Department were not required to draw the checks in question.

37. Railroad Reorganizations (a) Seaboard Air Line Railroad (See December 1942 report, item 22). Mr. Proctor attended a hearing in New York City before the Special Master in the above proceedings at which was discussed the proposed treatment in reorganization of securities recently purchased by the Receivers. Generally speaking, the creditors group advocated that the values represented by the purchased securities be allocated to the various creditors in accordance with whatever plan of distribution may be approved by the Special Master and the Court. One

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of the Receivers strongly proposed that no securities of the new company be issued against the purchases but that the purchased securities be retired with the resultant decrease in the company debt and capitalization.

After the hearing, Mr. Proctor attended an informal conference with the Special Master, one of the Receivers, counsel for the Receivers, and counsel for one of the large creditor groups. Counsel for the Receivers proposed that, with the permission of the Special Master, the Receivers and the Treasury endeavor to arrive at a price agreeable to both parties for the sale to the Receivers of all security held by the Treasury as collateral for the Seaboard's \$210 obligations, exclusive of the First and Consolidated Bonds. This proposal was made known to Mr. D. W. Bell and Mr. Heffelfinger and is now being considered by them. Such a sale would also constitute a compromise of the pending litigation with respect to the Prince George and Chesterfield Railway bonds now held by the Secretary of the Treasury.

38. Public Debt (See December 1942 report, item 17).

(a) Rights of finders of coupon bonds. The Department

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for some years has followed an opinion of the Attorney General to the effect that the United States would not be properly protected in recognizing complete title in the finder of a lost and unclaimed coupon bond in the absence of a state statute providing for perfecting title in such a finder. The practice, therefore, has been to refuse to return the found bond even when the finder requests it. Mr. Bell recently requested that an effort be made to have the Attorney General reconsider the matter and the necessary research to support an opinion by the General Counsel is now in progress.

(b) Payment of Savings Bonds through judicial proceedings. Judge Oscar M. Kaplan of the Chicago Municipal Court informally inquired whether Savings Bonds were exempt from the claims of creditors, and was advised of the regulations to the effect that there were no restrictions on payment through judicial proceedings brought by creditors except in the case of proceedings brought to enforce a pledge or proceedings affecting the right of survivorship. The Judge advised that many cases were coming before him based on old judgments and instituting discovery

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proceedings for the purpose of locating savings bonds recently purchased through payroll allotment plans. His attention was called to the possibility of invoking state exemption laws for the protection of small bondholders, and he said he would give the matter consideration.

(c) Recovery of bonds issued in error under payroll deduction plan. Numerous cases have arisen in which employers operating payroll deduction plans have purchased from postmasters, or issued directly, bonds to which the payees were not entitled because of a duplication of orders, or otherwise have delivered the bonds, and have been unable to date to recover the bonds. Loans and Currency was advised to prepare a letter for the Under Secretary's signature, addressed to the Chief of the Secret Service, requesting their cooperation in recovering the outstanding bonds in cases of this kind. The opinion was expressed that substitute bonds could be issued without surrender of the original bonds in such cases only upon satisfactory proof that the payee had lost the bond or did not receive it.

(d) Pending litigation - Registration of United States Savings Bonds. A new case involving registration in the

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beneficiary form was reported to Mr. Cunningham. A letter was received from a Mrs. Heck of Dauphin, Pa., to the effect that the executors of her father's estate claimed five \$1,000 Series G bonds registered in the name of her father, William G. Garverich, payable on death to her. The bonds had actually been submitted to Chicago with a request for payment at par. Payment had been refused on the ground that the designated beneficiary was entitled to payment and the bonds were retained by the Chicago office. This information was transmitted to Justice which is considering the desirability of filing either interpleader proceedings or a petition for declaratory judgment in the Federal Court at Harrisburg on the ground that the Department is in possession of bonds claimed by two claimants and desires instructions as to which one payment should be made. If this is done a case will arise in a federal court with a direct line of appeal to the Supreme Court, a situation which has been anxiously looked for.

(e) Savings Bonds - Litigation. There has been received from the Department of Justice the proposed petition for declaratory judgment in the William G. Garverich case,

arising in the Middle District of Pennsylvania and affecting United States Savings Bonds inscribed "William G. Garverich, payable on death to Mrs. Nellie G. Heck." The petition has not yet been verified but will be forwarded to Justice for service as soon as the Under Secretary has signed it. Justice advises that so far as they know this is the first time the United States has taken advantage of the statute permitting declaratory judgment in the Federal courts.

(f) Savings Bonds - Conflict of Ownership. The DiSanto case involving a conflict of ownership of United States Savings Bonds was argued in the Court of Appeals, State of Ohio, sitting at Cleveland. The Probate Court had sustained Treasury's position and an appeal had been taken. Of course, an appeal lies to the Supreme Court of the State. In this case Treasury was not a direct party but appeared as the result of a Suggestion of Interest.

(g) Financing. Messrs. Tietjens and Cunningham participated in consideration of the issue of 7/8% Treasury Certificates of Indebtedness, Series A-1944, dated February 1, 1943, due February 1, 1944.

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The following work was done under the supervision of Assistant General Counsel O'Connell:

39. Board of Legal Examiners (for description see July 1941 report, item 15). Mr. Shea and Mr. Speck sat on Examining Committees of the Board of Legal Examiners on January 5, 1943. Also, Mr. Speck was a member of the Examining Committee at a meeting held on January 18, 1943.

40. War Communications Board (for description see November 1940 report, item 23). Mr. Shea attended a meeting of the Law Committee of the War Communications Board on January 19, 1943.

41. Public Debt Act of 1943. Mr. Shea participated in the drafting of the proposed Public Debt Act of 1943. The bill (H. R. 1470) is designed (1) to increase the public debt limit; (2) to authorize banks and trust companies to make payments in connection with the redemption of United States savings bonds; and (3) to provide relief for losses incurred in making payments in connection with the redemption of United States savings bonds.

On January 22, Mr. Shea with Mr. Heffelfinger, discussed the provisions of the proposed legislation with the Bureau

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of the Budget. Mr. Shea accompanied Under Secretary Bell, Assistant Secretary Sullivan, Mr. Haas and Mr. Broughton to the hearing on H. R. 1470 before the Ways and Means Committee and the Finance Committee, held on January 29, 1943. He also prepared drafts of the Committee reports on this bill.

In connection with the consideration of this bill numerous memoranda containing background and factual material were prepared by Mr. Ranta, Mr. Filachek and Miss McDuff.

42. Proposed Bill to Authorize Acceptance of Permanent Loan Made by Board of Trustees of the National Gallery of Art (See November 1942 report, item 32). Miss McDuff prepared a draft of a report for the Senate Committee on the Library on our proposed legislation to authorize the Secretary of the Treasury to receive a permanent loan to the United States from the Board of Trustees of the National Gallery of Art and to pay 4% interest thereon, and to permanently appropriate such interest for payment to the Board of Trustees. This legislation was submitted to the Congress by the Secretary of the Treasury, as ex officio

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Chairman of the Finance Committee of the Board of Trustees of the National Gallery of Art, at the request of the Chief Justice, as ex officio Chairman of that Board, and involves a gift of a trust fund of \$5,000,000 in cash.

43. White House Police Salaries (See September 1942 report, item 28). Mr. Ranta prepared voluntary reports on S. 17 and H. R. 643 which provide for an adjustment of the salaries of, among others, the White House police, suggesting an amendment to prevent an implication requiring the appointment of White House privates at the minimum salary for such privates. After a discussion between Mr. Shea and Chief Wilson, it was decided not to send the reports but to take necessary precautions that the committee report would contain no language imposing such a limitation.

44. Proposed Legislation Authorizing Transfer and Sale of Surplus Government Property. Mr. Shea, with Mr. Gerardi and Mr. Reeves, conferred with Mr. Bartelt concerning proposed legislation being sponsored by the Bureau of the Budget which would (1) authorize the transfer of surplus equipment and supplies among the various departments and agencies of the Government, and (2) authorize the sale or

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lease of Governmental buildings, supplies, or equipment to non-governmental agencies engaged in activities essential to the prosecution of the war.

45. Proposed Executive Order Consolidating Certain Agricultural Lending Agencies (See December 1942 report, item 34). On December 28, 1942, a further conference was held with representatives of the Department of Agriculture to discuss its proposed Executive Order to consolidate certain agricultural lending agencies and functions. Mr. Heffelfinger, Mr. Bartelt, Mr. Cake, Mr. Tietjens, Mr. Reeves, Mr. Shea, Mr. Filachek and a representative of the Department of Justice attended. Another conference was held on the 29th, Mr. Bell, Mr. Speck and Mr. Filachek attending. It was agreed that Agriculture would further revise the Order, incorporating Treasury suggestions, and forward a copy of the final draft to this Department when the proposal was submitted to the Bureau of the Budget.

46. Final Progress Report from the 77th Congress.

There was prepared by Miss McDuff for your transmittal to the Secretary a complete report of the results of the Treasury Department's legislative program during the 77th Congress.

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47. Legislation Expiring in 1943. At the request of Mr. Bell, Mr. Ranta prepared a list of Acts of Congress affecting this Department, which expired during 1943. Memoranda were also sent to the heads of the various bureaus calling their attention to the expiration of the authority in such statutes.

48. Program to Save Manpower in Government Agencies. Mr. Shea, Mrs. Kern and Mr. Clarence Ellis of Revenue, attended a departmental conference on January 2 to discuss the submission of information called for by Budget Circular No. 408 with respect to personnel, functions, and activities of the several departments and agencies. This circular was issued as a result of a memorandum from the President, dated December 22, 1942, directing that departments and agencies of the Federal Government take all necessary measures to organize their work for maximum efficiency. Referring to the passage by Congress of the temporary war-pay resolution and the adoption of a 48-hour week, the President's memorandum stated that it should now be possible, as a result of the 4-hour increase in the working schedule, either to effect reductions of personnel or to eliminate the necessity for filling vacant positions.

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49. Compromise Offer. Miss McDuff prepared a letter addressed to the Secretary for the signature of the General Counsel, recommending acceptance of the offer made by the L. J. Esses Logging Company to pay \$4,355.76 in compromise settlement of the claim of the United States against the Company in the amount of \$7,268.40, arising out of a timber trespass in the Olympic National Forest in Washington.

50. Specimens of United States Currency. Mr. Ranta prepared a letter to Mr. W. C. McClung, Emory University, Georgia, advising him that it was the policy of the Department not to furnish specimens of the currency issues of the United States for any purpose.

51. Dismissal of Indictments. Mr. Ranta prepared letters advising Assistant Attorney General Berge that this Department would interpose no objection to the dismissal of indictments against John Doe and Richard Roe and Donald C. Lockart for the forgery of Government checks and Walter Carlos Fitzhugh for the alteration and forgery of a Government check.

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52. Congressional Action on Treasury-sponsored Legislation. (a) National Gallery of Art (Permanent Loan). Letters from the Secretary of the Treasury transmitting our proposed bill "To authorize the acceptance of a permanent loan to the United States by the Board of Trustees of the National Gallery of Art, and for other purposes", were received in the House and the Senate on January 7, 1943. Our bill was introduced by Senator Barkley on January 11, 1943, as S. 319 and referred to the Senate Committee on the Library.

(b) Conspiracy Bill (Counterfeit Laws). On January 14, 1943, Mr. Sumners reintroduced as H. R. 1199 our bill "To provide for the punishment of persons conspiring to violate the laws relating to counterfeiting, and certain other laws". The bill was referred to the Committee on the Judiciary.

(c) Claims Against the United States. Our bill, "To provide for the orderly payment of conflicting claims and demands against the United States, and for other purposes," was reintroduced by Mr. Sumners, on January 14, 1943, as H. R. 1194. It was referred to the Committee on the Judiciary.

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(d) Huntsville, Texas, First National Bank. On January 19, 1943, Representative Patton reintroduced, as H. R. 1321, our bill "For the relief of the First National Bank, of Huntsville, Texas." The bill was referred to the Committee on Claims.

(e) Public Debt Bill. Our bill "To increase the debt limit of the United States, and for other purposes" was introduced in the House and in the Senate on January 25, 1943. The Senate bill, introduced by Senator George, is numbered S. 566 and was referred to the Committee on Finance. The House bill, introduced by Representative Doughton, is numbered H. R. 1470. It was referred to the Committee on Ways and Means.

53. Russian Oil Refinery (See December 1942 report, item 25). (a) On January 16, 1943, the Chief Counsel of Procurement prepared a revised draft of the contract for architect-engineering fee with E. B. Badger & Sons Company. A conference was held on the 20th with Messrs. Flatley, Edgar, Badger and Hall, and certain modifications were agreed to and a revision of the contract draft was made.

(b) On January 15, 1943, letters were prepared to the six process owners modifying Procurement's offers on

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licensing agreement so as to provide for an eighteen months running royalty license in each case with the option of renewal at any time within the duration of the war. A proposed licensing agreement was received on January 23, 1943, from the Houdry Process Corporation.

54. Renegotiation of Contracts (See December 1942 report, item 26). (a) After several conferences, the proposed joint regulation relative to the interpretation of the clause of the renegotiation law, exempting the product of a mine in forms such as slabs, ingots, bars, billets, balls, and pigs, have been agreed to. The New Jersey Zinc Sales Company and the St. Joseph Lead Company, both of whom declined to enter into contracts for slab zinc which contained a renegotiation clause, have been advised that the Procurement Division will not require renegotiation clauses in such contracts.

(b) As a result of several conferences held in my office and Mr. Sullivan's office, it has also been agreed that the Treasury Department will sign a joint delegation of authority whereby the department having the predominant contractual interest with a given contractor will be

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authorized to conduct on an over-all basis, and to conclude by agreement on behalf of the Secretaries of the other departments involved, renegotiation of all contracts and sub-contracts held by such contractors.

55. Compliance with Price Ceilings. A memorandum relative to "Certification as to Compliance with Price Ceilings" has been promulgated to branch and division chiefs of the Procurement Division. The memorandum states that pending the receipt of advice from the Office of Price Administration as to whether Revised Supplementary Regulation 4, which exempts from the General Maximum Price Regulation the sale of implements of war, including aircraft, armored vehicles, automobiles, tanks, trailers, and trucks for military purposes, and subassemblies and component parts thereof, applies to such articles acquired by the Procurement Division under lease-lend contracts, such contracts may be entered into without such price certification provisions in those cases where the bidder claims that the sale of the article contracted for is not subject to maximum price regulations by reason of the provisions of Revised Supplementary Regulation 4, as amended, and where such sale

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would be exempt under Revised Supplementary Regulation 4, as amended, if determined by the Office of Price Administration to be applicable.

56. Douglas Oil Refinery. Formal contracts for the dismantling of the Douglas Oil Refinery were prepared. The contract was executed by both Mr. Lumly for Douglas and the Government on January 13, 1943, and an advance payment of \$50,000 was made.

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The following work was done under the supervision of Assistant General Counsel O'Connell and Mr. Luxford, Chief Counsel of Foreign Funds Control:

57. General Ruling No. 15 - Mexican Railroad Property (See October 1942 report, item 68). At the request of the Government of Mexico, State Department, and the Board of Economic Warfare, proposed General Ruling No. 15 was drafted. It bars all legal or other proceedings which might interfere with the free and unrestricted use and operation of Mexican railroad equipment within the United States. This Government has been negotiating with the Government of Mexico for some time for the purpose of removing a bottle-neck in the transportation of materials from Mexico to the United States. At the present time, war materials brought into the United States from Mexico are carried by Mexican railroads only as far as the United States border at which point the materials are unloaded and reloaded into the United States freight cars. One of the major stumbling blocks to direct shipment on Mexican railroad equipment was the fear that such equipment might be seized by creditors within the United States. To meet this war time necessity,

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this Department prepared General Ruling No. 15 under which no legal, equitable, or possessory interests can be obtained in any such rolling stock or equipment by virtue of any judicial process unless a Treasury license is first obtained.

In addition to the General Ruling, a press release was prepared by this Department explaining fully to the public the exigencies of the situation and the necessity for the action taken. Mr. Minskoff worked on this matter.

58. North African Program (See December 1942 report, item 63). In the civilian administration of French North and French West Africa, reports have been received from the French authorities in those areas for the preparation and printing of banknotes for distribution in those areas. In that connection, letters were sent to the French American Banking Corporation urging it to expedite the manufacture of the currency and giving it all the information available on the subject. A cable was also sent to the United States headquarters in North Africa outlining the current status of the banknote procurement program. Mr. Aarons and Mr. Murphy handled this matter.

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Mr. Murphy and Mr. Rains of this office have been assigned for North African duty and will depart early in February.

Lt. Colonel Bernstein returned from North Africa on January 25 for the purpose of conferring on various matters. Among the subjects discussed was the status of the accounts of the central banks of the North African areas. A cable has been prepared to Treasury representatives in Africa stating that the Department would give a generally licensed national status to these accounts on a prior notification basis, and also would include the French African areas in the generally licensed trade area. As a result of discussions with Lt. Colonel Bernstein Mr. Aarons was also able to clarify to New York banks that private remittances may be made to French Africa under General Licenses Nos. 32 and 33.

Specific instructions have been prepared and released to Censorship and Customs concerning the importation of yellow seal currency which was issued for use of our forces in North Africa. In general, such currency may be freely imported into this country when sent by members of

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our armed forces. When it comes in from other areas than those occupied by our forces, it is subject to moderate restrictions. If it comes in from blocked areas it is subjected to the same treatment under General Ruling No. 5, as amended, as other currency imported into the United States.

59. Enforcement and Investigations (See December 1942 report, item 50). (a) Swiss Bank Corporation Hearing. Pursuant to notice dated December 24, 1942, oral interrogations of the chief officers of the Swiss Bank Corporation, New York Agency, were conducted on January 18th through the 22nd, inclusive, with respect to the manner in which the Swiss Bank Corporation, New York Agency, conducts its business, maintains its records, and prepares reports and applications for filing with the Treasury Department. These interrogations were the outgrowth of the field investigation conducted last summer and fall by members of the legal and administrative staffs. The witnesses examined included F. W. Lichtensteiger and F. L. Saroli, agents, and Edgar Paltzer and Frank H. Gunther, sub-agents. At the outset of the hearing, counsel

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for the Bank conceded the "incompleteness" of the TFR-300 reports and offered, on behalf of his client, to "continue" the investigation commenced by the Department of the Bank's files and to "file such amended returns as these investigations call for." The hearing demonstrated that in the past the Bank has made no sustained effort to assure the completeness or truthfulness of the reports filed with the Department. On the contrary, instances were developed where it would appear that the Bank's officials adopted courses of conduct inconsistent with any purpose to file complete and truthful reports. After the record has been carefully studied by Messrs. Lesser, Ackermann and Seay, the hearing will be reopened to complete the consideration of any unfinished matters.

(b) Credit Suisse. Preparations are now under way for the oral interrogation of the officers of the Credit Suisse, New York Agency, in a proceeding similar to that conducted with respect to the Swiss Bank Corporation. It is contemplated that notice of the interrogations will be sent to the Credit Suisse, New York Agency, within the next three weeks. Messrs. Lesser and Ackermann are working on this matter.

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(c) Field Investigations. Field investigations preparatory to the submissions of final reports are being conducted in the following cases: William J. Topken, Albrecht Horst Wegener, and Paper Co. van Reekum by Messrs. Lesser, Cook and Carolan and Miss Mayer. The Topken and Wegener cases involve the alleged filing of false TFR-300 reports incidental to the cloaking of German property. The van Reekum case is concerned with alleged unlicensed foreign exchange transactions and the cloaking of Dutch funds.

(d) Criminal Cases. On January 15, 1943, there was referred to the Department of Justice by this Department a case involving the alleged unlawful unblocking of an account of a foreign national by a domestic bank, which appears to have enabled its depositor to finance the purchase of strategic merchandise in South America for shipment to customers in European neutral countries, after the Export Control Administration had refused to license such exports from this country.

In the latter part of December, the Department of Justice transmitted to the United States Attorney for the

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Southern District of New York, a case, theretofore referred to it by this Department, involving the alleged filing of false TFR-300 reports, TFBE-1 affidavits and applications for licenses incidental to the cloaking of the German ownership of a domestic business enterprise. In each instance the name of a non-existent Swiss corporation was given as the sole stockholder of the domestic corporation. The matter is presently being prepared for submission to the Grand Jury. Messrs. Lesser and Schwartz are working on these cases.

(e) Administrative Enforcement. Licenses were issued to Auchincloss, Parker and Redpath, members of the New York Stock Exchange, to purchase Norwegian bonds for the account of the Norwegian Government. The licensees, however, waited to see what the market did after each purchase: confirming the transaction to the Norwegians as a "dealer transaction" at the higher price if the market went up, and confirming it as a "broker transaction" if the market went down, at the higher price plus 1/4% commission. The matter was handled in conjunction with the Securities and

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Exchange Commission, and the licensees' partner responsible for these transactions has consented to a suspension of his rights as a broker-dealer under the Securities Exchange Act of 1934. The licensees have agreed to make restitution. Mr. Lesser and Miss Mayer handled this matter.

The following unlicensed transactions were uncovered, and explanations requested: by the Chase National Bank and R. W. Grauert, Inc., the purchase of securities physically located in Germany, in violation of Section 2A(2) of the Order; by Brown Brothers Harriman & Co. and Robert H. Gardiner, the transmission of funds to an Italian national purportedly under General License No. 50; by the Central Hanover Bank & Trust Co., the export of a power of attorney to Spain to effectuate the liquidation of a decedent estate of which it is executor; by the Irving Trust Co., the transmission of funds to Cuba for the account of a Spanish national where the license issued permitted only the deposit of such funds in a domestic blocked account; by Hermann Hollander, Inc., the remittance, by off-set, of funds to Rumania; by Machinery Liquidating Co., dealing with a Proclaimed List national; by American Chemical Paint Co.,

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communication with enemy territory via a "drop" in Switzerland; by Statesville Cotton Mills, transactions with a Proclaimed List national; by Urbana Wine Co., remittances to a French national resident in Spain purportedly under General License No. 52; by George Fayad, remittances to Syria; by Amy and Clara Curtis and E. Sohler Welch, sale of real property in France. Messrs. Lesser, Ackermann and Cook worked on these matters.

Oral interrogations were conducted in the following matters by Messrs. Lesser and Carolan: Romney and Gottlieb, alleged unlicensed withdrawals of Dutch funds, (Messrs. Lesser and Seay), and P. A. F. Warnholtz, alleged unlicensed withdrawals of German funds.

60. Litigation Problems (See December 1942 report, item 45). (a) Watkins v. Morgenthau, et al. This action is for declaratory judgment to have determined the question whether the plaintiff is an American citizen. The plaintiff was born in Japan but came to the United States in 1900 and has continuously resided here since that time. Plaintiff's mother, an American citizen, who married a

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Japanese in Japan in 1866, had separated from her husband in 1900 and returned to the United States with her children. Thereafter a Japanese divorce was obtained. The Commissioner of Immigration and Naturalization held that the plaintiff was not an American citizen and this Department thereafter advised her that it would be necessary for her to file a report on Form TFR-300. Although the action is primarily against the Commissioner of Immigration and Naturalization, Messrs. Morgenthau and Pehle were joined as defendants because of this Department's advice to the plaintiff concerning the necessity of a report on Form TFR-300. Conferences have been held between the attorneys for the plaintiff, representatives of the Department of Justice and of this Department to determine whether a stipulation can be entered into for a dismissal of the action as to Secretary Morgenthau and Mr. Pehle. Mr. Alk is working on the case.

(b) Declaratory judgment action instituted by Receiver of Japanese Banks in Hawaii. The Pacific Bank, one of the three Japanese banks in Hawaii which are in liquidation, has already paid a 100 percent dividend to depositors and

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the receiver proposed to pay interest from December 6, 1941 at the legal rate to the creditors of the bank. This action was challenged by a group of the shareholders who sought to enjoin the receiver from paying interest. The shareholders dropped these proceedings when the receiver filed a complaint in the United States District Court in Honolulu requesting a declaratory judgment on the question. The receiver's position is based upon the practice of the Comptroller's Office in liquidating insolvent banks and not upon instructions received from Foreign Funds Control. A study is being made by Messrs. Alk and Johnston to determine whether Foreign Funds Control desires to take a position with respect to the payment of interest.

61. Control of Traffic in Various Financial Instruments (See December 1942 report, item 47). Drafting work in connection with the proposed general ruling restricting traffic in checks and drafts between this country and blocked areas has continued. The ruling will incorporate and expand upon Public Interpretation No. 6, prohibiting the sending or taking of checks, drafts, promissory notes,

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securities or currency from the United States to blocked areas except China and the generally licensed trade area, and will prohibit the importation from any foreign country of checks, drafts, or promissory notes which have been within certain blocked countries. In collaboration with Foreign Funds Control, instructions are being prepared for collectors of customs, censorship authorities, and the Federal Reserve Bank of New York with respect to the procedure to be followed under the general ruling. Messrs. Aarons, Alk, Murphy and Mrs. Rogan are working on this matter.

In implementation of this proposed program, special authorizations to the Commissioner of Accounts with respect to the sending of Government checks to blocked areas were revoked, and, in cooperation with the administrative staff of Foreign Funds Control, a study was commenced of the general problem of Government checks payable to blocked nationals. In connection with the revocation of the authorization to send Government pension checks to Switzerland, the Swiss Legation requested that some other method of payment satisfactory to the Treasury Department

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be worked out. In cooperation with the Bureau of Accounts, the Department of State, Veterans Bureau and the Foreign Funds Control administrative staff, a procedure was worked out for the payment of such checks in local currency by the State Department disbursing office in Bern. Miss Hodel worked on this matter.

62. Trade and Communication with Enemy Nationals (See November 1942 report, item 70). (a) Amendment to General Ruling No. 11. In order that this Department may have a firm basis for its licensing of business or commercial communications with enemy nationals, an amendment to General Ruling No. 11 is in preparation, based on the authority of section 3(a) of the Trading with the enemy Act, which will affirmatively state that such communications with enemy nationals are prohibited except under specific Treasury license. Paragraph 4 of the general ruling will be modified so that it will not conflict with the new provision. Messrs. Aarons, Alk, Golding, Murphy, and Mrs. Rogan are working on this.

(b) Subsidiaries of American concerns - trade with the enemy. A number of problems have arisen in connection

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with the extent to which subsidiaries and agencies of American firms which are located in the European neutral countries may engage in transactions which involve trade or communication with the enemy or enemy nationals. In conjunction with the licensing division of Foreign Funds Control these problems which were transmitted by the State Department for decision and determination of policy were studied and recommendations were made. In one instance a letter was written to an American concern advising it generally of the standard of conduct which its subsidiary in Sweden must follow. In another instance where the Mission in Switzerland was defied in advising an American subsidiary or agency of its obligation under General Ruling No. 11, a letter was written to the parent concern calling the matter to its attention and asking for detailed explanation. Mr. Moskovitz worked on these problems.

63. Alien Property Control Problems (See December 1942 report, item 48). (a) Proposed Alien Property Control order re distribution of litigated property. The proposed order of the Alien Property Custodian restricting distribution of property to persons within enemy and enemy occupied

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countries in certain litigated matters was revised after a number of conferences between representatives of the Department and of the Office of the Alien Property Custodian. The order as redrafted provides in effect that no payment, transfer or distribution of property which is in the process of administration or which is involved in any legal or administrative action or proceeding may be made to or for the benefit of any person within an enemy or enemy occupied country unless the Alien Property Custodian (1) has consented thereto, (2) has filed a statement that he does not desire to represent such person, or (3) has appeared in the proceedings on behalf of such person and has been given 90 days' prior notice of the proposed payment, transfer or distribution. The general purpose of the regulation is to give the Alien Property Custodian an opportunity of determining whether the case is a proper one for vesting the assets or for representing the national. A draft of a confidential circular has been prepared by Messrs. Aarons and Alk which will be issued when the Alien Property Custodian general order is released.

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(b) Vesting problems. The Office of the Alien Property Custodian requested this office to consider the legal and practical desirability of vesting property conveyed by one Margareta Lange, former secretary to Fritz Wiedemann at the German Consulate at San Francisco, to Robert G. Clostermann, a naturalized American citizen and an attorney in Portland, Oregon, and Seattle, Washington. The consideration for the conveyance was a transfer to Miss Lange of Mr. Clostermann's Reichsmark account with the Deutsche Bank, Berlin. At the time of the conveyance Miss Lange was a naturalized American citizen resident within the United States. The conveyance in question was effected in violation of Executive Order No. 8389, as amended, but not in a transaction covered by General Ruling No. 12. After the date of the conveyance, Miss Lange returned to Germany with Mr. Wiedemann. This office obtained agreement from the Office of the Alien Property Custodian to defer action in this case, pending complete investigation of Robert G. Clostermann by the Foreign Funds investigative staff. It was felt that after such investigation the Treasury Department would be in a

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better position to judge the legal and practical desirability of treating the conveyance in question as void because effected in violation of Executive Order No. 8389, as amended. Messrs. Lawler, Alk, Golding and Miss Klein are working on this problem.

(c) Miscellaneous. A letter to the Alien Property Custodian was drafted by Miss Klein setting forth the Control's view that Austria is not a part of Germany, and, that accordingly, property is not vestable by the Custodian as property of a national of a designated enemy country merely by reason of the person's being a national of Austria.

A revision of Confidential Circular No. 180 was drafted by Miss Klein with members of the administrative staff of Foreign Funds Control setting forth the procedure to be followed in releasing from the control of the Treasury Department various types of property vested by the Alien Property Custodian.

64. Currency Control (See December 1942 report, item 65). (a) Yellow seal currency. (See December 1942 report, item 63 (d)). Instructions were drafted for the Federal

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Reserve Bank, Collectors of Customs, and Office of Censorship with respect to treatment of yellow seal currency imported into the United States by Mr. Murphy and Mrs. Rogan with members of the administrative staff of Foreign Funds Control.

(b) Funds seized from spies. The currency brought into this country last summer by the Nazi saboteurs was obtained from the Federal Bureau of Investigation, and deposited with the Treasurer of the United States. Arrangements were subsequently made for the Secret Service to examine this currency in order to ascertain whatever valuable information they could from a study of the serial numbers and other identifying marks on the bills. Messrs. Lawler and Cassoday handled this matter.

(c) Seamen's problems. The procedure established in instructions of December 24, 1942, whereby seamen on vessels of United States registry may declare their currency on leaving the United States and may bring the same amount in on their return has been extended to seamen on vessels which are operated under the direction of the War Shipping Administration. Mrs. Rogan handled this.

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(d) Panama Canal Zone currency prosecution. The Department was advised by the Department of Justice that one Plutarco Paz, an Ecuadoran, had been arrested in the Canal Zone for attempting to smuggle in \$4800 in United States currency. A study was begun and drafts prepared by Messrs. Alk, Golding and Johnston, of a memorandum to be submitted to the Department of Justice concerning the position of the Treasury Department with respect to the construction of General Ruling No. 5, as amended, and with respect to the legal position to be taken in the criminal prosecution. Among the matters to be considered are the applicability of General Ruling No. 5, as amended, to the Canal Zone, the scope of the duties imposed by General Ruling No. 5, as amended, upon an individual bringing currency or securities into the Canal Zone, and the manner in which criminal indictments and informations should be drafted in such cases.

(e) Acquisition of United States currency abroad. Mr. Daum and Mrs. Rogan are studying the feasibility of a general ruling which would, in effect, extend to currency the same control imposed on securities by Section 2A(2) of

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Executive Order No. 8389, as amended. The ruling would be designed to prevent persons in the United States from acquiring currency in black markets abroad in the expectation of realizing on it after the war.

65. Matters Involving Attorneys (See December 1942 report, items 49, 52, 62, 66). (a) Proposed Resolution of New York City Bar Association. The Committee on Administrative Law of the New York Bar Association had before it a proposed resolution to the effect that Foreign Funds Control hold hearings prior to denying any application and further, that Foreign Funds Control make public its reasons for denying any application in response to the Committee's request for the views of this Department. A letter was sent to the Committee setting forth fully the steps which Foreign Funds Control has already taken in accordance with the spirit of the proposed resolution, and making clear the limitations on further action in this direction. After receiving this letter the Committee held a meeting and decided to drop the resolution and to recommend to the Executive Committee of the New York City Bar Association that no action be taken along these lines. Mr. Aarons handled this matter.

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(b) Ad hoc blocked attorneys. A study was continued by Mr. Cassoday to ascertain what attorneys have been ad hoc blocked or granted business operating licenses, as a further step toward the ultimate regulation of such attorneys. Up to this time, no designation has been made in the files showing attorneys who are blocked because of their actions in acting for or on behalf of blocked nationals. Studies are being made of other means of perfecting the records so as to correlate information relative to attorneys who represent blocked nationals as a major part of their business. Various proposals are being considered as to the best means to be used to regulate the practice of ad hoc blocked attorneys.

(c) Duties of attorneys and others to ascertain blocked status. The issuance of a proposed public circular is being considered requiring a greater duty on the part of attorneys at law or in fact and fiduciary agents of all sorts in determining the blocked status of the persons for whom they act. At present the public documents state that one may assume that a resident is not blocked unless he is affirmatively on notice to the contrary. The proposed

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change would require such person to use reasonable care in determining whether or not the person who he represents is blocked. A further proposal would be that anyone dealing with a person who has been interned for the duration of the war is on notice that the internee may be blocked. Messrs. Lawler, Cassoday and Alk are working on this matter.

(d) Application involving payment of exorbitant fees.

At the request of the Department of State, action has been deferred with respect to the application of Rohner, Gehrig & Company, agents for Hungarian owners of leather in this country, to pay its attorney a fee of approximately \$11,000. The Swedish Legation, Department of Hungarian interests, is contemplating commencing legal action against Rohner, Gehrig & Company for an accounting. Conferences were held with representatives of the State Department with respect to this matter. Messrs. Alk and Kehl are working on this.

(e) Practicing Law Institute. Mr. Luxford spoke before the Practicing Law Institute of New York City on January 6, 1943, on the Legal Aspects of Foreign Funds Control. The subject was one of much interest to the audience, as evidenced by the fact that the regular lecture

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room was inadequate and it was necessary to hold the lecture in the auditorium of the Practicing Law Institute. The representatives of the New York Bar present evidenced their sincere interest in the operation of the Control and were on the whole very fair in their criticism of its operations. By and large the audience was quite sympathetic.

66. Elimination of Licensing Procedure. Steps are being taken in a number of fields to ease the administrative burden involved in handling numerous specific licenses in cases where more general treatment may be accorded in view of crystalization of policy. The following are examples of work along these lines carried on in cooperation with the administrative staff of Foreign Funds Control:

(a) Hawaii (See December 1942 report, item 53). Meetings were held with representatives of both the administrative and legal divisions of Foreign Funds Control to discuss the question of desirable changes in the Foreign Funds Control program in Hawaii, with particular reference to the elimination of a large part of the special applications now being filed with the Honolulu office. A memorandum on this subject was prepared by Mr. Johnston and Mr. Murphy. Among the

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suggestions proposed was the adoption in Hawaii of a Japanese general license similar to General License No. 68A.

(b) Stamps (See November 1942 report, item 69). The Office of Censorship having determined upon a strict policy with respect to stamp importations and exportations, this Department has felt that a modification in the present controls exercised under the Order is desirable. Accordingly, a circular letter to collectors of customs is being prepared by Mrs. Rogan and members of the administrative staff which will revoke the instructions of January 3, 1942, January 15, 1942, and September 1, 1942 (contained in Confidential Circular Nos. 96, 105 and 105A) and will generally provide that stamps examined by the Philatelic Control Unit of the Office of Censorship and found unobjectionable may be released without the requirement of a license under Executive Order No. 8389, as amended.

(c) Powers of attorney. Within recent months many applications have been filed for the execution and transmission of powers of attorney to neutral countries. A form of license has been prepared by Messrs. Alk and Kehl which permits the execution and transmission of such powers of

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attorney for representation purposes in connection with administration of estates, litigation, etc. A general authorization has been prepared which, when issued, will obviate the necessity of referring such applications to this office.

(d) Insurance (See December 1942 report, item 57).

A draft has been prepared by Messrs. Murphy and Kehl, of a general license which will license transactions with respect to life insurance policies in which there is a blocked interest, including in certain cases the payment of premiums, change of beneficiary, assignment, and similar transactions.

(e) Revision of General Licenses Nos. 13 and 21.

General Licenses Nos. 13 and 21, are being revised by Mr. Moscovitz and consolidated so as to treat all branches and subsidiaries of the Nederlandsch Handel Maatschappij uniformly and eliminate necessity of special licenses for some of the branches, including the head office.

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67. Inter-Allied Declaration (See October 1942 report, item 48). During the month of January the United States and other members of the United Nations together with the French National Committee in London issued a declaration reserving their "rights to declare invalid any transfers of, or dealings with, property rights and interests of any description whatsoever which are, or have been, situated in the territories which have come under the occupation or control, direct or indirect, of the Governments with which they are at war or which belong, or have belonged, to persons, including juridical persons, resident in such territories."

As a preliminary step looking toward the implementation of this declaration, an inter-governmental committee is in the process of being set up to examine legislative controls in the various allied countries for the purpose of determining to what extent they are adequate to deal with the objective stated in the declaration. In view of Treasury's interest in and concern with the legislative controls contemplated to be studied by the proposed Committee and its responsibility for the administration in this country

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of the control of transfers of property which involve trading with the enemy, this Department sent a letter to the Department of State requesting that Treasury be consulted on questions relating to American representation on the proposed Committee. Mr. Minskoff worked on this problem.

68. Certifications under Section 25 (b) of the Federal Reserve Act (See November 1942 report, item 65). A memorandum has been prepared by Mr. Sommerfield concerning the certification procedure under section 25 (b) of the Federal Reserve Act, as amended (which releases banks from liability for transfers made from the accounts of foreign states and central banks, upon certain conditions; it has been applied only to the accounts of occupied countries). The memorandum describes the history of the procedure under this section, and discusses past and present problems arising in connection therewith. In this connection, a letter to the State Department has been prepared, which requests its agreement to the insertion of certain phraseology in these certifications. This phraseology is designed to obviate to some degree the necessity which has arisen heretofore for the frequent issuance of these certifications.

69. Dutch Decrees (See December 1942 report, item 70).

A conference was held with the Dutch Minister, Mr. Molekamp, in Mr. Luxford's office, at which were discussed a number of problems involving the Dutch Decrees and other matters of concern to the Dutch Government. Questions were raised with respect to: (a) Extension of full recognition to the Dutch Decree of May 24, 1940; (b) Granting to the Decree of May 7, 1942, at least the same recognition already given to the original Decree; (c) Permitting the investment of a percentage of Dutch assets in United States bonds; and (d) Making available to the Dutch Government TFR-300 information relative to Dutch assets. As a result of the conference, further consideration is being given to the problems raised in (a) and (c).

On the question of action to be taken in connection with the Dutch Decree of May 7, 1942, this Department sent a letter to the Department of State inquiring whether that Department deemed it desirable or expedient to accord to the Decree of May 7, 1942, the same recognition that was given to the Decree of May 24, 1940. In view of the fact that the Treasury Department had been instrumental

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in giving publicity to the original Decree and to State's recognition of it, State's attention was called to the fact that its letter of transmittal relative to the latter Decree was merely informative, whereas, in connection with the earlier Decree, it had indicated the nature of its recognition and had requested that action be taken. In connection with the foregoing, a memorandum was drawn pointing out the differences between the letters of transmittal received from State with regard to the two Dutch Decrees.

With respect to point (d), an analysis is being made by Mr. Minskoff of the policy and legal implications involved in making available TFR-300 information to the Dutch Government.

70. Foreign Exchange (See November 1942 report, item 74). (a) Exchange losses in China. Inquiry was made as to whether the Act of March 26, 1934, as amended, referring to losses sustained by "... employees of the United States while in service in foreign countries due to the appreciation of foreign currencies in relation to the American dollar" is applicable to State Department employees stationed in China. The two major aspects of

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the problem involved were: (1) Whether the situation extant in China may be accurately described as one in which a foreign currency has appreciated in relation to the American dollar; and (2) Whether, in any event, State Department employees suffer any losses by virtue of such appreciation. The opinion was submitted that Chinese currency had appreciated in relation to the American dollar. This was based on the argument that since the official rate at which dollars are exchanged for yuan does not reflect the relationship of the dollar to the yuan in terms of purchasing power in China, then, to the extent that the purchasing power of the dollar is depreciated by virtue of its being exchanged for yuan at the official rate, there is a corresponding appreciation of the yuan in relation to the American dollar. Mr. Minskoff worked on this.

(b) Swiss franc market. Since December 30, 1942, 135 applications for licenses, involving transactions with Switzerland or Swiss accounts, were studied by Mr. Lesser with a view to determining whether any action thereon might be taken which might advantageously affect the "free" Swiss franc market. In addition this office, the Administrative Office and Monetary Research have been following

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a policy of weighing the Swiss franc rate "factor" in connection with all activities of the Control which might affect the rate.

71. Securities (See December 1942 report, item 72).

(a) Issuance of Public Circular No. 21. One of the more significant matters developed in the investigations of the Swiss banks was that banks of deposit were generally crediting the income from and the proceeds of the sale of securities held in rubric or sub-accounts to the omnibus cash accounts of the depositing banks, purportedly under General Licenses Nos. 4 and 27, and were purchasing securities for rubric or sub-accounts with funds withdrawn from omnibus cash accounts, purportedly under their blanket licenses to buy securities for blocked accounts. Public Circular No. 21, calculated to terminate these practices, was issued on January 17. It provides that General Licenses 1, 1A, 4 and 27 and specific licenses shall not be deemed to authorize credits of income or proceeds of sales or transfers to accounts or sub-accounts under any name or designation differing from the name or designation of the specific blocked account in which the securities were held. Messrs. Lesser and Daum worked on this matter.

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(b) Mexican securities (See December 1942 report, item 69 (b)). The proposed General License No. 85 was prepared at the request of the Mexican Government and in cooperation with its program relating to the registration in the United States of certain Mexican securities. In order to facilitate the registration, it was thought desirable to issue a general license permitting such securities to be registered in spite of the fact that they were held in blocked or General Ruling No. 6 accounts, provided that such securities were kept at all times subject to the provisions of section 5(b) of the Trading with the enemy Act, as amended, and the Order. Also, such securities as fell within section 2A (1) of the Order were permitted to be registered notwithstanding the fact that Treasury Department Form TFEL-2 was not previously attached, provided, of course, that such securities had been in the custody or possession of the same banking institution within the United States continuously since July 25, 1940. Mr. Minskoff worked on this matter.

(c) Revenue Stamp Tax. A memorandum was prepared by Messrs. Aarons, Alk and Brenner with respect to the applicability of the revenue stamp tax on transfers of securities

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to and from the Alien Property Custodian and the matter was referred to the Chief Counsel of the Bureau of Internal Revenue for such action as he might deem advisable.

72. Latin America Problems (See December 1942 report, item 69). (a) Argentina. During the month of January the study of the problems involved continued. Five additional names were designated as special blocked nationals. Treasury's action in cutting off overdrafts and new credits to the Banco de la Nacion and the Banco de la Provincia has been effective and has improved considerably the status of the Mission in representing to the Banco Central and the Argentine Government the need for increased and more effective controls in fulfillment of their obligations undertaken at the Rio and Washington conferences. During the past month important credits have been denied. However, in view of the present negotiations now carried on by the Mission with the Banco Central along these lines, no new measures have been taken.

The investigation of the case of Shaw-Strupp & Co. has been completed. A detailed survey of the situation has been prepared for the consideration of the State Department and also a comprehensive undertaking which should

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be executed by that firm if ad hoc action is not taken. Mr. Moskovitz worked on this in conjunction with members of the administrative staff.

(b) Chile. A number of problems involving the Latin American Republics were handled. In view of Chile's recent break in diplomatic relations with the Axis powers, the freezing controls of that country are being studied with a view towards preparing recommendations for their improvement.

(c) Special Blocked Nationals. During the past month five persons in Argentina, and three persons and firms (in Chile, Bolivia, and Mexico respectively) were designated as special blocked nationals. Mr. Moskovitz handled this. (Correction: During December 186--not 126, as reported--firms and persons were designated as special blocked nationals.)

(d) Licensing Problems. The study of the problem as to the extent to which United States concerns within Latin America may engage in transactions which involve blocked nationals is being continued. A public circular, press release, and circular instructions to the Missions dealing with the matter are being drafted.

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A circular instruction to the Missions is being prepared by Mr. Moskovitz which clarifies the handling and processing of applications involving enemy nationals who are not Proclaimed List nationals (prior circular instructions issued to the Missions dealt with applications to license transactions involving Proclaimed List nationals). This circular instruction will define the types of cases in which the Missions are authorized to act and those in which action may be taken only by the Treasury Department.

(e) Field investigation. Mr. Moore and a member of the administrative staff of Foreign Funds Control have recently returned from a trip to Mexico, Chile, Argentina and Brazil, where they investigated the activities of Sterling Products, Inc., and obtained information concerning the operation of the freezing controls of the countries visited. Conferences are now being held with other departments and with members of the administrative staff in connection with these findings.

(f) Trademarks. A draft of the suggestions of the Treasury Department as to the manner of handling trademarks belonging to enemy nationals in the various Latin American countries was prepared by Mr. Lawler and forwarded to the State Department.

(g) Insurance problems (See December 1942 report, item 57). The State Department has been requested to transmit to the Mission in Cuba a Treasury request to investigate La Metropolitana, a Cuban insurance company with which certain American insurance companies have recently been placing substantial amounts of reinsurance. This company may be a possible source of transmission of important insurance information abroad. Mr. Reeves and Mr. Kehl handled this matter.

An amendment to the instructions of January 17, 1942, to United States Missions in Latin America relating to insurance transactions has been drafted by Mr. Kehl which will prohibit United States insurance companies from entering into facultative reinsurance contracts or other specific risk reinsurance of Proclaimed List risks. This amendment has been submitted to the State Department, and is being transmitted to the Missions.

73. Foreign Funds School (See December 1942 report, item 74). The Foreign Funds lectures attended by the members of the legal division and representatives of the Foreign Funds Control and Monetary Research staffs on Wednesday nights have been of great value. They serve

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the threefold purpose of setting forth the background of the early documents for the benefit of those who were not here at the time they were issued, providing a basis for discussion and reexamination of the documents with a view to possible revisions, and providing a valuable historical record of the development of the Control.

A similar series of discussions has been instituted by the administrative staff of Foreign Funds Control with respect to administrative developments. Members of the legal division have been invited to attend these lectures.

74. Hearings under General Ruling No. 13 (See December 1942 report, item 61). The hearings and conferences on applications for unblocking have been very satisfactory. These hearings and conferences are informal but at the same time the person being heard is informed, so far as is possible, of the nature of the information which caused their blocking. Messrs. Lawler, Locker, Proctor, Cassoday and Miss Klein have participated in these hearings and conferences.

Several hearings were held on applications for unblocking filed by individuals who were blocked because

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Foreign Funds Control information indicated that they had purchased Rueckwanderer marks. The results of these hearings have indicated that the small amounts usually involved are not worth the time and expense hearings require. Therefore, in the future for these smaller Rueckwanderer cases, a questionnaire is being prepared to cover all the information which is usually demanded at the hearings. This questionnaire is being prepared by the administrative office of Foreign Funds Control by Mr. Locker and Miss Klein and will be reviewed by this office.

A conference was held on the application for unblocking filed by Mr. and Mrs. Henri Levee, French nationals of considerable wealth. Mr. and Mrs. Levee failed to file TFR-100 reports as required under the Executive Order and made a false statement under oath to the Immigration Board at a hearing for the extension of their visas as to the amount of their wealth in this country. At present the Levees have over \$1,000,000 in blank securities and cash in their apartment. Mrs. Levee, who attended the conference, was requested to deposit the sum in a safe deposit box. However, she showed little regard for the request. Therefore, it is being considered whether the Levees should

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be directed under section 5(b) of the Trading with the enemy Act to place the securities and cash in a safe deposit box.

A hearing was held on an application for unblocking filed by American Vapor, Inc. This corporation was blocked because available information indicated that it represented Vapor, A.G. in Switzerland. The owner of American Vapor, Inc., and of Vapor, A.G., was Mr. Gaston Kunstenaar who was in this country and who was excluded from General License No. 42 because of his ownership of the Swiss firm and because through his firm American Vapor, Inc., he apparently was representing the Swiss interests. During the course of the hearing, it was developed that he made a false statement on his TFR-300 as to the value of the 50 shares of stock he held in the Swiss firm. While the matter did not seem important enough to warrant any sort of criminal action, Mr. Kunstenaar and his attorney were required to file an affidavit with this Department in explanation of his apparent false statement.

A conference was held with Mr. Rudolph Duschnitz on his and his wife's application for generally licensed national status. However, the real purpose of the conference, so far as Foreign Funds Control was concerned,

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was to gain information concerning Nederlandsche Standaard Bank and its interests in this Country and Shaw-Struppy Cia., a South American Banking firm. Mr. Duschnitz; through his association with these two institutions, was able to furnish valuable information concerning them. It is intended to follow-up through Mr. Duschnitz, several leads which he gave the Treasury representatives at the conference. Further, it is very likely that both Mr. and Mrs. Duschnitz' application for generally licensed national status will be granted. Mr. Locker worked on these cases.

75. Federal Depositary for Enemy Assets (See December 1942 report, item 46). The study of the problems which might be encountered in a program for the segregation of assets of enemy nationals is continuing. In that connection, further drafts were prepared by Messrs. Alk and Golding of a general ruling which would require persons holding balances for enemy nationals to deposit such balances in controlled depositary accounts and which would restrict the right to deal in enemy accounts.

76. Retroactive Licensing (See December 1942 report, item 54). Preliminary discussions have been initiated with the administrative staff of Foreign Funds Control

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concerning methods of handling retroactive applications to engage in transactions which would not have been approved at the date when such transactions were effected. Approval in these cases would frequently encourage persons to engage in improper transactions and to apply subsequently for validating licenses. Denial would at times expose to potential civil liability various classes of persons whom it is desired to protect. A uniform policy will be worked out when sufficient cases have been examined to make it clear that the scope of the problem is understood. Mr. Golding is working on this.

Further attention was given to proposed General Ruling No. 12A. It was tentatively decided that instead of issuing a general ruling which would state that no license was necessary to validate a power of attorney to engage in licensed transactions or transactions not requiring a license, a retroactive general license to the same effect would be of greater protection to the Treasury Department's legal position in construing broadly provisions of Executive Order No. 8389, as amended. Messrs. Aarons and Golding are handling this matter.

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77. Miscellaneous Studies and Memoranda (See December 1942 report, item 49). (a) Investigatory powers of Foreign Funds Control. A study of the authority of Foreign Funds Control agents to issue subpoenas and conduct searches and seizures was continued by Mr. Johnston. A draft of a memorandum on this subject has been prepared.

(b) Inclusion of Proclaimed List in Federal Register. Consideration was given by Messrs. Golding and Johnston to the legal and practical desirability of incorporating the Proclaimed List into the Federal Register by reference. Particular attention was directed to the effect of such incorporation by reference as constructive notice to the public and as affecting the proof which would be necessary in litigation involving persons whose names appear upon the Proclaimed List. As the result of such study, the Department has indicated that it has no objection to the incorporation by reference of the Proclaimed List.

(c) Availability of Foreign Funds Control's information to other government agencies. Consideration was given to the legal and practical aspects of Foreign Funds Control's practices in furnishing information to other governmental

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agencies (particularly the Bureau of Internal Revenue). It was pointed out that although ordinarily there is no legal objection to the furnishing of such information, it is advisable to take steps to assure that no public use is made of such information without the consent of Foreign Funds Control. Messrs. Alk, Golding and Brenner worked on this problem.

(d) Delegation of powers. A memorandum was prepared by Mr. Golding concerning the scope of the authority of an Assistant to the Secretary of the Treasury to redelegate certain of his powers to subordinates.

(e) Revision of Confidential Circulars Nos. 158 and 166. Messrs. Lawler and Locker, together with the administrative staff of Foreign Funds Control, are studying necessary revisions of Circulars Nos. 158 relating to ad hoc blocked nationals, and 166 relating to interned aliens. At present under these circulars, the exclusion of the nationals in question from General License No. 11 acts only as a personal disability and does not affect the rights of another holder of a joint account. Therefore, appropriate changes are being made so that exclusion of a national from General License No. 11 or any other general license will not only

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affect the person excluded but will affect any account in which he has an interest.

78. Property Census Reports (See December 1942 report, item 55). (a) Form TFR-500 - Proposed census of property in foreign countries. Extensive revisions have been made by Messrs. Reeves and Arnold in the proposed public circular containing instructions relating to Form TFR-500 in accordance with decisions and recommendations made in the light of conferences in December. The rewritten material is now being multilithed as preliminary to final conferences within the Government and conferences with industry.

(b) Form TFR-300 - Census of foreign-owned property. Mr. Arnold participated in the revision of proposed forms designed to obtain from persons reporting on Form TFR-300 more detailed information concerning fugitive funds. A study is being made of the use of the information derived from Form TFR-300 to bring about the blocking of accounts reported.

79. Litigation Problems. (a) Osborne Register Co. vs. Central Bank of Ecuador. The Osborne Register Company has commenced action against the Central Bank of Ecuador for breach of contract for the minting of certain coins. The

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contract was cancelled by the Central Bank of Ecuador in July 1942 after the Department had advised the Government of Ecuador that nickel was not obtainable for coins. Subsequently, the Philadelphia mint was authorized by the Central Bank of Ecuador to make coins, using zinc instead of nickel. In December an action for breach of contract was brought in New York against the Central Bank of Ecuador by the assignee of the Osborne Register Company and the funds of the Central Bank on deposit with the Bank of London and South America, Ltd., in New York were attached.

At the request of the State Department a study was made by Messrs. Alk, Johnston and Brenner of all information in the files of the Department concerning this matter and a conference was held with representatives of State Department and the Ecuadoran Embassy to discuss the situation. Representatives of the Department suggested that the Central Bank retain counsel immediately to defend the action. State Department is considering the question of what representation it would be in position to make to the court concerning a possible claim of sovereign immunity by the Central Bank as fiscal agent of the Government of Ecuador.

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(b) United States vs. Levy. On January 27, 1942, Levy was convicted in the District Court for the Southern District of New York of wrongfully holding gold bullion under Executive Order No. 6260. This was the first case in the New York District which involved a criminal prosecution solely under such Executive Order for the wrongful holding of gold. Miss Hodel cooperated with the Mint Bureau, Secret Service and the Department of Justice on this case.

80. Gold. Messrs. Aarons, Brenner, Murphy and Miss Hodel investigated the possibility of the use of gold coin in connection with military operations of the United States. An opinion was drafted that under certain circumstances such action was authorized by existing law.

81. Silver (See November 1942 report, item 71). The Spanish Ambassador notified the Treasury Department that his Government would be willing to accept the balance of \$803,718.54 as final payment for the silver purchased from the Spanish Government in 1938. Payment to the Spanish Ambassador was made on January 2, 1943. The Spanish silver cases are now closed. Miss Hodel handled this matter.

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Negotiations were continued with the Metals Reserve Company and the War Production Board with respect to the purchase of silver contained in gold deposits by the Metals Reserve Company instead of the Treasury. The matter has not yet been concluded and Mr. Brenner and representatives of the Mint Bureau and Division of Monetary Research are re-examining the possibility of increasing the Treasury's price for this type of silver.

The Defense Plant Corporation requested the Secretary of the Treasury to agree to a modification of the Contract of May 6, 1942, which would permit the non-consumptive use of "free silver" by industrial plants without requiring them to assume the obligations of the Defense Plant Corporation relative to indemnification of the Treasury Department. Messrs. Aarons and Brenner conferred with representatives of the Corporation and obtained their consent to a modification of the request which will minimize the changes to be made in the original contract.

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The following work was done under the supervision of Mr. Klaus, Special Assistant to the General Counsel:

82. Investigation of Tax-Exempt Subversive Organizations (See December 1942 report, item 75). The study of the Association of German-American Technologists, which has been demonstrated to be affiliated with the National Socialist Bund of German Technology (NSBDT), has been completed. This organization was headed by Dr. Fritz Todt. The Federal Bureau of Investigation has requested that Mr. Klaus turn the case over to them for prosecution.

Progress has been made in the study of Nazi organizations in several cities, chiefly Baltimore, Philadelphia, Newark, Chicago, and New York, demonstrating the pattern of Nazi infiltration into those communities.

83. Subversive Activities of Bundists and Other Axis Supporters (See December 1942 report, item 76). Evidence is being given to the Department of Justice for denaturalization of Bundists and Fascists. Liaison and information exchange is being continued with intelligence agencies, chiefly the Federal Bureau of Investigation.

COLLINS to KLY - APR 5, 1945



PAY-AS-YOU-GO RUMI

BY AMY PORTER

He's a big man, with big ideas, an intense hatred of debt, a bizarre taste in clothes, and overwhelming efficiency. And if your tax affairs are ever put on a current basis, he will be largely responsible for it.

IF YOUR income is \$10,000 a year, you spend \$10,000 a year. If your income is \$20,000 a year, you spend \$20,000 a year. It's that simple. That's the way it should be. It's been that way for so many years, and nobody's ever contradicted it.

In full agreement of Beardsley Ruml, the intrepid hero of 1942, the fellow who thought the old tax system was a simple skip-a-year-and-pay-it-later scheme.

He's a big man, a 200-pound six-footer, with big ideas, a big booming laugh, and a masterful way with millions of dollars that has endeared him to big corporations, big philanthropists, big international thinkers, and now—a big bunch of taxpayers.

"Debt," says Ruml, "is an unhealthy thing for the whole body of taxpayers and for the individual. And I have been dragging on from year to year, and it's a disease in the body politic."

To these sentiments, taxpayers say amen. From the time he announced his plan last summer, Ruml has had a daily deluge of letters, heartily endorsing the proposal to wipe out the 1942 tax debt and start fresh on a pay-as-you-go basis in 1943.

With apparent reluctance, the Treasury itself gradually came to think that this man Ruml might have something there, after all.

You had to do a lot for money flop to look like the 98-year-old Ruml. Wipe out 1942 taxes? That's 600,000,000 dollars, for goodness' sake.

"Why not?" said the man of the million-dollar mind. "Seven and a half billion is only enough to make a big governmental expenditure, it's not to be missed."

"All you do is set the tax clock ahead a year," said Ruml. "The same as you set

the time clock ahead an hour for daylight saving time. Nothing mysterious about daylight saving, is there?"

Ruml even went on to prove, with aid of accountants, that the government wouldn't really lose anything at all by this plan.

It's a very simple thing, Ruml's idea. It's like that.

Like that, Ruml's idea is simple. It's like that.

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His hands are well fixed, of course. He and his family live modestly in their own three-story house in a good but not a pretentious block in Manhattan's East Side. He sends his children to good schools. Also, the youngest, at Harvard; Treadwell, an Army lieutenant in Europe, was graduated there; Alvin, a fashion designer, attended Vassar. In the winter, the family spent summers in Canada, when they didn't go to Europe. And no man could have a greater zest for good living—for food and drink, for art and music, for parties and pleasure—than gregarious, good-natured "B" Ruml.

His early career bears out the notion that he's essentially nonmercurial. He couldn't have had money-making in mind when he decided he'd be a psychology teacher.

He was born in Cedar Rapids, Iowa, fifty-eight years ago, the son of a Czechoslovakian father and a New England mother. He was one of four children, all noticeably bright. His sister was dean of Radcliffe College for a time. His father, Wentzle Ruml, was and is at 75, a doctor, "and a damn' good one," his son says.

"B" polished off the Cedar Rapids High School course in three years, took a B.A. at Dartmouth and a Ph.D. at the University of Chicago in record time. He ran the Dartmouth literary paper, played just enough football to get athletics out of his system forever, won a Phi Beta Kappa key, had an awfully good time. In Chicago he met Lois Treadwell, the girl he married. She was studying for a psychology Ph.D. too, but Ruml says, "she got her M.A. instead."

In 1917, after a few months of teaching at Carnegie Tech, he went to Washington to serve in the War Department's committee on classification of personnel. His task was to work out trade tests, to tell whether or not a man was a good teller, or a good carpenter, say, in a ten-minute session. He did a lot of oral questioning. And Ruml, not one for a lot of figures, to hide his light, comments, "I proved he could do it."

Then, with some fellow psychologists and industrialists, he started the Scott Co., to advise private industry on personnel. Because he had a flair for mathematics, he did the statistical work.

Doctor James R. Angell, who had watched Ruml's limber mind at work in

...he taught at Chicago, now was president of the Carnegie Corporation. He called him away from the Scott Co. to be his assistant and gave him his first chance at big-money thinking.

Soon he was asked to head the \$30,000 Laura Spelman Rockefeller Memorial, whose trustees were striving to promote the welfare of women and children. When he took over, the Memorial's chief interests were the Y.W.C.A., the Girl Scouts, the Henry Street nurses, some women's colleges in the Far East, and other direct benefit philanthropies.

Ruml soon expanded that program. How, he asked, could you help women in any permanent way? How could you improve the lot of man and woman? How could you improve that setting unless you understood the psychological, economic, political and other sociological problems of the times? The thing to do, said Ruml, was to add research in the social sciences and thus get at the root of human evils.

New Fields for Research

And so the trustees docilely did. Endowment funds were settled on some of the previous beneficiaries, and their Memorial connections were severed. Others were incorporated into the new program. Ruml actively threw himself and Rockefeller's money into finding out what ailed the world.

Surprised universities received gifts for social science research. Ruml distributed scores of generous fellowships to men and women here and abroad who gave promise of contributing new knowledge in the fields of anthropology, international relations, law, psychology, sociology. He approved selection of a Swedish woman to study child care, birth control, parental education and other family problems in the United States, partly because he considered Sweden more advanced than this country in its handling of such problems.

Ruml traveled around Europe a good deal during this period, from 1921 to 1931. He picked up that Russian blouse collector on one of his trips, and developed his new enthusiasm—for life, for French art, for Italian meat saucers, for English parliamentary procedure.

"But I did not go to the Alps," he says.

He frankly and loudly abhors all forms of exercise, considers it worse than useless for city dwellers.

His classic remark on the subject is: "If you ever hear of me dropping dead on a tennis court, you'll know it was because I was crossing it on my way to a Scotch and soda."

Ruml, during this period, had had several offers of jobs from business firms, including a handsome proposal from Percy Straus of Macy's. But he still was wedded to the social sciences, and in 1931, when his good friend Bob Hutchins asked him to head up a bigger and better social science department at the modern-minded University of Chicago, he gladly accepted.

His life was not rosy, for once in Ruml's unsmooth-flowing career. He and Hutchins hoped he'd be able to integrate the various courses in his department, or, as Ruml somewhat cryptically put it: "We wanted to achieve unity in the several disciplines included in the social science field. But I had trouble with a handful of distinguished professors, and after three years of effort, my progress was microscopic. Those professors wouldn't work together. They wouldn't even play together."

When Straus again approached him, he allowed Macy to ensconce him in his comfortable thinking chair in a plushy office on their exclusive 17th floor.

"I guess they hired me for a counter-irritant," says Ruml.

"We hired him for his breadth of vision," says a Macy executive. "We don't know whether he knew anything about being a treasurer or not. We know he could learn. What we wanted was a man who would do it."

Ruml likes the job, but neither he nor Macy can imagine his giving up his other interests, nor their contributing to his mental disorder from his vices.

From the time he first journeyed down to Washington during the last war, he has had a continuing interest in governmental affairs.

He served on Hoover's Employment Commission in 1930.

"They were cagey then," he chuckles, "they didn't call it unemployment."

He had another "plan," almost as far-reaching as his current production, in 1928. It later became the agricultural domestic allotment plan, which is generally regarded as the father of the New Deal's farm program.

At present, he's adviser to the National Resources Planning Board, director of the National Board of Economic Research, a trustee of the Farm Foundation, and a problem-sharing friend to many of the men who make governmental plans. All this takes him to Washington about once a week. He gets a sitting room as well as a bedroom in his Washington hotel when he can.

"I have to pace around," he explains, "and a bed gets in my way."

An Unconventional Young Man

In politics, as elsewhere, he's an independent. He says he registers Republican, then votes Democrat "to even things up." He voted for Roosevelt three times.

He is able to accomplish so much because, apparently, he is engaged in purposeful thinking so long as he is awake. He requires only a stingy six hours of sleep. He never bothers with details. He'll go to an important conference, deposit a startling idea, and depart, leaving others to lengthy discussion. He works on a project only until the ball starts rolling, then moves on.

He works from the particular to the general. He may start out by worrying about the little tax problem of a friend who's going into the Army; but his expansive mind soon has encompassed the tax problems of millions, with a side glance at the economic health of the whole postwar world.

Ruml can't understand why people say you shouldn't talk shop at parties. "Why not?" he asks. "Shop's the best entertainment in a man's life. If it isn't, he's in the wrong job."

His idea of fun is to gather together a group of dinner guests who are interested in discussing the very problems he's been dealing with all day.

A Macy official said, "He forces us all to think. There you are just sitting around talking, and the first thing you know his mental gymnastics have slung you into real thought on your own account."

People who know him well describe him as "the warmest-hearted economist," "the most earthy sophisticate," "the best friend" they ever knew.

The Ruml Plan has affected the lives of many people—including Ruml. A private person heretofore, in spite of his ranging interests, he's a public figure now. He'd never made a public speech until the Plan forced him to. He has rarely seen his name in the newspapers. Now he's an experienced speaker, his name is known to millions.

What will he do with his success, now?

He could use his advantageous position to put some more of his many plans before the public, he could...

...he says Ruml facetiously, "will be announced later."

The End

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Frances McCathran

March 6, 1943

CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Tax: Pay-As-You-Go - Still by-passing the decision of how much forgiveness should be allowed in putting taxes on a current basis, the House Ways and Means Subcommittee yesterday tentatively approved a proposal for placing taxpayers on a pay-as-you-go system. Under the plan as it now stands, a withholding tax of 20% would be levied on all salary and wage earners, except men in the armed service, domestic servants and agricultural laborers. Farmers would be required to pay two-thirds of the tax on their estimated income any time before December 31 of the same year and the remaining by March 15 of the following year. All other taxpayers, not subject to the withholding tax, would be required to make quarterly returns. Regulations for this last group, which includes professional men, independent business men, bond-holders, persons with salaries too large to be taken care of under the 20% withholding tax, and probably the men in the armed forces, were taken from a suggestion by Treasury General Counsel Randolph Paul made in hearings on February 2. As the Subcommittee side-stepped the issue of forgiveness, there are rumors that the full committee, too, will pass the question along to the House. General consensus of opinion at the moment appears to be that at least one-half year's forgiveness will be granted, with increased rumblings of support for the Carlson version of the Ruml one-year cancellation proposal.
2. OPA - Senatorial criticism of OPA and Administrative policy expressed itself in the creation of a joint-committee composed of five members each from the Senate Banking and the Senate Finance Committees to meet with Administrator Brown on his new price and rationing regulations. Congressional opposition to the Executive order excluding subsidies from parity computations, the OPA use of price control to limit profits, and the President's salary ceiling order are said to be the incentives behind this "unprecedented action," according to a Wall Street Journal article this morning.

The OPA also received severe criticism yesterday on its meat regulations from Senator Davis, who said they had created "a complete monopoly of big packers." Adding that his efforts to force a change had only resulted in "an Administrative brush-off," he said the responsibility rests now with Congress.

3. Farm Labor - As forty senators lined up behind the Bankhead farm labor deferment bill, scheduled to be considered by the Senate on Monday, the Senate Military Affairs Committee announced in a report that the prospects for a food crop this year as large as the last is virtually hopeless. Although opponents of the bill claimed it would make agriculture a catch-all for those who wished to evade the draft, the Committee report said Secretary Wickard was "increasingly alarmed" over the lack of farm labor to meet production goals. Opposition to the measure is said to be consolidating behind Senator O'Mahoney's proposal to amend the existing draft deferment provisions for farm labor in the Tydings amendment to the Selective Service Act. O'Mahoney would define the agricultural commodities essential to the war effort and at the same time define the standard of production per person upon which deferment would be based. This proposal has reportedly received the support of the Selective Service System. Expressing the opposite view, however, Senator Nye in a speech to the Senate yesterday said that an army of eleven million men by the end of 1943 would "deny our allies all the help they need on the machinery and food fronts and bring hunger and food riots to our own country."
4. Allred Appointment - Although Senator Overton of Louisiana claimed that Attorney General Biddle had once opposed the nomination of James V. Allred to the Fifth U.S. Circuit Court of Appeals because of its "political aspects," Biddle denied the charge before a Senate Judiciary Subcommittee yesterday, and added that he had first offered the appointment to an attorney in New Orleans who did not accept. Allred himself declared under oath, "I want this Committee to know that I had no agreement, direct or indirect, with the President or any person claiming to represent the President, that I should be appointed to another judgeship," after resigning one to run in the primaries against the victorious Senator O'Daniel in Texas last year.

BRITISH MOST SECRET.
U.S. SECRET.

COPY NO 13

OPTTEL 74

Information received up to 7 a.m. 6th March,

1. NAVAL.

One of H.M. Frigates attacked and drove away E-boats off the South East coast yesterday.

2. MILITARY

TUNISIA. 8th Army. 3rd in the late afternoon 3 enemy patrols each about 150 strong attacked our carrier screen but were halted by our Artillery; a little later enemy tanks moved forward and our carrier screen withdrew to the next ridge. Casualties were inflicted on Italian Infantry and later in the day enemy M.T. were observed moving North. During the night, the enemy withdrew slightly and our carrier screens was re-established in its original position.

4th. In the afternoon air reconnaissance reported much enemy M.T. movement Southwards and Southeastwards from Gabes.

First Army. 4th. Enemy continued his attacks on Sedjanane and fierce fighting in the town took place throughout the day. The enemy attack towards Beja was also renewed with a force of 15 tanks and 3 infantry companies but was repulsed. Further South our patrols continued their advance Eastwards and penetrated to the North West of Pichon. French forces are moving East along the shore of Chott Djerid from Nefta towards Tozeur.

3. AIR OPERATIONS.

WESTERN FRONT. 5th. Our fighters destroyed 2 E-boats off the Dutch coast and probably destroyed 2 others.

5th/6th. Following aircraft despatched - ESSEN 442, Sea mining 7, 14 bombers are missing and one crashed. The attack on Essen is considered to have been successful and very large fires are reported in an extensive area of conflagration.

TUNISIA. 3rd/4th. 5 Halifaxes and 28 Wellingtons bombed M/T and encampments in the Mareth area.

4th. Fighters and fighter bombers attacked M.T. in the Medjez Elibab area. A formation of escorted Ju 87's was intercepted and forced to jettison its bombs. A total of 12 bombers and 216 fighters and fighter bombers attacked M.T. in the areas South of Gabes and bombed the town and landing ground at Djedeida. 15 U.S. fortresses attacked a convoy of 6 ships Northwest of Bizerta and are reported to have sunk 4 of them. In these operations enemy casualties 6 - 2 - 15. Ours 1 - 0 - 2.

BRITISH MOST SECRET
U.S. SECRET

OPTIL No. 75

Information received up to 8 AM 7th March, 1943.

1. NAVAL

A convoy of 3 storeships and 2 tankers reached MALTA yesterday from ALEXANDRIA. It was attacked by aircraft at dusk 5th and 1 tanker slightly damaged.

2. MILITARY

TUNISIA. 5th. Eighth Army. Southwest of MEDENINE increased enemy activity and considerable shellfire. Air reconnaissance from MARETH to MATMATA Hills showed little movement. 1st Army. Our troops withdrawn from SEDJENANE have taken up positions near TAMERA North and East of the SEDJENANE-DJABIOD Road. Enemy tank losses since 26th estimated at 45. Allied armoured elements re-entered FICHON and the enemy withdrew into the hills north and south of the town. In the evening our forces withdrew for the night to a more secure position.

RUSSIA. The Russians report the capture of GZHATSK and further progress northwest of KHARKOV.

3. AIR OPERATIONS

WESTERN FRONT. 5th/6th. ESSEN. 987 tons dropped including 3 3,000-lb., 153 4,000-lbs., 35 2,000-H.A. bombs and more than 10,000 30-lb. incendiaries. Good weather, no clouds, but ground haze and smoke from fires obscured detail. Attack lasted 40 minutes. Marker bombs were dropped accurately round KESPPS and both H.A. and incendiaries were very well concentrated. Many major fires merged into an extensive conflagration. Several huge explosions reported with black smoke rising to 15,000 feet. Intense A/A and searchlights both over and around ESSEN. Seemed to lessen as attack developed.

6th. In good weather 60 U.S. Fortresses attacked the power station at LORIENT and 15 escorted U.S. Liberators attacked BRIST. The target at LORIENT was hit. 3 Fortresses and 2 Spitfires missing. Preliminary enemy casualties 2..all.. 3. 4 Typhoons effectively attacked locomotives, rolling stock and barges near WISBADEN.

ITALY. 4th, 5th. 5 Liberators attacked shipping in NAPLES harbour. 1 missing.

BURMA. 5th. Hurricanes engaged 22 enemy fighters near AKYAB. Enemy casualties 7..5..2. Ours 1 missing.

March 8, 1943
10:05 a.m.

FINANCING

Present: Mr. Bell
Mr. Haas
Mr. Murphy
Mr. Tickton
Mr. Lindow
Mr. Viner
Mr. Hobbs
Mr. Shields
Mr. Woodward
Mr. Gamble

H.M.JR: I thought we would get down to serious business now as to what we are going to - what kind of merchandise we are going to offer. I thought the first thing to do would be to tell me where there is the most fat - outside of the banks, I add quickly. (Laughter)

This whole group up in New York is planning the advertising. I think we have to give these advertising people some direction, you see, as to where we want to aim this advertising. I mean, we just don't want a lot of good slogans.

Have you had a meeting in your room?

MR. BELL: We just had a meeting for fifteen minutes. If you want me to, I can discuss some subjects that Haas' group and I discussed on Saturday, and then again this morning for a brief period of fifteen minutes.

H.M.JR: I don't know what you discussed. I would kind of like to get the over-all thing first. Is that what you have been discussing?

- 2 -

MR. BELL: Yes, and there are other things that fit into that.

The first subject we discussed was quotas - the subject of quotas. Of course, there should be a quota for the whole country - whatever amount you fix. We feel that there should also be a quota fixed for each Federal Reserve district.

H.M.JR: Somebody has been working on you.

MR. BELL: Yes, that is right, but we don't feel there should be an official quota for anything below the Federal Reserve district, but that we would be glad to furnish the Federal Reserve president the data on which he could have a county quota if he so desired - go down that far, and he probably will, but that would not be an official published quota.

As for the amount, we need fifteen billion dollars plus probably an additional certificate issue sometime in July - June or July - to carry us through to August before the next drive.

H.M.JR: Let me interrupt you. If you get fifteen billion dollars in April, you will need--

MR. BELL: We will probably need a certificate issue either June 1, say, to take care of the maturities in June; or probably July, in order to replenish our balance, in order to carry us through to August 1.

H.M.JR: Has anybody got the maturities?

MR. LINDOW: There is a copy here. (Copy of "Bulletin of the Treasury Department, February 1943" handed to the Secretary.)

MR. BELL: The maturities for what?

H.M.JR: Anything. For the rest of the year.

- 3 -

MR. LINDOW: This is not - we have a note and a bond. This is the June. (Indicating)

H.M.JR: Where is this May 1?

MR. BELL: A billion five hundred and six due May 1, and two hundred and eighty-nine million of CCC's due May 1; six hundred and twenty-nine million of notes due June 15, and then there is a three and three-eighths percent amounting to four hundred and fifty-four million.

H.M.JR: As I understand it, even if we - or after we have gotten the fifteen billion, you will actually need a note issue, when?

MR. BELL: We probably should have a certificate issue either on June 1, in order to pick up the billion dollars of maturities in June, or we should have it in July to replenish our balance - either one. I say June 1 because probably it would be nice to have a maturity June 1 the following year.

H.M.JR: But you are going to need fifteen billion?

MR. BELL: Yes, sir, and we will also need to keep our Treasury bills on a level of two hundred million new money a week.

H.M. JR: How much does that make the total?

MR. BELL: In bills?

H.M. JR: Yes.

MR. BELL: I don't know. It means a billion dollars a week, beginning, I think, June 21. There will be eight hundred million dollars beginning the 17th of this month.

H.M.JR: Go ahead. I am listening carefully.

MR. BELL: We discussed as to whether the amount of this drive should be thirteen billion, fourteen, or fifteen billion - fifteen billion being the amount we need.

- 4 -

We thought that if you need fifteen billion, then you have to have ten billion outside of the banks. We thought that if that fails, that might be disastrous - that it just can't fail. We thought thirteen billion was too low because it didn't give any increase over the December drive for the non-banking investors.

H.M.JR: How much is that?

MR. BELL: Seven billion eight hundred million, as I recall. Some of that went into banks, too.

The seven billion eight, and if you announce that this would be thirteen billion, then that would only be eight billion for non-banks. We thought there ought to be a little larger figure for the committees to work toward. So we thought that fourteen billion dollars would be a good figure for this drive, hoping that we would get the fifteen billion. That would mean that five billion would come from the banks, on which you would have two issues in the drive open to the banks, amounting to about four billion two, and eight hundred million dollars from bills, would give you the five billion dollars. That would mean nine billion dollars would come from non-banking.

H.M.JR: Say that over again.

MR. BELL: Fourteen billion is the total; five billion from the banks, of which there would be two issues in the drive - certificate and the bond - about four billion, two; eight hundred million bills, making the five billion. Then there would be nine billion dollars of non-banking investors and we would break that down into two categories just for the Federal Reserve bank presidents - not making it public, necessarily, although it probably would become public - we would say three billion dollars to individuals and partnerships on that sheet, and six billion dollars to all others, not classifying the other two in there, but just lumping them.

Does that sound about right?

- 5 -

H.M.JR: I don't know whether it sounds right or not.

MR. BELL: In that allocation of non-bank investors there is this question that has come up again, and it is being pushed by a couple of the Federal Reserve Banks and also Eccles, himself - a question of whether we shouldn't allow commercial banks with savings departments permission to go into the two and a half percent bond on some percentage of their time deposits.

We have worked on it some previously and turned it down because it does increase bank deposits; but due to the fact that all these small country banks are going to be working for you - they claim there is a discrimination here between that and the mutual savings - I am not sure we don't have to give some consideration to it.

H.M.JR: There is another angle to it. If you give it to them, then they keep on the way they have, paying, say, two percent on their deposits and they keep taking deposits. If you don't pay it to them, they won't take the deposits and the money is there. In the State of Kansas they were just beginning to stop paying the two, some going down to one, and some going down to nothing.

I wondered - George, you had better make a note of this - whether we couldn't get a spot survey from the State superintendents of banks and find out; one, how much do these time deposits amount to; and two, what interest rate are they paying.

MR. HAAS: We have the first question already.

H.M.JR: How much?

MR. HAAS: I don't know what the total figure is; it was about thirteen billion, or something like that.

MR. BELL: We had the time-deposit figures.

MR. VINER: The Federal Reserve has some figures.

- 6 -

H.M.JR: Fairly recent?

MR. BELL: December 31.

H.M.JR: That is good enough. Have they got the interest rates?

MR. BELL: I have got a memorandum prepared last November, I think it was, as to the interest rates paid within the various States.

MR. SHIELDS: ABA has done an analysis on that recently; probably you can get a table from them.

H.M.JR: I think we ought to have it fast because in considering the thing, if you are going to let them take these two and a half's, it means they are going to keep their time deposits.

MR. VINER: It will work this way too; if the public knows they are getting two and a half on a Government bond, the public will press for a good interest rate on their savings. It will be harder for them, psychologically, to cut.

MR. BELL: It has the other - there is another argument on the other side.

H.M.JR: It is both ways. I mean, I don't think you can, just because you are being unfair to them, settle it on that basis. Do you think so?

MR. VINER: I see the force of your comment. I think it is unfortunate that they should be paying fair rates - good rates - on savings now.

H.M.JR: When I was in Kansas they were just beginning to collapse this thing; they were just getting under way - just realizing that they couldn't do it any more - couldn't pay these things and make their expenses.

- 7 -

MR. VINER: If you had the statistics, I would say a better way of going at it - I know in the Middle West they pay a good amount on savings, providing the savings don't exceed a certain amount.

MR. SHIELDS: What do you mean by a good rate?

MR. VINER: Anything over one percent, now. They pay two percent, still. There is a Federal Savings and Loan in New Haven that is advertising it is still paying three percent.

MR. SHIELDS: Another question is whether the institution should be maintained. I think it makes sense to maintain that savings institution. It will have some postwar use, probably.

MR. BELL: There is that argument, that many of these commercial banks, at the present time, won't take savings deposits, and the man who has the money - if they won't take savings deposits, there is something wrong, so he takes out currency and puts it in the safe deposit box; at least that is the argument that is used. They claim if you get these commercial banks back into the custom of taking savings deposits and increasing their savings deposits, maybe some of this money will come out of hoarding. I don't know.

H.M.JR: I think, George, that whatever information is available in the United States should be gotten together quickly. You say there is fourteen billion dollars' worth of deposits?

MR. BELL: In the neighborhood of that.

H.M.JR: It is a lot of money. We want to get a good share of it. I don't want to make a move which is going to freeze that.

MR. SHIELDS: You have got most of that money, now, Mr. Secretary. It is invested in Government bonds or other obligations.

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H.M.JR: Well, let's get it down - do you think that just to make these fellows happy, or pay their expenses for selling some bonds, that we should give them a two and a half percent bond as a subsidy?

MR. BELL: It is important to keep them happy.

H.M.JR: I don't know. Maybe we will do it. But right now, I haven't got enough information to make up my mind.

MR. BELL: I don't like it because it does increase bank deposits - there isn't any question about it.

H.M.JR: That isn't something that would have to be settled the next three days, either, would it?

MR. BELL: That could go in the--

H.M.JR: I mean, if we don't have the information--

MR. BELL: That could go in the circular, which probably won't be printed until next week.

H.M.JR: I don't want to hold it up.

MR. BELL: It could go in the circular which will be printed next week. It doesn't have to be made public this week at the time of the announcement, although it would be nice if you could do that.

MR. VINER: I don't see the point about its increasing bank deposits. You are aiming at the banks subscribing to a certain aggregate amount. If they take more in the two and a half percent bonds, you will press them to take less of the others.

MR. HAAS: No, no, you add that much more on.

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MR. VINER: You are going to have to tell them to take more than they would have of their own accord. You have to put pressure on them to take the amount you want them to. Or is there a guess as to what the banks will voluntarily come in and take?

MR. BELL: Well, after offering four billion dollars of securities which the banks will have to take, plus eight hundred million dollars of additional bills - they will have to take those - whatever they will take of the two and a half's is just open to them.

MR. VINER: If you can estimate what they would take of the two and a half's on that basis, particularly if you are allotting them maximum amounts, deduct that from your four billion and don't ask them to take four billion of the others.

MR. BELL: I don't know whether you could estimate that or not. I don't think you could estimate that with any degree of accuracy.

MR. SHIELDS: The distribution of excess reserves in this drive is different from what it was in the last one. It makes it necessary for a larger proportion of the total banking securities to go to the smaller banks instead of the large. This question is a fairly important one because if you can, by this device, bring a lot of these small country banks in, a real advantage will have been gained, I think.

H.M.JR: Let's just talk on that point a minute. Let's forget a minute that they have time deposits. There will be two other ways of doing this thing. One would be on a geographical basis and one would be on the size of the banks. I mean, for instance, you want to sell, let's say, in the Mississippi Valley. You could have a separate quota for the banks in the Mississippi Valley.

MR. SHIELDS: I was thinking about the special offer of two and a half against savings deposits particularly,

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and with the limit on the amount any individual bank could take, which would mean that this special offer, so to speak, would be attractive primarily to small institutions.

H.M.JR: If you are talking about excess reserves, I mean, do you want a bank in the Lower Hudson Valley - is it important to take these, or is it important to get them to take it in the Mississippi Valley? I mean, could your reserves - I mean, it is a geographical proposition. The difficulty is to maintain them in New York.

MR. SHIELDS: I haven't sufficiently the detailed picture in my mind of the distribution of excess reserves, except that the excess reserves are concentrated outside New York City and Chicago, and mainly in the smaller--

H.M.JR: If you haven't got them, let's get them, because if you haven't them, who would have them?

MR. SHIELDS: The Federal Reserve.

H.M.JR: Let's get them over here, George. This is another thing. Let's get over the geographical distribution of the excess reserves, because that - the thing that they keep talking to me about when I talk to them about excess reserves, they say, "We can't maintain them in New York and Chicago." They always talk geographically to me.

MR. BELL: What are the excess reserves percentages against time deposits in the country?

MR. MURPHY: It is the same all over the country - five percent. Pardon me, six. The figure in the statistics is three and it has now been advanced to twice that which is six, and it is uniform for the whole country.

MR. BELL: So far as the time deposits, I wonder if the excess reserves have any volume?

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MR. SHIELDS: No, but they create a problem in that your heavy market is lower down in the classification of banks by the size of the banks than it was in the last drive. Those banks are generally banks which have been receiving rather higher rates on their loans. Therefore, a little cream in the rate might be attractive to them.

H.M.JR: Well, which side are you on in this argument? (Laughter)

MR. SHIELDS: I am not on either side now. I am discussing it, Mr. Secretary.

H.M.JR: You haven't made up your mind?

MR. SHIELDS: No. I am inclined to be in favor of it in this drive, although I was against it in the last one. The same idea was presented. But it needs further investigation, I quite agree.

H.M.JR: Well, why can't we pass this, going on the assumption that this group is going to work continuously on this thing - exclusively on it - for three days. You get more information on that and come back at me with that.

MR. BELL: All right.

H.M.JR: I mean with some recommendations.

George, you get this together for this crowd. I am figuring on doing nothing but this for three days. As soon as you have something more on this, let me know.

MR. BELL: The next thing is the terms of the securities in the basket. The drive starting April 12, we suggest that the securities be dated April 15, which would be three days after the drive opens.

As for the two and a half, we thought March 15,
1965-70--

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H.M.JR: Which one?

MR. BELL: The first two and a half, March 15, '65-'70.

H.M.JR: I thought we were going to have what's-his-name come down - your former assistant.

MR. HAAS: Seltzer?

H.M.JR: Yes.

MR. HAAS: He couldn't make it.

H.M.JR: What has he to do that is important?

MR. HAAS: He teaches school. He took some days out last week and was down, and he couldn't take them out this week.

H.M.JR: That is too bad.

MR. BELL: The first two and a half will be the one we suggest.

H.M.JR: Which one are you recommending?

MR. BELL: The first two and a half.

MR. MURPHY: That is restricted.

H.M.JR: What do you mean?

MR. MURPHY: Commercial banks are not allowed to purchase it.

H.M.JR: The last one was '62-'67?

MR. BELL: '63-'68 was the last one. '62-'67 was the first one.

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H.M.JR: What was the first one?

MR. BELL: We had a '62-'67, the first restricted issue. That was the two billion one hundred eighteen million. In the drive it was 1963-'68, which was two billion eight hundred thirty-one. The unrestricted issue is the '67-'72.

H.M.JR: The '62-'67 is restricted?

MR. BELL: Yes, sir, and the '63-'68 is the other restricted one.

H.M.JR: Has everybody agreed on this?

MR. BELL: Everybody here. I think possibly New York will argue for a six months longer one than the last one. That would make it '64-'69.

MR. WOODWARD: I think that is what they will argue for.

MR. BELL: Yes, '64-'69.

H.M.JR: As against?

MR. BELL: March '65.

MR. SHIELDS: How much premium would the '64-'69 work out at?

MR. MURPHY: About nine thirty-seconds. Your curve is so flat that you are not getting anywhere. That is, I think the premium on the '62-'67 is only about twelve.

MR. LINDOW: Yes, that is right.

MR. SHIELDS: If New York wants it, why not give it to them? It is about the same premium.

MR. BELL: That was also the bankers committee's recommendation - Burgess and the group - to make it just a little longer, '64-'69.

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H.M.JR: It doesn't make an awful lot of difference.

MR. BELL: No.

MR. HAAS: It makes a round figure.

MR. MURPHY: We argued that way the last time, you remember. (Laughter)

It is interesting to note that this pushes the '63 out a little less far than the '63-'68 pushed the '62-'67 out. We moved ahead eighteen months between the '62-'67 and the '63-'68. This would propose moving ahead an additional fifteen.

H.M.JR: You mean if you went to '65-'70?

MR. MURPHY: Yes, that is right. The issue that was spoken of by New York pushes ahead six; this is nine months beyond it. The curve is very flat.

H.M.JR: I didn't take your recommendation last time, did I?

MR. MURPHY: That is correct. You may not this time. (Laughter)

MR. BELL: The last time you recommended '65-'70, didn't you?

MR. MURPHY: That is correct.

H.M.JR: That is the trouble; at the rate you are going and the number of issues, we will be going into the next century before we know it. (Laughter)

MR. BELL: A couple of times more and we will be to the '65-'70. (Laughter)

MR. MURPHY: I don't think it is an important question one way or another, but I do think a '65-'70 sounds better. I don't mean the progress so much as the fact that it is a nice round maturity - easy for the people to remember.

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H.M.JR: This is the one that we expect the non-banking people to take, isn't it?

MR. BELL: That is correct.

H.M.JR: What do you think about this, Hobbs?

MR. HOBBS: I would think the '65-'70 is good, Mr. Secretary. That is going to be our focal point in the drive.

H.M.JR: That is the thing.

What about this figure of three billion two?

MR. HOBBS: I think it can be done, Mr. Secretary, if you get going quickly.

MR. LINDOW: Of course that includes all the E bonds, and F and G's if you leave them in.

H.M.JR: It does? That ought to be good for at least a billion on the E, F, and G's?

MR. LINDOW: We hoped more than a billion. We hoped we might get a billion and a half.

MR. MURPHY: Contrariwise, a great many two and a half's would be sold to other than individuals. You can't equate the three point two figure with sales to individuals. A great many things other than two and a half's will be sold to individuals, and a great many two and a half's will be sold to non-individuals.

We figure on about two billion to insurance companies and mutual savings banks.

H.M.JR: Of these two and a half's?

MR. MURPHY: Their purchases will mostly be two and a half's.

MR. HAAS: They are the biggest buyers.

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H.M.JR: How much is there in the well of the insurance companies right now?

MR. LINDOW: They should have accumulated in the first four months of this year around seven hundred million of new funds coming in. That is excess of premiums over amounts paid out, plus the amounts of loans that are paid off. Those have been stepped up, plus other liquidations of assets. They have been selling some of their State and local tax-exempt bonds.

MR. BELL: They have been selling Governments, too.

MR. VINER: And some real estate. Haven't they been selling real estate, farm land?

MR. LINDOW: I suppose they have. We don't have any figures.

H.M.JR: When you end up how much do you think they can subscribe?

MR. WOODWARD: I should think three-quarters of a billion or more.

MR. BELL: We have got in this picture a billion and a half from insurance companies, haven't we?

H.M.JR: How much?

MR. BELL: A billion and a half, I think.

MR. LINDOW: A billion one from insurance companies as a result of new funds coming in and these liquidations of assets, and then there are some of these maturities. It will run up to about a billion and a half.

MR. WOODWARD: There is a complicating feature in this. As you probably know, the Federal National Mortgage Association is preparing to liquidate its holdings of FHA mortgages, which may take some of the funds that might otherwise be available from insurance

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companies and savings banks in this drive.

H.M.JR: Who controls that?

MR. BELL: Jesse Jones. That is not a lot of money.

MR. WOODWARD: About two hundred and ten million potentially available, which they have offered to their servicing agents.

MR. BELL: When?

MR. WOODWARD: They have asked the servicing agents to reply with bids on March 15, and they will then make up their minds. The servicing agents are meanwhile canvassing the insurance companies and savings banks and everyone else.

H.M.JR: Did you know that?

MR. BELL: No, I didn't, but then, it really - well, we get the money anyhow. The money comes into the Treasury.

MR. WOODWARD: Would it or would they call it debentures that are out? I am not clear as to their intention.

MR. BELL: I will ask Jones about it.

H.M.JR: Yes. I thought they always checked on those important things.

MR. BELL: They do, but probably this wasn't considered important. It is the Fannie May--

H.M.JR: I will make you a bet that Jesse won't know when you ask him.

MR. BELL: I am not sure.

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H.M.JR: Want to bet?

MR. BELL: No, I am not a betting man this morning.

H.M.JR: A package of gum?

MR. BELL: Where are you going to get the gum?
(Laughter) You will have to have a priority.

H.M.JR: Get Jesse to get it - he handles rubber.
(Laughter)

There is one thing about this thing that bothers me. Take the individual ones, the War Bonds - when you break this down the figures are kind of frightening. Take War Bonds, E, F, and G - you have them down for a billion and a half.

MR. LINDOW: We started with the three billion goal from individuals, Mr. Secretary, and then guessed we might get about half of it from E bonds.

Actually the distribution of the funds as far as income groups goes is more heavily weighted for the lower income groups, so that logically you ought to be able to get more from E bonds than a billion and a half so far as the proportions go.

(Table entitled "Distribution of Securities During April Drive by Classes of Nonbanking Investors" handed to the Secretary by Mr. Lindow, copy attached.)

H.M.JR: Let's take the three billion from individuals, partnerships and personal trust accounts - the three billion two. I take it this is on the fifteen-billion-dollar basis. Have you got a breakdown sheet on three two for me?

MR. LINDOW: The calculation is made with respect to the amount of current savings that occur during the first four months of this year, and it represents taking about sixty percent during the four months of these savings. In the last six months of 1942 we took slightly

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under fifty percent of the savings. Now, the funds are there. The individuals are accumulating them. The point is we want to sell them securities instead of having them go into banking deposits.

H.M.JR: I am thinking in terms of - up in New York all of these people meeting with these advertising agencies, we have got to tell them where we want this advertising directed.

MR. LINDOW: Are you referring to income groups now, Mr. Secretary?

H.M.JR: Yes.

MR. LINDOW: We have some estimates of where the funds are by income groups, and they are very largely in the lower income groups rather than the upper groups.

H.M.JR: What do you call lower income groups?

MR. LINDOW: I mean around two and three and four thousand dollars.

H.M.JR: I ought to have something from you on that this afternoon.

MR. LINDOW: It is in the memorandum on sources of funds, Mr. Secretary.

H.M.JR: But that is so big. What I am getting at is - for instance, I would like to give the advertising manager or the sales manager a memo saying that out of the three billion two - just what you have said - we expect to get so much, and we got sixty percent of the savings the last time from the people and we have to step up the thing; that we have to aim the thing at such and such a point and such and such people. Then he can tell his people - not only his advertising people but his salesmen - that this is where the thing is and this is where we have got to direct it.

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I mean, I want you to think in terms of selling now. You have got the information. I want to go over it again because it is terribly important.

MR. VINER: I don't--

H.M.JR: Just one second. I want to go over it again. These fellows up there, they can get slogans and all that, but the criticism of these various people advising us is we don't give them enough information on the market.

I take it you can give it to them in a simplified form?

MR. LINDOW: Yes.

MR. BELL: What you want is a breakdown of the three billion two? I mean, you are talking about the individuals - you want a breakdown of that?

H.M.JR: Yes, and also the four, four. I want a breakdown on each one of those things so that a man who is going to write copy and direct salesmen - well, he wants to know who are these people, how much have they got, and so forth and so on.

Then what I want to try to do is get somebody again, like Dr. Likert, to make a very quick survey for me - what will make these people buy war bonds, people from two to three thousand, and what will appeal to them.

You ought to have that for me by tomorrow morning.

MR. VINER: I was going to say I don't think these people are aware of how much they save in a particular three months' period, but they do know what their cash balances are.

I think the estimates should also be converted to percentages of their bank balances and attack it that way. They don't know - for instance, you have the

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campaign in April, and they don't know what they have saved between January first and April first. They don't know what that figure is, but they do know their bank balance or cash balance.

H.M.JR: What I need from these people very, very badly, this afternoon or tomorrow morning, is something so that if a man is going to direct the sales and the advertising he should know that we want three billion two, and who these people are and where they are and how much we can expect.

MR. HAAS: It might be interesting to know that Robbins feels exactly the way you do about it. Lindow spent a long time going over that picture.

H.M.JR: Did he give him a memorandum?

MR. LINDOW: He has all the source material.

H.M.JR: Robbins is in Chicago today, and the advertising people are meeting in New York. There are supposed to be four agencies starting to work on this copy. What have they got?

MR. LINDOW: I don't know whether he has transmitted anything to them, Mr. Secretary.

MR. HAAS: He was just getting on top of it himself, Mr. Secretary.

MR. LINDOW: Yes, he was going through all the figures.

H.M.JR: Of course his trouble is he hasn't been able to get his man who is going to be the advertising manager yet, but I am sure the men that are up there in New York today - Odegard, Callahan, and a man by the name of Lane - haven't got this.

MR. HAAS: Odegard has. He has the memo and went over it very carefully.

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H.M.JR: He has got it?

MR. LINDOW: I went over it with him last week. In fact, we had a long discussion about how you could interpret the figures for a campaign, so I know he had it in his mind before he went up there.

H.M.JR: Let me have something - what I really want along these lines - you say Robbins wants the same thing?

MR. HAAS: Yes, it is just the type of thing he was looking for.

H.M.JR: Why didn't you work it up for him in advance?

MR. HAAS: Why didn't we?

H.M.JR: Yes.

MR. HAAS: I think we did.

H.M.JR: It isn't in writing, though.

MR. HAAS: Sure, it was all written down.

H.M.JR: But the memo is so long.

MR. HAAS: The memo is complete, and when he raises a certain question we can dig it out and answer a specific thing. As a matter of fact, he was raising the question as to whether or not he wanted to take Lindow out to each Federal Reserve bank so that the leaders would get this picture in order to direct their campaign.

MR. BELL: The Federal Reserve presidents would like to have this complete compilation. We raised a question as to whether they should have it because this is your whole program for the year. You can't keep it confidential when you give it to all the presidents and twelve executive managers.

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H.M.JR: I think they ought to have it.

MR. BELL: They all want it and are asking for it.

MR. HAAS: Robbins feels that if it is in a memorandum they won't wade through it, just as you say, because it is too big a job to wade through; but if Lindow went out and talked to the leaders of the groups they would sit and listen and have charts.

His suggestion was that the two of us ought to go out.

H.M.JR: We haven't the time.

MR. HOBBS: Mr. Secretary, I might add that wherever Mr. Lindow has given those figures he has given the listeners confidence in doing this job. It shows them where the money is.

H.M.JR: Quite frankly, it has had the other effect on me. It has kind of scared me.

MR. HOBBS: The figures themselves scare you, but I think after the explanation all of them have gotten confidence in their ability to do the job.

H.M.JR: I am glad to get that from you because just measuring it by the one thing which I know more about than the others, the E, F, and G's, when I saw the figure a billion and a half in April I said, "They just can't do it."

MR. HAAS: It means house-to-house contact, I think.

H.M.JR: If it gives the salesmen confidence, fine, but it has the other effect on me.

MR. TICKTON: You have never had a Nation-wide, house-to-house canvass on E bonds.

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MR. VINER: No, except on the pay roll on E bonds.

MR. LINDOW: I think you can put it the other way, that if you can get around eight hundred million without personal solicitation it ought not to be too difficult to double that figure with personal solicitation. That is what we had in mind.

MR. HOBBS: I think that is right.

H.M.JR: Say that again.

MR. LINDOW: If we can get eight hundred million a month, as we are doing now, without personal solicitation in selling E bonds, then it ought not to be too difficult to double that figure with personal solicitation.

MR. VINER: For a single month?

MR. LINDOW: As a starter. I believe you could do it every month, as a matter of fact, but I think it would take the building up of machinery to do it.

MR. MURPHY: The billion and a half, Mr. Secretary, was made up when we thought that the F and G bonds would be out of the campaign, and it was meant to include E only.

Most of the F and G sales - if F and G are in - would really be over in the two and a half component, so that the E, F, and G combined would have to be substantially more than a billion and a half in order to meet that bogey.

H.M.JR: Well, what is next?

MR. BELL: There are a couple of other matters in connection with the two and a half's. One is the question of whether you would allow the two and a half to be redeemed at par upon the death of the owner provided they held them for a period of, say, six months.

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We thought that maybe that should stay out of this one; that that is worth quite a lot of money; and that it would be better to put that in some other time when you are asking, maybe, for something else. We thought maybe you might want a ten-year call period in the next drive or some subsequent drive in the securities you offer, and that would be a good time to put in the death provision. Also it is tied up to some extent with F and G. You might want to eliminate F and G some place along the line, and there would be more incentive if you add the death provision.

We recommend that you leave that out of this drive.

H.M.JR: Well, I told you how I felt about that death provision. I can put it in any time you want.

MR. BELL: I know you said you would go along with it, but we considered it on Saturday and this morning, and we thought that it might be delayed.

H.M.JR: You mean it is too attractive?

MR. BELL: It is worth a lot of money.

We didn't discuss it very much this morning. I don't know how this new group feels about it.

MR. HAAS: There are some implications that I think we ought to discuss very thoroughly. There is a sort of freezing of rates. Maybe that is the thing we want to do.

MR. BELL: You are supporting that two and a half rate through this method.

MR. SHIELDS: I would prefer that you want until you get rid of the F and G's before you grant that provision.

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H.M.JR: The F and G's have that provision?

MR. MURPHY: The G's.

H.M.JR: How do you feel about it?

MR. WOODWARD: I would suggest postponing it.

MR. HOBBS: Mr. Secretary, is there any possibility of winding up the F and G's in the April campaign?

H.M.JR: You mean not have them after the April campaign?

MR. HOBBS: Yes, sir.

H.M.JR: I was wondering about winding them up now. I read Haas' memorandum on it, and it was very convincing.

MR. HAAS: Yes, but I wanted to do it earlier, but right before the campaign I am doubtful about it.

MR. BELL: We should not take it out right now before the campaign. It is the most attractive security. To go into a campaign and say you are going to eliminate the most attractive one we thought was wrong.

I think we will recommend that they be eliminated right after the campaign.

MR. VINER: If you want this to be attractive, announce that they are going to be eliminated after a certain date. (Laughter)

MR. BELL: That might be a wise thing to do on the first of April, say that they are going to be withdrawn on May 1. (Laughter)

MR. WOODWARD: That has been an unfailingly successful selling technique.

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MR. HOBBS: On thirty days' notice.

MR. BELL: I think there ought to be some notice.

The other question in connection with the two and a half's is whether or not we are going below the five-hundred-dollar denomination.

There the feeling is that if you do that they will definitely compete with the E bonds, but I think all of the salesmen would like to have it reduced to the hundred-dollar denomination.

H.M.JR: How about that, Hobbs?

MR. HOBBS: I think most of them do.

H.M.JR: Now that we have these two organizations together for April I don't care any more. My protest is no longer valid.

MR. BELL: I think that Haas has given quite a lot of thought to it, and he feels that if you do reduce it to that some definite instructions ought to go out to sell E bonds first.

I don't know what kind of instructions you can give to a hundred thousand salesmen - if that is the number - that they will follow. They will sell whatever they have available, whatever the man seems to think he wants.

H.M.JR: From a Treasury standpoint it is better that they take the new two and a half.

MR. HAAS: I don't think so.

MR. BELL: It is better, I think, from the Treasury standpoint, looking at the security, but it is a little bit dishonest to go around and try to sell a two and a half when you have a three-percent obligation in your basket which can be redeemed on demand.

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H.M.JR: Why does George say that from the Treasury standpoint it is not better?

MR. HAAS: I know what you are thinking, Mr. Secretary, because instead of having demand obligations you are putting it out to a market, but you have the trouble, anyway. It is a refunding job. It is in the market, whereas on the E bonds it is channelized - the refunding operation is channelized, is easier to control. It seems to me there is a place for a small denomination.

If every salesman goes out and tells the person the characteristics of the E bond and he says, "I don't want that; I want the other", then it is perfectly all right to sell the other to them. I am afraid the same thing will happen as in the Liberty Loan, and you have made a point before Congressional committees that you are not going to let that happen.

H.M.JR: I am slipping rapidly, George. (Laughter)

MR. BELL: I don't think you will sell a lot of hundred-dollar denominations.

MR. HOBBS: I certainly hope not.

MR. BELL: The E bond demand obligation is on the Treasury whereas the two and a half will be on the Federal Reserve System.

H.M.JR: There is the question of delivering them, and having those hundred-dollar bonds available so that after they have made the sale they can get a rapid delivery.

MR. BELL: I think we can give pretty rapid delivery.

MR. MURPHY: In the post-war period the question of what you will do with the whole issue might arise, in which case a small amount of it in hundred-dollar pieces might complicate the handling of the whole amount.

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MR. VINER: Wouldn't it be possible - that is a market operation - to support the hundred-dollar denomination - to supply those?

MR. MURPHY: They are interchangeable.

H.M.JR: What?

MR. MURPHY: Interchangeable between denominations. Government securities are interchangeable from high to low but not low to high. But you would get yourself in plenty of trouble.

MR. BELL: You couldn't support them by denominations. It would only amount to about five percent - the volume certainly wouldn't be big from a market angle.

MR. MURPHY: But my point is that you have the necessity of maintaining a uniform price in the issue.

H.M.JR: Personally I think this gets down pretty much to salesmanship - what the salesmen want.

MR. HOBBS: And that varies in different parts of the country, Mr. Secretary.

MR. LINDOW: But if there is any criticism later about a salesman selling somebody a two and a half percent bond who really should have had the E bond - you know that even some of the banking people have told us - I think you said the other day, Mr. Bell, that Mr. Burgess had argued that it was a bad idea to sell a fellow a coupon bond until he had his limit of E bonds or else he knew he wanted the other.

Most of the people that you have to sell to, Mr. Secretary, in the lower income groups are not sophisticated from the standpoint of investments, and they can be sold something by a salesman which does not suit their purpose best at all.

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H.M.JR: But couldn't that be stressed and make it wholly honest by pointing out in the advertisements that the most attractive bond is the E bond and that we recommend that a man buy his quota of E bonds before he buys anything else, and keep stressing that?

MR. TICKTON: Some people think the quota is ten percent of their income. If you have a man who has a couple of thousand dollars in income and he buys three or four hundred dollars' worth of E bonds and a salesman comes around to see him, the salesman should sell him some more E bonds and not the coupon because the ten percent was an arbitrary yardstick.

H.M.JR: I still say that if in the advertising, the radio, and everything, the E bonds were stressed--

MR. BELL: You can put it also in your salesman's manual that they should not undertake to sell the coupon until they have first ascertained if the man wouldn't prefer an E bond.

MR. WOODWARD: I think that is very important.

MR. VINER: The more basic issue is, should you try to sell a coupon bond to persons with incomes of two thousand dollars a year. Is a coupon bond suitable for them even if they want them?

MR. HAAS: Burgess says that the two and a half - that he wouldn't do it, that he would put it on the two. He thinks that is too long a bond.

H.M.JR: I didn't get that.

MR. HAAS: Dan asked Burgess about this. He says the two and a half bond is too long for anybody who only wanted to buy a hundred-dollar bond; that if you are going to put it anywhere just put it on the two-percent bond. So that complicates the situation still further.

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MR. HOBBS: I can't see that. Can you?

MR. HAAS: No.

MR. BELL: We would normally put it on the two-percent bond. That is just a normal Treasury issue, and they always carry the hundred-dollar pieces.

MR. HAAS: If the salesmen would all follow instructions that could be done all right.

H.M.JR: They won't.

MR. HAAS: The last time somebody told me they organized an individual campaign on the F's because they happened to have a twenty-five-dollar denomination. Those people that bought that did not buy the right security.

H.M.JR: This new two and a half, is it immediately salable? Do they have to keep it sixty days?

MR. BELL: No, immediately salable to anybody but a bank.

MR. VINER: Dan, it is on that one that you don't want the death provision?

MR. BELL: Yes.

MR. VINER: That makes it still further unsuitable for people of that sort. I mean that people of that income must not invest in anything which they can't liquidate - can't have insurance of no loss within, say, ten years. It is not suitable for them.

MR. WOODWARD: Unless they already have, by some chance, bought five thousand of E bonds.

MR. LINDOW: They are not two-thousand-dollar people.

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MR. SHIELDS: But they may have cash balances.

MR. LINDOW: But that is the rare case.

MR. VINER: They ought to keep them as cash balances. Those people have the cash for emergencies, and they are not building up an estate.

MR. SHIELDS: The number of people who go through their limit on E bonds is very small, so that this is not a large problem. If you can get your salesmen to stick to instructions - and I think most of them will stick to instructions. The E bond is so obviously more attractive than the other one.

In the last campaign some of the Victory Fund people thought they didn't have access to the E bonds. I don't worry about that.

MR. HOBBS: I think you are perfectly right.

MR. SHIELDS: They will read those manuals and be a little better instructed in this campaign than the last.

MR. MURPHY: I draw the opposite conclusion with respect to the size of the problem. Since not many people have gone through their thirty-seven hundred and fifty dollars of E bonds I would say it is a large problem because for those who have gone through it is no problem. None of us have any compunctions in selling to them, and persons who have bought their limit in them won't have any difficulty with the five-hundred-dollar denomination. It is the people who haven't gone through their thirty-seven fifty, for whom the E bonds are still open, that the problem exists. That makes it a big problem.

MR. SHIELDS: These E bonds are obviously the most attractive, and they are not going to sell a less attractive one. He has to do the other way - sell the easiest thing he can first.

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MR. HAAS: The two best salesmen are going the other way. Fleek wants to sell a coupon bond, and Perry Hall.

MR. SHIELDS: Even if they do, the salesman down the line, when he gets that list of securities, is going to look at it and sell the easiest things.

MR. VINER: It is easier to sell a coupon bond.

MR. SHIELDS: Not to low brackets, I don't think so, not after all of this advertising you are putting out.

MR. MURPHY: The way I got religion on this - I felt just the same as you do until I was in a meeting on Saturday, in which Buffington assured us that the salesmen would disregard the instructions and that they would push the two-and-a-half-percent bonds no matter what we said. (Laughter) I got religion strong at that time. (Laughter)

MR. BELL: There isn't any doubt but what they will disregard instructions in some cases. To what extent we don't know.

MR. MURPHY: I got the impression it would be quite widespread.

MR. HOBBS: I think it depends entirely on how strong those instructions are, Mr. Murphy.

There is one thing, Mr. Secretary, I got on this recent trip of mine. Apparently through the farm areas - Iowa and Illinois - the people out there, the young people, all want the series E bonds. The older people want a current-income bond even though it is a hundred-dollar or two-hundred-dollar denomination.

H.M.JR: You have been out there?

MR. HOBBS: Yes, sir, I was out there the first part of February.

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H.M.JR: You made a swing around?

MR. BELL: He was gone two weeks.

MR. SHIELDS: One argument has not yet been mentioned, and that is the desire of people to invest their funds in a security where their names will not be disclosed to the Treasury.

MR. HAAS: Those are about three thousand, too, usually.

MR. SHIELDS: That is that question of who owns this currency that is outstanding today. Some of the people are holding currency instead of bank deposits because they prefer that the ownership of those funds not be disclosed.

H.M.JR: How much currency is there outstanding?

MR. LINDOW: Fifteen billion dollars.

The argument has been mentioned, Mr. Secretary, that a person who wants to appear to do his patriotic duty and buy some bonds and then easily change his mind later, can, if he buys a coupon bond, a bearer bond, just go out and sell the bond in the market; whereas, he has some compunctions about trading in his E bonds. It doesn't look good.

So I think the E bonds are more likely to stay put than the coupon bonds, in most cases. I don't think there are a lot of those cases, but there are some.

(Mr. Gamble entered the conference.)

H.M.JR: Ted, I want to call New York, and I want you to listen. We are trying to price this. I want you to hear it so you can keep Graves posted.

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

March 8, 1943
11:11 a.m.

HMJr: Hello.

Operator: Professor Odegard.

HMJr: Hello. Hello.

Peter Odegard: Hello.

HMJr: Pete....

O: Hello.

HMJr: Peter?

O: Yes.

HMJr: Henry Morgenthau.

O: Yeah.

HMJr: You're on the loud-speaker and we've been working on this thing on the pricing, you see?

O: Uh huh.

HMJr: And, of course, the question comes up I know, what are the ideas which these advertising men are going to stress?

O: Yeah.

HMJr: And I wondered whether it was just a question - are you just getting organized or are they going - has somebody said, "Well, this is what the Treasury wants to stress during this coming campaign."

O: Well, what we've been doing is to discuss the suggestions that Mr. Robbins made to Mr. La Roche the other day....

HMJr: Yeah.

O:and we've been discussing, first, the question of what the securities are going to be....

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HMJr: Yes.

O: ...and....

HMJr: Well, that's....

O:I called - tried to get Harold and he's out in Chicago.

HMJr: That's right.

O: And then I called Ted to see if a decision has been reached as to the exact basket of securities that were to be sold.

HMJr: Well, the group - Ted's here with me now....

O: Uh huh.

HMJr:and the group that's in my room, we're in the process of settling the basket.

O: I see.

HMJr: And in the discussion that came up, for instance, just to give you an example, the question is, well, should we let this new 2½ be sold down to a hundred dollars denomination.

O: Yeah.

HMJr: Then if we did we all felt to be honest with the people we - well, it's greatly stress the value of the "E"....

O: Yeah.

HMJr:and that the man shouldn't buy the - the new 2½ until he'd bought his quota of the "E" - the advantages of the "E" over the 2½, do you see?

O: Yeah.

HMJr: Now there are all those kind of things....

O: Yeah.

HMJr:and I just....

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O: Well, those are just the things we've been talking about too here.

HMJr: Well, this thing - the basket, if it's settled by Wednesday night, that - that'll be moving very fast.

O: Yeah.

HMJr: Because I want to let you know.

O: Well, now there's one other thing that....

HMJr: I mean - I mean I'm going to aim for Wednesday night, but I can't guarantee it.

O: Yeah.

HMJr: I'll guarantee Thursday noon.

O: Well, they talked about something by Thursday.

HMJr: Well, by Thursday noon I've got to settle it - well
.....

O: Yeah.

HMJr: (Talks aside: Well, no, Friday noon, isn't it?)
By Thursday night.

O: Yeah, by Thursday night.

HMJr: Yeah, I promised the people when they were here the other day the 12th....

O: Yeah.

HMJr: On or before the 12th.

O: Yeah. Well, now there were a couple of other things that we were discussing I thought you might like to know.

HMJr: I would very much.

O: One was the name under which this drive should be conducted....

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HMJr: Yeah.

O:and there are several that have been suggested.

HMJr: Yeah.

O: I assumed, of course, that this drive would be conducted under the auspices of the Treasury War Finance Committee....

HMJr: That's right.

O:and since that was true, the question came up as to whether they should call it the Second Victory Loan Drive....

HMJr: Yes.

O:or the Second Victory Savings Drive or something else. Well, in the course of the discussion it was suggested that since this was a new set-up and since both organizations were to have the entire basket, it might be called the First War Finance Drive under the auspices of the War Finance Committee.

HMJr: Yeah.

O: But three or four of these names are under consideration and nothing has been decided.

HMJr: Viner doesn't like the First War Finance. He's shaking his head from side to side.

O: Who - who?

HMJr: Jacob Viner.

O: Jake Viner.

HMJr: He - momentarily of Yale University.

O: (Laughs) Well, the - the objections to the Second Victory Loan Drive were that it might confuse people into thinking that it was another drive like the December drive, which was conducted pretty largely by the Victory Fund Committee.

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HMJr: Mr. Bell has handed me a slip of paper, and his name is - I first read it the Spring Board Offensive, but I read wrong. It's the Spring Bond Offensive.

O: Yeah, well, that was one of the names that was discussed too - the Spring Bond Offensive.

HMJr: And Miss Elliott sent me a name - a memo. She thinks that it ought to - we ought to keep the name War Bonds.

O: Well, one of the things that has been in the picture here is the necessity for keeping the identity of the War Savings Bonds in all the copy, so that the people who have been buying War Savings Bonds will not be confused into thinking that they have been abandoned and something new substituted.

HMJr: Right.

O: And so we're all agreed on that. Now the Spring Bond Offensive would be a good....

HMJr: No, no, I don't like it.

O: Huh?

HMJr: Because you can't sell any - you can't sell anything - no, it's - it's in the basket already, the trash basket.

O: Yeah. (Laughs)

HMJr: No.

O: Well, any one of these other names I think would be all right. The - one of the groups here, the Irwin Wasey people who have made this very careful analysis of the farm market....

HMJr: Yeah.

O:say that one of the major obstacles in the way of farmers buying War Bonds has been the - the experience they had with the Liberty Bonds where they lost money on them, and they might identify Victory Loan with the Victory Loan - the fifth Liberty Bond Drive, which was called

(cont.)

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O:
(cont.) a Victory Loan Drive, and they suggested that that might be all right in reaching a more limited market, but when you were appealing to a market running to up to 60 million people, that there might be some confusion from that - that identification.

HMJr: Well, Gamble just handed me something which I like very much. You got a pencil?

O: Yeah.

HMJr: Second Victory War Bond Drive.

O: Yeah.

HMJr: Second Victory War Bond Drive.

O: That seems to me to - to make an awful lot of sense.

HMJr: I like that very much.

O: Yeah.

HMJr: I recommend that for careful consideration.

O: All right. (Laughs)

HMJr: Let me just ask - Hobbs is here. (Talks aside: How do you like that? What? Yeah.) Just a minute. Well, anyway....

O: Oh, one of the - how did Hobbs like it?

HMJr: Who?

O: Hobbs - did you ask him?

HMJr: Hobbs liked it, yes.

O: Uh huh. That's pretty long, the Second Victory War Bond Drive. There'll be....

HMJr: You could cut off the word "drive".

O: (Laughs) Well....

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HMJr: Bell would - suggested Second Victory War Bond Loan, but I....(Talks aside: No?)

O: Yeah.

HMJr: Well, War Loan Drive. Well, let's stick to what you've got - you'll - after all, that's what these professionals are up there for, these agencies.

O: Yeah.

HMJr: But Second Victory War Bond Drive - it sounds pretty good to me.

O: Yeah. Well, I think that something like that will - embodying both those ideas.

HMJr: Viner says that nobody gives a damn about any committee.

O: (Laughs) Yeah. Well, I think that may be true except....

HMJr: He says except the members of the committee....

O: Except for the people on the committee.

HMJr: That's what Viner says.

O: Yeah. Well....

HMJr: Now what else have you got, because I've got a couple of other things.

O: Well, that's about all we had here. I wanted to find out how far along the decision was as to the....

HMJr: Well, I'm - I'm not - I'm going to stick to my promise, on or before the 12th.

O: Uh huh.

HMJr: See?

O: Yeah.

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HMJr: Now what I wanted to ask you was this, once we decide what the basket is....

O: Yeah.

HMJr:I very much want somebody like Dr. Likert --

O: Yeah.

HMJr:I wish you'd make a note of this -- to make a very quick check for me as to what the people, particularly the two to three thousand dollar income group....

O: Yeah.

HMJr:would be - the most attractive thing to them. Now, of course, if we have - let one of those agencies that Gallup works with - they might want to use Gallup. I don't care.

O: Yeah.

HMJr: (Talks aside: What's that - what's that agency that - Young and Rubicam.)

O: Yeah, that's Gallup.

HMJr: But - but I want somebody, just as soon as the basket is decided on....

O: Yeah.

HMJr:either Gallup or Likert or somebody....

O: Uh huh.

HMJr:to make a three-day check quick as to what - what I've got in mind is this, leaving it to me I'd like to stress the - the - the anti-inflationary angle to buying the bonds, you see?

O: Oh, you would?

HMJr: I would.

O: Now this....

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HMJr: Now I don't - now that's the way I feel. There's some head-shaking, but with all due respect to everybody in the room including myself, nobody knows until you go out in the field and ask people. Do you see?

O: Yeah, well....

HMJr: And I'd like to get down - if you'd say to these people, "All right, Mr. Morgenthau says what do you think are the five or six best points as to how we could sell this thing?"

O: Yeah.

HMJr: And then give it a field check through Gallup or Likert.

O: Yeah.

HMJr: Now - or through the man that - that Fortune uses, you see?

O: Elmer Roper, yeah.

HMJr: Yeah. But I - I'm very insistent that we get a field check on that, Peter.

O: Yeah, well, you know that we have a very careful study of that of the farm group, as to what they prefer.

HMJr: Well, then that - that's done, but let's do it for the rest of the mass market.

O: Yeah, we can - we can do a recheck on that.

HMJr: But I mean the whole market.

O: Yeah.

HMJr: Particularly the factory workers - I mean - now Kaiser tells me that he's got people that are earning \$500 a week.

O: Yeah.

HMJr: Now how are we going to reach them, and what would appeal to a ship-builder getting \$500 a week - what kind of copy?

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O: Yeah.

HMJr: You see?

O: You're concerned with the - with the motivation and not with what kind of a security would be most attractive.

HMJr: No, no, once the basket is decided....

O: Yeah.

HMJr:after Thursday night I want this Advertising Council to go into high-gear....

O: Yeah.

HMJr:and field-test this thing as to copy.

O: Yeah.

HMJr: See?

O: Yeah.

HMJr: Does that make sense?

O: It does, yes. We'd have to get on it pretty fast, you know, to get any results that would affect the copy for April.

HMJr: Oh, yeah. Well, three days is enough. They can - they can....

O: Well, they can do a telegraphic poll.

HMJr: All right.

O: Yeah.

HMJr: Something.

O: Well, I'll take that up. What - what else do you have?

HMJr: Well, does that - that's about all. Let me....
(Talks aside: Anybody else?) Did he get his advertising man, do you know?

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O: I don't know.

HMJr: You don't know.

O: I don't know.

HMJr: Now...

O: He - he isn't here.

HMJr: He's not there?

O: Well, except Mr. La Roche, who is president of the Advertising Council, and all the copy writers who have worked on Treasury copy before are here.

HMJr: Well, the man that he was trying to get was a man by the name of Peabody of Borden's.

O: Oh. Well, he's not here.

HMJr: He's not there. Now do you want Ted?

O: No, that was - I just called Ted to see if he knew whether the basket had been settled.

HMJr: No, no, because....

O: Tell him I'll see him tonight.

HMJr: You'll see him tonight.

O: Yeah.

HMJr: Okay.

O: If I live.

HMJr: Why?

O: (Laughs)

HMJr: What's the matter up there?

O: Oh, I just left some sick children.

HMJr: Oh. In your family?

O: Yeah, and....

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HMJr: Well, that's....

O:and I think I'm suffering by sympathetic infection.

HMJr: What have they got?

O: Oh, whooping cough and sinus infection.

HMJr: Good God! Which do you feel you've got?

O: I feel I have both.

HMJr: I see.

O: (Laughs)

HMJr: How is the Advertising Council working? Are they cooperative?

O: They're very cooperative.

HMJr: Are they ready to go?

O: Yes, indeed.

HMJr: Good.

O: I think they'll work out very well.

HMJr: Well, I'll - well, before the - the motives and the points that are going to be stressed and all that, "Papa" wants to see them himself.

O: Fine.

HMJr: I want to see them myself.

O: You bet.

HMJr: But I....

O: Well, thank you.

HMJr: Thank you.

O: Goodbye.

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H.M.JR: The thing going through my mind is I would like to have whoever these district sales managers are going to be - I would like to have a couple of them in here Wednesday and try out this basket on them. I want to tell this to Robbins now because we just sit here - I would like to get three or four of these fellows in here.

MR. BELL: You mean the executive managers?

H.M.JR: Well, yes. I mean, we are going to have the committee in tomorrow, but I would like to have these salesmen in here.

MR. BELL: Wednesday is all right.

H.M.JR: I thought I would tell Robbins. Would you do it?

MR. BELL: I will call them, or Hobbs can, unless he wants to do it from out there.

H.M.JR: I will ask him.

MR. VINER: Do you think it would be worth your while to contact one of these savings and loan people? They are the people who have had over the years contact with that level. The investment bankers have not. The savings and loan people know the important part of this level you have to reach. They know their savings habits and their investment habits, whereas the investment bankers do not deal with that level.

MR. HOBBS: The savings and loan crowd was very helpful in December.

MR. WOODWARD: I think that will be true of the insurance salesmen, who reach that same level.

MR. VINER: Yes, that is right.

MR. HOBBS: But that is pretty well set up, too.

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MR. BELL: Do you want me to go on with the basket?

H.M.JR: I thought you were through.

MR. BELL: I only discussed the two and a half. Next is the two-percent bond, and the question of whether there would be a one and three-quarters or a two-percent bond.

There seems to be quite a demand throughout the country for a two-percent bond. Burgess' committee said that one and three-quarters would be very popular with the banks, but he recommended that we include a two-percent bond this time because there would be some individual money go into it and the country banks would like it.

He said, "We recommend a two-percent bond."

We say a two-percent bond, December 15, 1950-'52. New York again will probably recommend a September.

On that sheet you will notice that the December is nine thirty-seconds and the September is eleven thirty-seconds premium.

H.M.JR: Again, when did we do the last two-percent?

MR. BELL: October was the famous two-percent, you remember. (Laughter) We got criticized so much for it.

H.M.JR: What was the date on the October?

MR. MURPHY: That is the March '50-'52.

MR. BELL: There was a billion nine sixty-three million.

H.M.JR: That was the first one?

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MR. MURPHY: We had a whole series of two's.

MR. BELL: That was a complete series. We had four of them. That was the last one of the series.

H.M.JR: When was this? When did we offer this?

MR. BELL: October 1942.

On September 15, 1950 there is one billion one hundred eighty-six million of two and a half taxables callable.

H.M.JR: When is that?

MR. BELL: September 15, 1950, a billion one hundred and eighty-six callable bonds, two and a half's.

June is open as far as the first call date is concerned, and December is opened. You certainly should not go to June because that would be going backwards from your October issue. The December would be about three months longer.

MR. MURPHY: That is right.

MR. BELL: Longer than the October.

MR. MURPHY: September just follows the pattern.

MR. BELL: September is exactly the pattern we followed in October.

The December is probably rich enough, but, as Murray says, there is not much difference, and New York feels strongly about the September.

H.M.JR: Does New York feel strongly?

MR. BELL: I haven't talked to them enough to see how strong they are for it, but they have suggested that in my telephone conversation with Bob Rouse.

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You haven't contacted Piser yet, have you?

MR. MURPHY: No, sir.

H.M.JR: Supposing you do that before this afternoon.

MR. MURPHY: Yes, sir.

MR. BELL: That would be a straight banking bond. That would be open during the drive to the banks for two billion dollars.

The next marketable security would be a seven-eighths-percent certificate. That would be for a maturity of April 1, 1944. That would also be open to the banks for two billion dollars.

In view of the fact that the certificates go so well, we recommend that that be opened on the 12th to the banks and leave the two-percent bond for the latter part of the drive.

So your basket would consist of the two-and-a-half-percent tap, two-percent, ten-year bond - or nine-year bond - seven-eighths-percent certificate, series E, F, and G bonds, and the tax notes.

H.M.JR: You haven't got that on one sheet for me?

MR. BELL: No, but I can do it very readily.

Series A tax notes are not important in the picture and were not important in the December drive.

If Congress passes the pay-as-you-go bill they might well be withdrawn. Whether that will be in time to be withdrawn for the April drive, we don't know, of course, at this time.

MR. HOBBS: Couldn't they be?

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MR. BELL: You would recommend that the basket just consist of the series C tax notes?

MR. HOBBS: Yes. There should be no moral credit to an investor for buying an A note; they are there if he wants them.

MR. BELL: I am not so sure they should get a lot of credit for investing in C notes.

There have been a number of suggestions that we simplify the basket by reducing the number, but we feel that that cannot be done in this drive.

Maybe before the next drive you will want to take out F and G savings bonds, and maybe you will want to confine it to, say, three issues. Possibly by the time of the next drive you may want to segregate the bank borrowing and the non-bank borrowing.

This time we think, in view of the fact that the public has begun to look upon this drive as a thirteen-billion-dollar program, that it would not look very well now to separate them and go back down to eight or nine billion.

H.M.JR: I tell you what I would like to do. I would like to stop now and continue--

MR. BELL: I have one more item, if you want to hear it. That is the refunding of the May 1 maturity of a billion and a half certificates and two hundred and eighty-nine million of Commodity Credit notes.

H.M.JR: I would like to start again at two-thirty, with the same crowd. And I would like you here, Gamble.

**Distribution of Securities During April Drive
by Classes of Nonbanking Investors**

(In billions of dollars)

Individuals, partnerships and personal trust accounts.....	3.2
Corporations other than banks and insurance companies.....	4.4
Insurance companies and mutual savings banks.....	2.0
Governmental funds (Federal, State and local).....	<u>.4</u>
Total for nonbanking sources.....	<u>10.0</u>

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

February 23, 1943

March 8, 1943
12:56 p.m.

John W.
Pehle: Yes, Mr. Secretary.

HMJr: Is there any new status on Martinique?

P: Yes, there is. We are holding up on the million dollars a month for their shipments to them at the request of the State Department.

HMJr: How long has that been?

P: We haven't issued it for the month of March yet.

HMJr: I mean how long ago did you get that request?

P: We got it just before the end of the month - the end of February.

HMJr: Well, nobody told me.

P: I had a memo ready to go to you, but I didn't send it through because Mr. Paul wasn't here today.

HMJr: Well, I mean - the end of the month was February. This is the 8th of March.

P: Well, what they told me, Mr. Secretary, was that they would call us back on the 2nd of March...

HMJr: Yes.

P:and then they didn't call us back, and they just said, well, they'd - they didn't say anything definite, in other words.

HMJr: But in the meantime, you're holding it up.

P: That's right.

HMJr: I like to know those things.

P: Why, I know you do, and I'll get a memo to you.

HMJr: Yeah, but I mean - in the old days, I used to get them the same day.

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P: All right. Well, I'll - I'll try to get it to you more promptly.

HMJr: Be as good as you used to be.

P: All right.

HMJr: And I'll be satisfied.

P: Yes, sir.

HMJr: Thank you.

P: Right.

March 8, 1943
2:40 p.m.

FINANCING

Present: Mr. Bell
Mr. Haas
Mr. Murphy
Mr. Gamble
Mr. Tickton
Mr. Lindow
Mr. Shields
Mr. Woodward
Mr. Viner
Mr. Hobbs

H.M.JR: All right, Mr. Bell.

MR. BELL: I checked with Jesse Jones on his Fannie May mortgages and he says that all that they have done so far is to write to the people through whom they got the mortgages. They always give them the first opportunity to buy them back.

H.M.JR: Did he know about it?

MR. BELL: Yes, he had the full story.

H.M.JR: Without checking? (Laughter)

MR. BELL: He said, "This is just an inquiry." He said, "They are coming in, and a good many of them are interested," but he said there had been no offer yet, and that they would be glad to hold any offer they make up until May, after the drive is over. So that is settled.

That is all I had to look up in the interim.

Do you want to continue some of the things George was checking on?

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H.M.JR: I would like to continue on the issues themselves.

MR. BELL: I have another item or two on the program.

H.M.JR: We were going sort of fast at the end. I didn't get everything. You were going to give me a sheet of paper showing what issues you had in mind.

MR. BELL: Yes, but I didn't.

MR. MURPHY: I had thought that I was going to do it.

MR. BELL: Did you?

MR. MURPHY: No, I have a lot of other sheets of paper, but I forgot that one.

H.M.JR: We only got as far as savings bonds, didn't we? We said we would keep those and then somebody said he hoped we wouldn't have any tax notes.

MR. BELL: Mr Hobbs said he hoped the Series A tax notes would be eliminated. If Congress passes the pay-as-you-go bill, by that time they should be eliminated, anyhow, from the series. But I am sure that Accles won't agree to eliminate his favorite Series C, which is the dual-purpose note, you know. It gets investment funds as well as tax funds.

H.M.JR: Does anybody want to eliminate that?

MR. HOBBS: Just the A Notes. My thought was if Congress had not completed the tax legislation that we could not include the A Notes in the basket, even though they were still available.

MR. BELL: They are really not important - sixty-six million, wasn't it, last time?

MR. LINDOW: I think that is right.

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H.M.JR: In the whole drive?

MR. BELL: Yes, sir.

MR. HAAS: Your point is that they really duck the drive.

MR. HOBBS: Yes. They ought not to receive credit for participating in the April drive through the purchase of an A Tax Note. I think that figure was eighty-eight in December.

MR. VINER: I would like to buy them in March. I hope you don't have any objections. (Laughter) I mean, from the taxpayer's point of view. I don't know why the public hasn't responded to them.

MR. BELL: He means just eliminate them for the drive; keep them out of the basket.

MR. VINER: That is right. They are not valuable enough to the Treasury.

H.M.JR: The seven-eighths certificates - when would they be offered?

MR. BELL: They would be dated April 15, and they would be in the basket right from the beginning; open to the public all the way through the drive, and open to the banks the first three days of the drive.

H.M.JR: Now you can fix this up for me for tomorrow.

MR. MURPHY: Yes, sir.

MR. VINER: Is that a possible way of adjusting the rate if the rate is a little too good - to make the interest date begin, say, a week or two weeks after the issue date?

MR. HAAS: That wasn't the purpose of that.

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MR. VINER: I know, but I was just thinking - could you tailor a rate that way?

MR. SHIELDS: I should think you could. You can certainly increase the attractiveness of it by doing the reverse.

MR. VINER: And that has been done, too, hasn't it?

MR. SHIELDS: Sure.

MR. VINER: But you haven't done the other thing?

MR. BELL: The interest ought to run from the date of the obligation.

MR. HAAS: If you swing it way to the end, everybody will hold up until the end.

MR. BELL: You wouldn't have it bear any interest for the first ten days?

MR. VINER: Yes.

MR. BELL: I think that would be a peculiar obligation, dated April 15 and bearing interest at seven-eighths percent from and after April 25. No.

H.M.Jr: No.

MR. BELL: I think you could do it, but I don't think it makes--

MR. SHIELDS: I think you would have some trouble in selling it.

MR. MURPHY: It seems the people should be given an incentive to subscribe early and give the drive momentum. To do that you have to give the early subscribers over the late subscribers, something in the way of accrued interest.

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H.M.JR: I don't think that is such a - the seven-eighths certificate for the banks the first three days?

MR. BELL: Yes, sir.

H.M.JR: Right at the beginning?

MR. BELL: Yes, sir.

MR. SHIELDS: And limited to two billion from the banks.

MR. BELL: Yes, sir.

H.M.JR: You are going to limit it to-- all that I want down, Henry--

MR. MURPHY: Yes, sir.

H.M.JR: The banks the first three days, and limited to two billion.

MR. BELL: Two billion from the banks.

MR. VINER: What limit announced? Is the limit to be public? Are you going to say they are to be limited to two billion?

H.M.JR: Yes, for the banks.

MR. MURPHY: It would be in the offering circular.

H.M.JR: And then open the rest of the time.

MR. BELL: Open the full period of the drive to the public.

H.M.JR: And the two percent - that is what? The seven-eighths certificate--

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MR. BELL: The one we are talking about is the seven-eighths certificate.

H.M.JR: Open for the banks the first three days, limited to two billion, and open to the public for the life of the drive.

MR. BELL: That is right.

H.M.JR: The two percent bond, '50-'52's, open to whom?

MR. BELL: To the public, non-bank investors, for the period of the drive, and open to the banks for two billion, say, for the last three days of the drive. In other words, the bank security on the 1st, the beginning, and one on the end.

H.M.JR: The banks the last three days for two billion?

MR. BELL: Two billion dollars.

H.M.JR: Now, that gives you four billion from the banks and you expect another billion, don't you?

MR. BELL: We expect four billion two from those sources, and then eight hundred million dollars from Treasury bills during the month.

H.M.JR: That gives you the five billion?

MR. BELL: Yes, five billion from the banks. Treasury bills probably won't be in the basket.

H.M.JR: I want the whole picture. The two and a half percent bond, that is non-banking?

MR. BELL: Yes, straight through.

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H.M.JR: We hope to get how much from this? How many are you going to sell? Somebody has got to go out on the end of a limb.

MR. BELL: I don't know, but I hope we will sell all of those securities, exclusive of the five billion you have down there to banks - nine billion dollars.

H.M.JR: Yes, but the two and a half - how many?

MR. HAAS: We made some guesses.

MR. TICKTON: It is all on here. (Chart entitled "Financing Program Suggestion C 1" handed to the Secretary.)

H.M.JR: This is where Haas bows to you? (Laughter)

MR. BELL: I would like to think about it first.

MR. TICKTON: We laid this out on the basis of fifteen billion, five from banks and ten from non-banks. We set forth these figures--

H.M.JR: What is that (indicating), two eight?

MR. TICKTON: Yes, sir.

H.M.JR: How about it, don't you have to get three two out of this?

MR. TICKTON: That isn't all individuals. This is just by securities.

MR. MURPHY: Aren't those figures without F and G's in the drive?

MR. TICKTON: That includes E Bonds, but E, F, and G are to be in there. There is probably plenty in the E, F, and G. That includes E Bonds; that would allow for adding corporations in on E Bonds, but if we don't add corporations in on E Bonds, you have the same figures.

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H.M.JR: When you are all through, how much for the two and a half?

MR. TICKTON: Two, eight, something in that neighborhood.

H.M.JR: Have you (Hobbs) figured it?

MR. HOBBS: No, sir.

H.M.JR: You don't want to figure it?

MR. HOBBS: Not this afternoon, Mr. Secretary.

H.M.JR: I will put down - I have to put down something - two, eight. And savings bonds, E, F, and G?

MR. TICKTON: A billion and a half.

H.M.JR: And the tax notes?

MR. TICKTON: Two billion. This is on a basis of ten billion. We have two billion two.

H.M.JR: And the bills - eight hundred million?

MR. TICKTON: Eight hundred million.

H.M.JR: Look, the way I would like you to do is, say seven-eighths certificates; then up here (indicating) would be a heading "banking" and "non-banking" - if you would put down under the banking column, say, two billion, and then across here (indicating) whatever else they expected to get; then the total on the side.

MR. MURPHY: Yes, sir.

H.M.JR: Do you follow me?

MR. MURPHY: Yes, I do.

H.M.JR: The two and a half percent, have two columns

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here; here would be the description, down here, seven-eighths, banking, non-banking; under each, so much.

MR. MURPHY: Those are Mr. Tickton's estimates.

H.M.JR: You fellows have got to give me something by tomorrow morning.

MR. BELL: We will give you something.

H.M.JR: That is the way I want it. Then the total out here (indicating), and then come down the column, and then the total here - down here in that corner would be fifteen billion dollars.

MR. BELL: Is that what you want to shoot for?

H.M.JR: In this room, here, yes. We have to have our receipts at fifteen billion. Isn't that what you said?

MR. BELL: We need fifteen billion, but I said fourteen billion as a public drive.

H.M.JR: I am not arguing about that, but in the room here, I want to know where I can get fifteen billion dollars. Then somehow or other get it so that I know that the seven-eighths starts off for the first three days for banking and the two percent, '50-'52, would be at the end - the last three days.

MR. MURPHY: Have an extra column for time we offered.

H.M.JR: Or another sheet - I think another sheet. Give me a time-table on one sheet and the estimates on another. I think we definitely ought to have fifteen billion in sight.

You don't suppose, gentlemen, that by calling up Mr. Eccles on the 'phone that could be put into a telegram and sent out to the twelve presidents asking them to have an answer in here Wednesday morning?

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MR. BELL: You mean this basket?

H.M.JR: Yes. It would be a big advantage. Today is Monday. Give them one day to think about it, and have the answers in here from them Wednesday morning. Otherwise, you won't be sending it out until tomorrow. You won't get the answer until Thursday.

MR. BELL: It is a question of whether you want to send it out. You have the executive committee here tomorrow.

H.M.JR: Supposing I call up Eccles and ask him.

MR. BELL: I think really you should send it out - or we should send it out--

H.M.JR: I mean, over my name, asking to have an answer here on my desk Wednesday morning. We always have checked with them.

MR. BELL: Many times, not always. We don't get very good reports from some of them.

H.M.JR: It makes them feel good.

MR. BELL: I have no objection.

H.M.JR: It saves a day, if Eccles doesn't object. I don't want to call him just now because I have this call coming through from Robbins at three. Can we go on with the next thing?

MR. BELL: You were going to do some more work on some of these items - five-hundred-dollar denomination. Did you discuss that any further?

MR. HAAS: Yes, we discussed that and the reserves, and the question about time deposits and interest rates. Henry has the whole batch of material on that all set.

You didn't discuss it with the Secretary - the exchange?

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MR. BELL: No, I was getting up the loose ends that we left this morning.

MR. HAAS: "e are all set.

MR. MURPHY: Is it all right to take up time deposits?

H.M.JR: Anything - I don't care. Let's clean up the loose ends.

MR. MURPHY: We secured quite a bit of data on time deposits during the interim.

H.M.JR: Wonderful. Did you have time to have lunch? (Laughter)

MR. MURPHY: "e had some lunch, too.

That is the amount of time deposits in the United States by Federal Reserve districts. (Table entitled Time Deposits, Summary by Federal Reserve Districts, copy attached.)

H.M.JR: That is much bigger than what you said.

MR. MURPHY: The figure Mr. Haas quoted represented time deposits of member banks. This includes mutual savings banks, also. It is the total of all time deposits held, member and non-member, commercial banks and mutual savings.

H.M.JR: The figure this morning was fifteen.

MR. MURPHY: That was for member banks.

H.M.JR: And this is the works?

MR. MURPHY: Yes.

MR. BELL: How much?

H.M.JR: Twenty-six billion.

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MR. MURPHY: These are the same figures by States. It shows the amount at the beginning and end of the year, and change during the year. (Copy of table attached.)

H.M.JR: Twenty-six and a half, then increase from one year to another of five hundred and fifty-nine million.

MR. BELL: Half a billion increase; is that all?

MR. MURPHY: Yes, it is really a very set figure; it hasn't moved much for the past five or six years.

MR. BELL: The demand has increased about ten billion in the last six months.

MR. MURPHY: Demand figures are highly dynamic; they increase rapidly, but time deposits are the same as in '29.

H.M.JR: This is the same by States?

MR. MURPHY: One is by States and the other by Federal Reserve districts.

H.M.JR: That is very snappy, Mr. Murphy.

MR. MURPHY: Thank you. Naturally we had the figures in pretty good shape or it couldn't have been done in that time.

H.M.JR: Don't belittle yourself. (Laughter)

What does this mean in terms of excess reserves - anything?

MR. MURPHY: Very little, Mr. Secretary. With mutual savings banks, of course, excess reserves are not a legal category, and the same is true for non-member banks. For member banks the required reserves on savings deposits are only six percent, so reserves are not much of a limiting factor in determining the growth of savings deposits.

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MR. BELL: Less than a billion dollars of reserves. Savings deposits, seven hundred and eighty million.

MR. MURPHY: That sounds about right, yes.

H.M.JR: What are the deposits in banks besides these? What are the total deposits?

MR. MURPHY: About seventy-five billion.

H.M.JR: About a third - this represents a third?

MR. MURPHY: They probably - well, I think Mr. Bell's figure is more accurate. He says over eighty.

MR. HAAS: Eighty-two.

MR. MURPHY: We have corresponding figures for demand deposits, Mr. Secretary.

H.M.JR: What do we do with this information?

MR. MURPHY: I would say that it indicates that time deposits are not, from a dynamic point of view, competing funds - absorbing funds, in competition with Government securities. That is, they are just about holding their own.

I now have the data on rates you asked for. Those are the data for mutual savings banks. (Tables on rates and number of mutual savings banks, copies attached.)

This shows the average rate paid by States. Those are the only States which have mutual savings banks - that is, only one bank. There are the number of banks that are paying each specified rate (indicating).

H.M.JR: What does twenty-four mean?

MR. MURPHY: Twenty-four banks paying one percent. Most of those, Mr. Secretary, are in New Jersey where

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the State superintendent of banks has limited the rate that can be paid by any class of banks on time deposits to one percent.

H.M.JR: I am surprised at how many pay two and a half. It is not awfully important, gentlemen, is it?

MR. MURPHY: I wouldn't say so.

MR. WOODWARD: No.

H.M.JR: It isn't terribly important, is it?

MR. WOODWARD: No.

MR. MURPHY: There are the corresponding figures on all member banks - the rate they pay on time deposits. (Table entitled "All Member Banks, Average Rate of Interest on Time Deposits" handed to the Secretary, copy attached.)

They are on a little different basis because this is the figure obtained by taking the total amount paid in interest compared with the total amount of time deposits; and it therefore reflects the net effect of a complex system of rates. You may have two percent on the first five hundred and one quarter of one percent on the margin amount. It is also hard to get two percent because you have to leave your money undisturbed during the whole period. These are the actual interest payments as a percentage of actual time deposits.

H.M.JR: That is a good job, Henry. How important is it to go at it from the other side - to let these people subscribe up to a certain amount?

MR. HAAS: We discussed that a good deal, and Mr. Shields kept a score card of pros and cons on that.

H.M.JR: Let's hear from him.

MR. SHIELDS: The arguments in favor, of course, are some of the ones you heard this morning. First, commercial banks are placed at a disadvantage as compared with mutual savings banks in getting these deposits;

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second, it represents a form of compensation to banks which render a service to the Treasury; third, small banks have the excess reserves and generally get higher rates on their loans and investments, and think two percent does not compensate them for the cost of doing business.

H.M.JR: We are talking about letting them subscribe to the two and a half, aren't we?

MR. SHIELDS: That is correct, sir.

Another reason is that the good will of the bank is desirable, and since they want this thing, it might be a good idea to give it to them.

The arguments against are; first, it breaks the line against selling long-term bonds to the banks, which is involved in a commitment on the part of the Treasury not to violate the ten-year limit; second, the banks - there is no evidence that the banks are really hard up - there are other means available for compensating them for services rendered in case that is desirable.

The argument you cited this morning, that the banks - that it is better not to encourage banks to pay higher rates on savings deposits - and I think that is about it, sir.

H.M.JR: If we did it, what is the proposal - to let the banks take up to how much?

MR. BELL: Mr. Williams of Philadelphia recommended that you take - he just suggested this for consideration, and I think you want to do some more thinking about it if you are going to make a definite recommendation - twenty percent on the time deposits. At the time Mr. Haas considered it before he started to recommend a flat million-dollar limit for any bank. First he started out with a percentage of time deposits and then would up by just one limitation, as I recall it.

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MR. HAAS: That is right. And I don't like it today.

H.M.JR: You don't like what?

MR. HAAS: I would suggest not doing it today.

H.M.JR: Why?

MR. HAAS: In the drive there are some people who want to separate completely the sale to individuals to emphasize that. I think it upsets - I don't think the situation is perfectly clear and I think it creates a wrong psychology going over to the banks. As Murray said - one of the points he mentioned was that technically it violates a rule which you laid down which some of the banks didn't like at first, but now look on with great favor - about limiting the banks to securities under ten years' maturity. The real case for doing it is to compensate the banks for some work they are doing. I don't think this is the way to do it.

H.M.JR: I don't like the compliments handed in a left-handed way.

MR. BELL: I don't think it is justified on the basis of compensation.

MR. SHIELDS: One other reason is that the banks would be given an incentive to bring idle currency into the savings deposits - if the rates were held - if they were able to hold the rates at a reasonably high level. I think the best argument for it is the commercial banks are placed at a disadvantage as compared with mutual savings.

MR. VINER: For the larger bank it would mean a maximum advantage of five thousand dollars a year, as I figure it; if I figured it right. Assume that the alternative is a two percent security and that the maximum is a million dollars. It brings five thousand dollars a year to a fairly substantial bank and yet you

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are sort of breaking a pattern on that. It doesn't seem big enough from the bank's point of view.

H.M.JR: Should the Treasury, Jake, be encouraging commercial banks to have time deposits?

MR. VINER: To have time deposits, yes, sir; but at the present time I think that the savings rates are out of line with our interest rate structure, and if we are going to have now, and for ten years, a problem of protecting that interest rate structure, there is that paradox, and it creates also a complication.

H.M.JR: Do you think we should encourage commercial banks to have time deposits?

MR. VINER: Yes, I don't mind their having time deposits. After all, either you should do that, or you should set up mutual savings banks in parts of the country that don't have them at all.

MR. SHIELDS: Some communities wouldn't support two institutions, Mr. Secretary.

MR. VINER: You might - that is another question. You might want banks to have large time deposits to operate differently under different regulations with respect to them; but actually we have lower reserve requirements for them than we have for the demand deposits. Isn't that right?

MR. BELL: Yes.

H.M.JR: Who is pushing us for this?

MR. BELL: Mr. Eccles asked me about it, and Al Williams of the Federal Reserve Bank of Philadelphia called me and said that a number of the banks in his district had asked him if consideration could be given to the matter for this drive. They thought it was a

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little unfair to ask them to do all this work and then you treat the Savings and Loan Associations and the mutual savings banks differently than you treat the commercial banks.

I think that is a good argument, but I think the other one, that we break our pattern and policy that we have set up, is more important to us.

H.M.JR: Has the ABA raised it?

MR. BELL: No, I don't think so. They did at first in their original committee that they had - Edwards and the rest of them raised it. Edwards has been wanting this for a long time. He has been wanting G bonds for the banks.

H.M.JR: My own inclination is, if there isn't more pressure on that, I think there are too many good reasons why we shouldn't do it.

MR. VINER: I don't think they would be excited about it if you had that sort of a limit. What they would like is to have open to them Government securities that will yield two and a half percent. But this limit will not make it interesting except as an entering wedge. I think that is the thing you want to avoid.

H.M.JR: That is what I think.

MR. GAMBLE: Would there be any value to allowing the banks to buy in amounts equivalent to new deposits?

MR. VINER: You can't distinguish new from old.

MR. BELL: That is the same thing only maybe on a smaller scale.

MR. HAAS: Somebody mentioned it in--

H.M.JR: I don't think so, Ted.

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MR. HAAS: Giannini encourages putting deposits in on time deposits. It saves on his reserves. So you might find certain sections where it would be favored.

H.M.JR: Giannini - I forget, but one time - this is going back when I used to study that thing three or four years ago - had over four hundred thousand time deposits - over four hundred thousand. I mean, that is his big business.

(The Secretary held an unrecorded telephone conversation with Mr. Robbins.)

H.M.JR: What else is there?

MR. BELL: There is still left open the question of the five-hundred-dollar denomination on the two and a half's.

H.M.JR: We decided we won't this time on the time deposits let the commercial banks put their noses under the tent. Is that right? (Laughter)

MR. BELL: Yes.

H.M.JR: That is what it amounts to, isn't it? (Laughter)

MR. BELL: That is the first step.

H.M.JR: The first smell. If they like it they will come in, and there goes my tent. (Laughter)

On the five-hundred-dollar thing, I would like to wait until some of these salesmen get in around here.

MR. BELL: That is all right.

H.M.JR: I think it is awfully important from their standpoint.

Where were you on this thing, Hobbs?

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MR. HOBBS: On taxes?

H.M.JR: Excuse me - on the five-hundred-dollar denomination.

MR. HOBBS: I am awfully negative on it, Mr. Secretary. I don't think it makes much difference one way or the other. I think that is the reaction you will get from different executive managers, too.

MR. VINER: I am hostile to it. That is the entering wedge to repeating the Liberty Loan thing.

H.M.JR: You are hostile to it?

MR. VINER: Yes, for two reasons. I don't think they are the right security for persons who buy securities in hundred-dollar denominations; there aren't any correct securities except redeemable ones.

Secondly, Murphy's point this morning which I at first twisted around and didn't get straight, that you will feel so impelled to protect the market value of securities sold to such persons that it will force you to protect the whole business and you will have a rigid control over you - an obligation on you for the whole business from a hundred-dollar denomination to the fifty-thousand-dollar denomination.

So I would say, if you want to sell securities in a hundred-dollar denomination, I would make them a separate issue - and there is no point in doing it - they have something better, anyway. I would be - I would say again, definitely, that you are entering on an important pattern, and you ought not to start on it unless you are prepared to continue and to go further, because you are relying on the salesmen not offering it to people for whom it isn't good. The salesmen have a selling mentality. Their business is to sell what is easier to sell.

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MR. GAMBLE: We have had a hundred million dollars of promotion, Mr. Secretary, telling these little people they can always get back everything they put into the bond, and I would rather see a bond without interest offered to the buyers - I mean, I would rather see, if we were going in to sell working people the security, I would rather have non-interest bearing with a guaranteed price, than to have a two and a half percent bearer bond down in that denomination.

H.M.JR: I am glad to hear Robbins - you heard what he said about having them from both sides. Somebody is working on him.

MR. GAMBLE: No, he feels it.

MR. BELL: He gets the feel of it every place he goes.

MR. GAMBLE: Yes, it is existent.

H.M.JR: Well, it shows he has no preconceived notions.

MR. BELL: I don't think this five hundred dollar denomination is so important in this drive because you have the F and G's.

MR. HOBBS: You have the G - that is the answer.

MR. BELL: If you eliminate the F and G's you may have trouble in the next drive.

Mr. Hobbs has a letter from a gentleman who finds that the younger people would like to have the appreciation bond, and that the older people would like to have the current income bond. If you take away from them the G's, you may have to give them something else.

H.M.JR: That is true of my children. They would prefer the appreciation.

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MR. BELL: They don't have to bother with the interest.

H.M.JR: They prefer the appreciation.

On your trip, Hobbs, you didn't think that that was important?

MR. HOBBS: No, sir, I do not.

H.M.JR: I resisted the last time to protect War Bonds so they wouldn't get the two organizations mixed up. Now they are all together and that objection doesn't exist any more.

MR. GAMBLE: You get the philosophies mixed up even though they are going down the street hand in hand.

H.M.JR: That is right.

What else have you got?

What are you laughing at?

MR. BELL: He said going down the street hand in hand - yes, holding each other's hand to keep from getting hit. (Laughter)

We have a billion and a half of certificates maturing on May 1 and two hundred and eighty-nine million of Commodity Credit notes. In order to pay those off in cash we would have to have an issue around April 20, or pay them off out of the general fund, which would necessitate a large call on the banks at that time, and then have an issue maybe later.

We feel that probably the best way to handle it would be to have an issue around April 20 outside of the drive, just for exchange of those securities.

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Now, that is contrary to what we said when we offered the certificate, that there wouldn't be any rights values, and there aren't any; rights are pretty well out the window, anyhow, and we could announce that this is not a precedent, and we think maybe that is the best way to handle it.

H.M.JR: I don't like it.

MR. BELL: I didn't like it, either, at first.

H.M.JR: Give me another suggestion.

MR. BELL: I don't like it, either, but I think that is the best you can do.

H.M.JR: Dan, you haven't had a new idea on that. You have been telling that same thing over and over.

MR. BELL: No, I didn't tell you about the exchange.

H.M.JR: What is the date of this?

MR. BELL: May 1, and your drive would either cross it or end about that time.

H.M.JR: One billion five hundred and six?

MR. BELL: Yes, and two hundred and eighty-nine of Commodity Credit.

H.M.JR: Don't forget our Treasury note D, 1943, for sixty-six million, which was very useful.

MR. BELL: We will pay that off - yes, wasn't that useful? - in cash.

H.M.JR: Underpinning, is that what we called it?

MR. BELL: Yes.

H.M.JR: How many times did we use it?

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MR. BELL: I think we used it twice.

H.M.JR: It was damned useful. I liked that.

What do you want to do, Mr. Bell?

MR. BELL: Make a straight exchange offering of a new certificate for the maturing certificate and the maturing Commodity Credit.

H.M.JR: Right in the middle of the drive?

MR. BELL: Yes, sir. I don't think it will interfere with the drive because ninety-eight percent of the people who own them will come in and take this new security.

H.M.JR: It gives rights value?

MR. BELL: For this one, but it wouldn't be worth anything. It is too close to maturity and we would announce at the time that it would not be a precedent, although you may do it--

H.M.JR: Again? (Laughter)

MR. BELL: Of course, you are going to run into this situation right along.

MR. HAAS: Each one of us had exactly the same reaction you are having; then go down to the alternatives and this looks like the best.

H.M.JR: This is an accumulation of brilliancy. Hasn't anybody an alternative?

MR. BELL: New York considered it independently.

MR. WOODWARD: You will like the alternative less, I think.

H.M.JR: Let's have one.

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MR. BELL: Well, you could have an offering for cash along about April 20, have it paid in cash on May 1, and pay off these securities.

H.M.JR: No.

MR. BELL: Or you could eliminate the offering altogether and call on the War Loan Account and pay them off, which is a rather large call, and then have your issue sometime after the drive. But we didn't like either one of those. It seems confusing.

H.M.JR: That isn't on my list, either. It would have to be on my list.

MR. BELL: That is not in the drive.

H.M.JR: It would have to be on my time-table.

MR. HAAS: We have a time-table already prepared. It has everything on one table - the time-table and the amounts.

H.M.JR: That is right. That is the way I want it.

MR. HAAS: Henry will fix up one.

H.M.JR: But you would have to put this in, too.

MR. HAAS: In the footnote, or somewhere.

MR. BELL: Incidental. (Laughter)

MR. MURPHY: It can just be labeled "In the Drive" - the highlight in the drive. (Laughter)

H.M.JR: If you people know about it--

MR. MURPHY: That is the advantage - it wouldn't be confused.

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H.M.JR: You wouldn't put in any advertisement.

MR. MURPHY: It would make it a closed deal, conducted in a side show tent; it wouldn't interfere with the big top. (Laughter)

MR. GAMBLE: Sounds like a war bond man. (Laughter)

H.M.JR: Sounds like we are going circus. (Laughter)

MR. MURPHY: Mr. Secretary, could I suggest that one incidental advantage of the rights technique is that the Federal will hold at least three hundred million - possibly a considerably larger amount - of these notes at maturity?

H.M.JR: Who will?

MR. MURPHY: The Federal Reserve Banks. Now, if we use the rights technique there is a well-established precedent that goes back years that they can turn in their securities and receive new securities. That does not constitute a direct purchase. It is something which the market is well acclimated to.

On the other hand, if there is a cash deal their portfolio will run off, push excess reserves way down and they will have to go in the market and purchase them, which causes quite a bit of turnover in the market, and would be, in general, a messy operation.

H.M.JR: That is a good argument.

Supposing I call up Mr. Eccles and just give him this thing roughly and tell him if he has any feeling about doing it a day in advance--

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MR. BELL: Did you discuss this with Piser at all?

MR. MURPHY: Yes, sir. I talked with Piser about the whole basket, Mr. Secretary, and he said that as far as the two percent bond was concerned he would much prefer September '50-'52. He thought going out to December was too far and he saw no point in June.

For the two and a half, he favored June '64-'69. He said that he wouldn't price the two and a half any more favorably if it had the repayment of death provision than if it didn't. He doubted if the provision was worth including. He was opposed to including it at this time, and he wasn't willing to give it any weight in the pricing.

He said that as he had these two issues priced they would depress the outstanding issues by eight thirty-seconds. You notice that this is essentially the same thing as the premiums at which we price the issues. They are computed premiums; the issues won't go to those premiums right away. If the existing pattern of rates can be held, the new issues will go to those premiums ultimately. If not, they will push down the pattern of rates by that amount. The figure of eight thirty-seconds is about in line with our computation.

I asked him what he thought of the one and a quarter percent note which the Chairman has been pushing. He said his enthusiasm for it was zero; that he agreed with us in the Division of Research and Statistics; that there was a very small potential market for a one and a quarter percent note outside of the banking system; and that he thought it had better be saved for a bank financing.

He said that he was in favor of taking the certificate out of the drive proper and offering it at the close for making up a residue.

The corporations that want it then would have to get on board quickly at that time, and you would make up the remainder of the amount asked for in this way. That is a concept that we have pretty tenaciously opposed.

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It means that, so to speak, at the last minute you say we failed by this margin and we are going to make up the difference.

MR. BELL: Fleek also wants to do that, too. He would like to keep the seven-eighths out of the drive.

MR. MURPHY: Piser is rather favorably disposed towards the use of the rights.

H.M.JR: On second thought, it is really sort of a slight. I invite the Open Market Committee tomorrow and the night before I send out - as though I had made up my mind and didn't wait for them. I think I will wait until tomorrow. Even if Eccles said yes, these fellows will say, "What is the use? He sends out a telegram the night before and says what he is going to do."

It is a slight. They will say, "Next time we won't come down." Twenty-four hours won't make such a difference. These people all have feelings.

Now, what else is there unfinished here?

MR. BELL: I have a couple of minor ones.

H.M.JR: Couldn't you get together with some of these people sometime tonight and kind of smooth off some of the edges - I mean, like we want to do the seven-eighths first - keep that gang working.

I wonder if Piser couldn't come over, and maybe Eccles or somebody.

MR. BELL: We are all pretty well together on the basket and the order and everything. But we can get Piser over, and if you would like to have us, get Eccles, too.

H.M.JR: If he would come - and Goldenweiser - get as many as would come and make use of that talent.

You can stand it some more?

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MR. BELL: Monday I can stand a lot. It is Saturday that I get low - six o'clock in the evening on Saturday, at the end of the week.

There has been a suggestion that the E bonds be made available to other than individuals, particularly certain kinds of associations and institutions. We think that ought to be delayed until you do something about F and G's.

H.M.JR: Say that again.

MR. BELL: If you change F and G, then--

H.M.JR: What did you say, Dan?

MR. BELL: It has been suggested that you make the E Bonds available to other than individuals. I believe--

H.M.JR: No.

MR. BELL: I believe War Savings Bonds had a program of eleemosynary institutions, religious institutions, and so forth.

We feel that should not be changed at this time. But if you later on eliminate F and G's, then you might want to do that.

H.M.JR: What do you think?

MR. GAMBLE: I don't think it is important when you do it, but I think it is important that we do it, and I agree with Mr. Bell, if the F and G's are going to be left in this basket - it is much more important to this drive that the F and G's be left in than to substitute for them--

H.M.JR: That is pretty well decided, but how about the colleges?

MR. VINER: What limit? It depends.

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MR. BELL: That would also have to be discussed at that time as to whether we would change the five thousand dollar limit.

MR. VINER: If you don't change the limit, it doesn't amount to anything. If you change the limit--

MR. BELL: We think that ought to all be discussed in connection with the change in policy regarding F and G Bonds.

I, personally, wouldn't change it more than thirty-seven fifty, in any case.

MR. GAMBLE: That is our recommendation.

H.M.JR: Do you think, then, it is important to open it up to colleges, and so forth?

MR. GAMBLE: I think it is important to open it up because it gives an outlet.

H.M.JR: For this time?

MR. GAMBLE: Any time.

MR. BELL: It can't amount to much.

MR. GAMBLE: No, it won't.

MR. BELL: College funds--

H.M.JR: As I understand it--

MR. GAMBLE: Our argument for it was not because of the amount of money it would bring in, but it was to give our people - these organizations that are all set - something that they could do - something that they could sell.

MR. BELL: It seems to me a college ought to go to G Bonds, or the two and a half tap.

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MR. GAMBLE: Not colleges, particularly - we were thinking of labor unions and fraternal organizations and civic organizations.

MR. BELL: They can only invest up to thirty-seven fifty. That doesn't mean much. If they want to go into the matter of gifts - say a man buys a savings bond, Series E, and gives it to a church to pay off a debt. The church can only hold five thousand, even as a gift, unless you change your regulations.

Well, we think it ought to be delayed until after this drive - both questions.

MR. GAMBLE: It is not important at this time to our people.

H.M.JR: Let's forget it then.

MR. VINER: It is important to them from the other angle. They are worried about this income, as you know, but this is a bigger issue than the E bonds.

MR. BELL: Much bigger.

MR. VINER: That is another question that some day the Treasury will have to face, but not in connection with this program.

H.M.JR: That is a big social question.

MR. BELL: We might have that on the church--

H.M.JR: You don't want me sitting here saying what should become of private educational institutions.
(Laughter)

MR. VINER: You will do that inevitably, but not today. (Laughter)

MR. WOODWARD: We would like to participate in that discussion when the time comes. (Laughter)

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H.M.JR: I said educational institutions.

MR. WOODWARD: It still stands. (Laughter)

H.M.JR: I will say this for the insurance people; it has been quite a while since they have come around and talked about a three percent bond.

MR. MURPHY: In order to give the final impetus to F and G's, you will go great guns if you do it.

H.M.JR: Woodward was joking.

MR. BELL: No, he wasn't.

H.M.JR: I meant in this way; it just proves - we are talking here all on the same side of the table - we are all thinking of the Treasury. But the point I am making is if we do it for one, that is the point; if you do it from an educational standpoint, why won't you give the life insurance the three percent which they need to operate on?

MR. WOODWARD: Yes, you said it was a broad social question. I was agreeing.

H.M.JR: Yes, just as soon as you do it for one - I mean, it is the same idea in war Bonds. We have never made any political appointments, and as long as we don't make any, we are all right. The first time we make one I am sunk. Right?

MR. GAMBLE: That is right.

MR. BELL: It has also been suggested that we sell the two and a half percent bonds or stock the banks so they can sell them over the counter. Some suggested that they be permitted to hold these bonds for a period of, say, thirty days after the drive and then they get the benefit of the interest at which they sell to the public.

H.M.JR: Mr. Shields is smiling at this.

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MR. SHIELDS: But you didn't cite the real reason.
(Laughter) It is so they can make immediate delivery.

MR. VINER: Immediate delivery, yes.

H.M.JR: You two people ought to have an electric sign, "I am not talking for my bank" and "I am talking for my insurance company." (Laughter)

MR. BELL: That is right, so that they could make immediate delivery. I said so they could sell them over the counter. I doubt if we can stock all the banks in the country with securities. During the Liberty Loan drive they did stock the banks with fifty and one-hundred-dollar denominations of temporary bonds. They delivered temporary bonds and then later delivered the definite obligations. I hope we won't have to do it. It is really quite a mechanical job.

H.M.JR: I know. I was surprised you brought this up because this interests me very much. This is good. I like this. (Laughter)

MR. BELL: I thought you would. (Laughter)

H.M.JR: You know how I pushed and pushed for issuing agents.

MR. BELL: You pushed and that is the reason we are in the hole now - sixty thousand of them. (Laughter)

MR. VINER: You know why they want it, too, so they can escape from your Internal Revenue Bureau.

H.M.JR: How?

MR. SHIELDS: Not the banks, but the people who buy them.

H.M.JR: How? Why would the individuals escape?

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MR. VINER: They don't want the registered bond, so you can't trace their income. They don't want their name on anything in the transaction. They don't want to be on record as having bought those bonds.

H.M.JR: I am looking at it from the standpoint of straight merchandising. If you can go in and plank your money down and get a bond, that is good merchandising.

MR. HOBBS: You are right, and it would greatly increase the sale of the bonds.

MR. VINER: Including E bonds.

H.M.JR: I am awfully glad Bell brought it up. I don't know anything about allowing the interest to run - I mean, they would get the benefit of the interest while they are there?

MR. BELL: There are two ways. You could give it to the banks on consignment, or you could sell to the banks and give immediate credit - that means breaking down the line again - with the understanding that if they do not sell the bonds within a certain period they return them to the Treasury.

H.M.JR: Which way would they get the benefit of the interest?

MR. BELL: If they bought the bonds.

H.M.JR: On consignment?

MR. BELL: If it was on consignment, we get the benefit. They wouldn't give us the money until the day the bond was sold.

H.M.JR: And they would take it - we would sell it to them on credit, so to speak? They wouldn't pay Washington?

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MR. BELL: It would be a consignment.

MR. VINER: You wouldn't sell it at all on that basis. They would just be your agent.

H.M.JR: Which way would the banks prefer?

MR. SHIELDS: As individual banks they would prefer to buy the securities and obtain the interest on them. My preference is for treating them as agents, or on consignment, or whatever the proper term is.

MR. HAAS: It keeps it clean that way.

H.M.JR: If you could settle the thing subsequently as to which is better to do, the consignment or sale, I would be very much interested in giving the banks all they would take in the way of merchandise to have on hand. I think it is the only smart way you can sell the stuff. I am very much for it.

Why do you hold it up - the printing job?

MR. BELL: It is a terrible printing job.

MR. VINER: From the point of view of the salesman it would be wonderful to say, "We can give you delivery today."

MR. HAAS: If you sell to individuals, you have to.

H.M.JR: If you are going to do mass selling, you have to do it. It is the only way.

MR. BELL: I don't agree with it, but then, you have thirty-five outlets in the country and I don't think every security can be delivered. I mean, a man isn't going to be at the bank when he sells these securities; he is going to be out on the street and around at houses. He either has to go and get the bonds, or put the application in the mail, and he is going to be delayed two or

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three days in the very city where you are selling the bonds, and all of these places can be reached over night. The bond is in the mail that night or the next day to him; so three days would be the most.

H.M.JR: Yes, but how about the fellow that wants to go in the bank and buy it right over the counter?

MR. BELL: He is the only one accommodated. If he is approached in his office or home, or on the street, he isn't accommodated at all.

H.M.JR: But look at the number you will sell over the counter. The banks will just be swamped - I hope.
(Laughter)

MR. GAMBLE: I think you will come to it.

H.M.JR: We have to do it this time. Sure.

MR. BELL: O.K. We will have to stop everything else.

H.M.JR: Oh, yes. And what about this off-set printing business?

MR. BELL: That is another thing. That will come in later. That is a savings bond matter.

H.M.JR: I feel very strongly that this is a good merchandising move. Of course, Hobbs will be against it.

MR. HOBBS: No, sir, I am all for that one, Mr. Secretary. As a matter of fact, I talked with Mr. Bell about it just before we came into your office.

H.M.JR: Good. That is settled, then. (Laughter)

MR. BELL: Oh, we always deliver.

H.M.JR: Whether it is going to be consignment or sale--

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MR. BELL: We will work that out. The other thing is the question of excess reserves, which we told the Federal Reserve we would discuss with them some time after March 15.

I think that they are agreeable to getting into the market pretty actively before the drive - getting the thing in good shape. Whether they would be willing to push the reserves up to, say, two and a half billion I don't know. I think there will be some strenuous objection to that. You heard what he said the other day.

H.M.JR: I think you ought to mention it again tomorrow.

MR. BELL: That is all I have. Have I covered everything?

MR. HAAS: The Secretary asked about the geographical distribution of the excess reserves. You have something on that.

MR. MURPHY: Yes, sir.

H.M.JR: Henry is wonderful today. (Laughter)

(Table entitled "Reserves and Excess Reserves" handed to the Secretary, copy attached.)

MR. MURPHY: This is a table showing for February 1 to 15 the required reserves, classified by Federal Reserve districts and classes of banks.

You will notice the country banks have a little more than half of the excess.

This column (indicating) shows the ratio of excess to required, showing that the country banks were holding very substantially larger reserves relatively.

H.M.JR: How do you explain that (indicating)?

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MR. MURPHY: They just like excess reserves there. I don't see any harm in it, Mr. Secretary, if the bankers feel better carrying a large amount of excess reserves. It costs nothing to produce excess reserves. There is an abundance of them. I don't see why we should try to break down the habits of the bankers in those districts. They feel better when they have a lot of excess reserves.

MR. SHIELDS: I might call attention to this, that the reserve position in New York is less than is shown here.

MR. MURPHY: You mean at the present time.

MR. VINER: The situation is pretty even now.

MR. WOODWARD: It could be pointed out that this is an understatement of the amount of excess reserves from the banks' standpoint because there are many of the small banks that keep their funds redeposited. So from the banks' standpoint - although not from our standpoint - there are even more excess reserves than are shown here on the small banks.

H.M.JR: They said some of these banks considered bills the same as excess reserves.

MR. MURPHY: The seamy side of that point is--
(Laughter)

H.M.JR: The what?

MR. MURPHY: The seamy side of that point is that for every dollar due to one bank there is another bank that owes it. The New York and Chicago banks, which have practically no excess reserves, owe very substantial balances to the rest of the country. If the other banks should attempt to use these balances - which Mr. Woodward calls their "hidden reserves" - it would immediately show up in a drain of funds from New York and Chicago.

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MR. WOODWARD: I quite agree to say that the country banks have, by claim, more excess reserves.

MR. VINER: But the New York banks have less.

MR. MURPHY: They are more unevenly distributed than the table shows.

H.M.JR: Well, gentlemen, if we don't begin to cry tomorrow morning, and every day after, for a minimum of two and a half billion excess reserves, we won't get it. We have to start to weep tomorrow. Bring out the Wailing Wall. (Laughter)

MR. HAAS: McKee said that one day you fellows will get the reserves like General MacArthur got them in Bataan. (Laughter)

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

March 8, 1943
3:46 p.m.

HMJr: Hello.

Operator: Mr. La Roche.

HMJr: Hello.

Chester
La Roche: Hello.

HMJr: Mr. La Roche?

L: Yes, sir.

HMJr: Morgenthau.

L: Yes, sir.

HMJr: How are you all coming up there in that big city?

L: (Laughs) Well, we're stewin' around up here. I think we stew around here more than you do down there.

HMJr: Impossible!

L: (Laughs) Well, we had a session this morning. I don't know whether they reported back to you or not.

HMJr: No.

L: And it was more of a rally to get organized for the latter part of this week....

HMJr: Well....

L:when Bill Robbins could tell us....

HMJr: Yeah.

L:one, what you're going to sell....

HMJr: Yeah.

L:and, second, his sales plan.

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HMJr: Right.

L: So we will be ready to talk on Thursday or Friday if Bill Robbins is ready....

HMJr: Well, I told them last week that on - on or before the 12th, I'd have the so-called basket ready.

L: Yup.

HMJr: On or before the 12th, but I - I doubt if I'll have it before Thursday night.

L: Well, if - Friday would be all right.

HMJr: Yeah.

L: Then we work back to a schedule when we know we've got to have everything approved if it's to get out.

HMJr: Right.

L: That has been organized.

HMJr: Yeah.

L: Now today -- maybe they covered this with you and they didn't. I'm not in the Council office so I haven't got the material.

HMJr: No, I - I don't know any details.

L: Well, there's just one detail. We can get a thousand posters....

HMJr: Yeah.

L:that - if we agree today as to what is to be said on the poster.

HMJr: I see. Well, they didn't tell....

L: Do you want to get into that or not?

HMJr: Do I?

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L: Do you want to get into that or not?

HMJr: Yes.

L: Well, then I'll have to call you back from over there and read to you what we suggest goes on that poster.

HMJr: Well, did you give that to Odegard?

L: Yes, I gave it to Odegard.

HMJr: Well, will he be here in the morning?

L: I believe he will be.

HMJr: Well, wouldn't that be time enough?

L: Yes, I think it could be tomorrow. They say tonight, to get it out and get it done and get it up. But tomorrow will do.

HMJr: Well, if Odegard is down here and comes in and sees me the first thing in the morning....

L: Yes.

HMJr:I can clear it.

L: All right, then that will be done tomorrow then.

HMJr: Well....

L: I'm not going into a lot of detail. Simply let me tell you this, we've got five agencies organized; we work with Callahan and we work with Lane....

HMJr: Yeah.

L:and Rodgers from O.W.I. and I talked to Stuart Peabody this morning, and I'm sure he's going to come with you and will come at once.

HMJr: Good.

L: So that you will have an active man to head that part of the work up.

HMJr: Good.

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L: And we have worked out our schedule so that we can deliver the material to the newspapers and to the sales organizations if we have the facts on the 12th.

HMJr: You will.

L: We can do it.

HMJr: Now this slogan thing, did - did - did they clear it with anybody?

L: Uh - the slogan?

HMJr: Yes, this slogan that you're talking about.

L: Well, we talked about the slogan - the idea "You have done your bit, now do your best." We have talked about using that in this particular drive.

HMJr: But I - I think unless you tell me the whole thing will be held up, I'd rather take the time tomorrow to - when Robbins and Odegard are here and just talk about it a little bit.

L: I think that's a good idea. I think you ought to be convinced that these things are well done.

HMJr: I think so.

L: Yeah. There isn't that much hurry.

HMJr: What?

L: Are you worried about that slogan?

HMJr: Well, it doesn't set me on fire.

L: It's pretty good though.

HMJr: Yeah.

L: We - we took out about fifty slogans....

HMJr: Oh.

L:and we did a job with the regular Gallup Poll people.

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HMJr: I see.

L: That one stood out all the time.

HMJr: Well, as I say, if you knew by noon tomorrow, would that hold you - or by eleven o'clock tomorrow, would that hold you up very much?

L: No, sir, because we can't - we can't start our work....

HMJr: Yeah.

L:in final form until we know the products and until you've approved....

HMJr: Well....

L:the name of this drive and until you approve the slogan.

HMJr: Well, I mean you got to know what goes in the basket....

L: Correct.

HMJr:so if you knew the slogan tomorrow, you couldn't do - give an order anyway.

L: Well, no, but if we knew the slogan tomorrow we could get some thousands of posters that we would not be able to get if we don't know it.

HMJr: Well, if those men - and Gamble is sitting here with me and it's up to him to get them in here tomorrow with their slogan before eleven o'clock.

L: Yes, sir.

HMJr: And if they'll come in to see me before eleven, I'll give them a "yes" or "no."

L: Yeah.

HMJr: How's that?

L: Well, I'm going to urge you to take that one. It's a good one.

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HMJr: Say it again.

L: "You have done your bit, now do your best." Now let me tell you two things about it.

HMJr: Yes.

L: I saw that on an ad and I thought, well, that is good.

HMJr: Yes.

L: Why? Because it compliments the people. It - it grants that they have done something, see?

HMJr: Yeah.

L: And it doesn't apply to each person. Peter Odegard wanted to put in there, "You may have done your best...."

HMJr: Yeah.

L: Well, that's not a very gracious way of patting a fellow on the back, and say, "Well, maybe you did it."

HMJr: No.

L: This takes for granted that you have done something; you've done a little thing, see?

HMJr: Yes.

L: Now this time we want you to do your darndest, do your best, and then we're going to tell them what that - what we expect of them. Now that's a popular, pleasant....

HMJr: Yes.

L:way of saying something that's memorable. Now how do we know? We know because we took a lot of slogans out here at Young & Rubicam....

HMJr: Yeah.

L:and tested them with people.

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HMJr: I see.

L: And that has got enough popular flavor and friendliness in it to be memorable for this month.

HMJr: I see.

L: Now I don't think it's the greatest mother of them all, but it's - as slogans stand out, it's good.

HMJr: Okay. Well....

L: Mr. Secretary, and I think the important thing is to get this thing moving, see?

HMJr: Well, it's - as I say, it's up to Gamble to get in to see me before eleven tomorrow.

L: All right.

HMJr: And we're getting along nicely on our basket. We'll be ready easily by Thursday night.

L: Well, if you have the basket ready, then I think we can get this thing in a good enough shape so that it will be a commendable and a good start.

HMJr: Good. Thank you.

L: All right, sir. Goodbye.

HMJr: Goodbye.

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MR. BELL: Robbins should see that poster.

MR. GAMBLE: The thing they were talking about, Mr. Secretary, we had an offer of some twenty-four sheet boards - there was a deadline on them. The people wanted to give them to the Secretary. There was a deadline on the production of them.

H.M.JR: Robbins hasn't seen it. I can't believe over night it will make such a difference.

I think this is all right.

I think we will have to stop, now, gentlemen.

Time Deposits of Individuals, Partnerships and Corporations
As of December 31, 1941 and December 31, 1942
Summary by Federal Reserve Districts

(In millions of dollars)

Federal Reserve District:	Time deposits		Increase
	December 31, 1941	December 31, 1942	
1. Boston.....	4,207.7	4,309.9	102.2
2. New York.....	8,864.7	8,888.6	23.9
3. Philadelphia.....	1,917.1	1,848.4	-68.7
4. Cleveland.....	1,936.9	1,943.3	6.4
5. Richmond.....	1,173.7	1,212.3	38.6
6. Atlanta.....	590.6	616.6	26.0
7. Chicago.....	2,668.9	2,826.6	157.7
8. St. Louis.....	618.1	616.7	-1.4
9. Minneapolis.....	599.8	568.9	-30.9
10. Kansas City.....	400.7	415.6	15.0
11. Dallas.....	253.7	249.2	-4.5
12. San Francisco.....	2,749.0	3,044.2	295.2
Total all Districts	25,980.8	26,540.3	559.5

Office of the Secretary of the Treasury.

March 8, 1943.

Source: Compiled from county tabulations prepared by the
Comptroller of the Currency, the Federal Deposit
Insurance Corporation, and the Federal Reserve Banks.

Note: The data are rounded to the nearest tenth of a million
dollars and may not add to the totals.

Time Deposits of Individuals, Partnerships and Corporations
As of December 31, 1941 and December 31, 1942
Summary by States

(In millions of dollars)

States	Time deposits		Increase
	December 31, 1941	December 31, 1942	
Alabama.....	112.0	121.7	9.7
Arizona.....	30.2	34.8	4.6
Arkansas.....	48.0	49.9	1.9
California.....	2,203.5	2,399.5	196.0
Colorado.....	91.5	99.9	8.4
Connecticut.....	985.2	1,030.6	45.3
Delaware.....	85.1	85.6	.5
District of Columbia....	188.5	195.1	6.6
Florida.....	88.2	95.3	7.1
Georgia.....	130.7	135.2	4.5
Idaho.....	33.2	36.0	2.9
Illinois.....	1,088.2	1,102.8	14.7
Indiana.....	367.7	377.4	9.8
Iowa.....	251.3	258.6	7.3
Kansas.....	81.0	84.4	3.4
Kentucky.....	134.2	124.5	-9.7
Louisiana.....	112.6	115.8	3.2
Maine.....	246.0	252.4	6.4
Maryland.....	438.4	455.4	17.0
Massachusetts.....	2,522.0	2,576.6	54.6
Michigan.....	759.1	849.5	90.4
Minnesota.....	398.6	353.4	-45.2
Mississippi.....	74.1	71.4	-2.7
Missouri.....	312.5	318.2	5.7
Montana.....	39.8	41.5	1.7

Continued on next page

March 8, 1943.

Office of the Secretary of the Treasury.

Source: Compiled from county tabulations prepared by the
Comptroller of the Currency, the Federal Deposit
Insurance Corporation, and the Federal Reserve Banks.

Note: The data are rounded to the nearest tenth of a million
dollars and may not add to the totals.

(Time Deposits of Individuals, Partnerships and Corporations
As of December 31, 1941 and December 31, 1942
Summary by States - Continued

(In millions of dollars)

States	Time deposits		Increase
	December 31, 1941	December 31, 1942	
Nebraska.....	62.0	66.0	4.0
Nevada.....	17.9	21.7	3.9
New Hampshire.....	231.0	231.6	.6
New Jersey.....	1,223.6	1,257.5	33.9
New Mexico.....	15.0	16.8	1.8
New York.....	7,545.8	7,524.7	-21.2
North Carolina.....	128.1	134.0	5.9
North Dakota.....	33.5	36.4	2.8
Ohio.....	1,167.0	1,224.7	57.7
Oklahoma.....	72.4	65.3	-7.1
Oregon.....	140.2	165.7	25.5
Pennsylvania.....	2,347.6	2,228.1	-119.4
Rhode Island.....	338.0	346.5	8.4
South Carolina.....	36.7	38.6	1.9
South Dakota.....	31.1	33.3	2.2
Tennessee.....	180.6	183.4	2.8
Texas.....	207.5	202.5	-5.0
Utah.....	65.7	77.3	11.5
Vermont.....	137.4	137.8	.5
Virginia.....	290.2	299.1	8.8
Washington.....	271.3	323.5	52.3
West Virginia.....	122.6	119.9	-2.7
Wisconsin.....	471.9	518.1	46.2
Wyoming.....	22.0	22.1	.1
Total all States.....	25,980.8	26,540.3	559.5

Office of the Secretary of the Treasury.

March 8, 1943.

Source: Compiled from county tabulations prepared by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve Banks.

Note: The data are rounded to the nearest tenth of a million dollars and may not add to the totals.

All Member Banks
Average Rate of Interest on Time Deposits*
1940 and 1941

Federal Reserve District	Average Rate	
	1940	1941
	(Percent)	
Boston	1.3	1.2
New York	.9	.8
Philadelphia	1.3	1.2
Cleveland	1.3	1.2
Richmond	1.6	1.5
Atlanta	1.4	1.3
Chicago	1.1	1.1
St. Louis	1.3	1.2
Minneapolis	1.3	1.2
Kansas City	1.3	1.2
Dallas	1.2	1.1
San Francisco	1.4	1.3
All Districts	1.2	1.1

*Ratio of interest on time deposits to time deposits

Mutual Savings Banks
Average Dividend Rate Per Bank
(Percent)

State	January 1, 1942	January 1, 1943
Connecticut	2.36	2.31
Delaware	3.25	2.75
Indiana	1.88	1.75
Maine	2.27	2.14
Maryland	1.93	1.88
Massachusetts	2.19	2.14
Minnesota	2.00	2.00
New Hampshire	2.28	2.25
New Jersey	1.00	1.00
New York	1.81	1.81
Ohio	1.83	1.58
Oregon	2.50	2.50
Pennsylvania	2.07	2.07
Rhode Island	2.05	1.94
Vermont	1.78	1.64
Washington	2.25	2.25
Wisconsin	1.50	1.38
United States	2.05	2.02

Note: The average dividend rate per dollar of deposits, for all mutual savings banks, was 1.89 percent on January 1, 1942 and 1.88 percent on January 1, 1943. Figures by states are not available.

Number of Mutual Savings Banks
Maintaining Various Dividend Rates

Rate (Percent)	Number of Banks	
	January 1, 1942	January 1, 1943
1	22	24
1-1/2 and 1	-	3
1-1/4	2	-
2, 1-1/2 and 1/2	-	1
2 and 1	3	1
1-1/2	65	79
2 and 1-1/2	5	6
2-1/2, 2 and 1-1/2	-	1
2	273	274
2-1/2 and 2	1	1
2-1/4	1	-
2-1/2	145	136
2-3/4	1	-
3	13	9
3-1/2	1	-
	—	—
Total	537	535

Estimated Yield Bases and Probable Premiums
on Possible New Treasury Issues

	Estimated yield basis*	Probable price
	(Percent)	
<u>Dated April 15, 1943:</u>		
2 percent bond due June 15, 1950-52 (7 years, 2 months - 9 years, 2 months)	1.94	100-13/32
2 percent bond due September 15, 1950-52 (7 years, 5 months - 9 years, 5 months)	1.95	100-11/32
2 percent bond due December 15, 1950-52 (7 years, 8 months - 9 years, 8 months)	1.96	100- 9/32
2-1/2 percent bond (restricted issue) due March 15, 1965-70 (21 years, 11 months - 26 years, 11 months) NO PAYMENT AT DEATH PROVISION	2.485	100- 8/32
2-1/2 percent bond (restricted issue) due March 15, 1965-75 (21 years, 11 months - 31 years, 11 months) PAYMENT AT DEATH PROVISION	2.485	100- 8/32

Treasury Department,
Division of Research and Statistics.

March 6, 1943

* Based on closing bid prices, March 6, 1943.

Estimated Yield Bases and Probable Premiums
on Possible New Treasury Issues

	Estimated yield basis*	Probable price
	(Percent)	
<u>Dated April 15, 1943:</u>		
1-1/4 percent note due September 15, 1945 (2 years, 5 months)	1.17	100-6/32
1-1/2 percent note due March 15, 1947 (3 years, 11 months)	1.44	100-7/32
2-1/4 percent bond (restricted issue) due September 15, 1953-56 (10 years, 5 months - 13 years, 5 months)	2.22	100-9/32

Treasury Department,
Division of Research and Statistics.

March 6, 1943

* Based on closing bid prices, March 6, 1943.

Distribution of Securities During April Drive
by Classes of Nonbanking Investors

	(In billions of dollars)
Individuals, partnerships and personal trust accounts	3.2
Corporations other than banks and insurance companies	4.4
Insurance companies and mutual savings banks	2.0
Governmental funds (Federal, State and local)	.4
	10.0

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

February 23, 1943

COPY

Reserves and Excess Reserves, by Classes of
Member Banks, February 1-15, 1943
(In thousands of dollars)

Classes of banks and districts	Required reserves	Excess reserves	Ratio of excess to required (per cent)
All member banks	11,228,268	1,659,532	14.8
Central reserve city banks:			
New York	3,939,762	94,080	2.4
Chicago	866,271	3,487	.4
Reserve city banks:			
Boston	332,818	30,592	9.2
New York	79,316	13,357	16.8
Philadelphia	362,524	47,808	13.2
Cleveland	570,576	168,210	29.5
Richmond	260,321	67,660	26.0
Atlanta	254,150	43,743	17.2
Chicago	532,126	97,512	18.3
St. Louis	280,377	23,340	8.3
Minneapolis	137,265	7,834	5.7
Kansas City	307,589	55,385	18.0
Dallas	231,989	65,542	28.3
San Francisco	979,820	135,644	13.8
Total	4,328,871	756,627	17.5
Country banks:			
Boston	227,263	62,249	27.4
New York	402,148	120,667	30.0
Philadelphia	184,580	67,437	36.5
Cleveland	187,598	103,380	55.1
Richmond	156,457	50,845	32.5
Atlanta	145,510	59,644	41.0
Chicago	265,502	125,024	47.1
St. Louis	104,994	41,063	39.1
Minneapolis	90,098	30,183	33.5
Kansas City	101,004	44,506	44.1
Dallas	120,448	61,385	51.0
San Francisco	107,762	38,955	36.1
Total	2,093,364	805,338	38.5



Office of the Governor
Atlanta

March 8, 1943

Dear Mr. Secretary:

I am delighted that you and Secretary
Knox will be my house guests on March 12th.

I will be in the party meeting you
upon your arrival in Atlanta.

With all good wishes, I am

Sincerely yours,

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

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MORGENTHAU.

WOULD BE DELIGHTED TO HAVE YOU AND YOUR ASSOCIATES USE FACILITIES OF RESERVE BANK DURING YOUR FORTHCOMING VISIT TO ATLANTA. WOULD PARTICULARLY LIKE TO HAVE YOU ATTEND, AND MAKE SUCH REMARKS AS YOU MAY DEEM APPROPRIATE, TO ~~MEETING~~ MEETING OF UNITED STATES TREASURY WAR FINANCE COMMITTEE AT TEN O'CLOCK A. M. SATURDAY, MARCH 13, AND AFTER MEETING HAVE LUNCH WITH SELECTED GROUP OF FIFTEEN TO TWENTY REPRESENTATIVES OF WAR SAVINGS STAFF, VICTORY FUND COMMITTEE, AND OTHERS.

MCLARIN.

EXPENSES OF LOANS

March 8, 1943

W. S. McLARIN, ESQ.
PRESIDENT, FEDERAL RESERVE BANK
ATLANTA, GEORGIA

WILL BE DELIGHTED TO ATTEND YOUR MEETING UNITED STATES
TREASURY WAR FINANCE COMMITTEE AT TEN AM SATURDAY AS WELL AS
LUNCHEON. MESSRS. ROBBINS, GRAVES, BUFFINGTON, GAMBLE WILL
BE WITH ME

HENRY MORGENTHAU, JR.
SECRETARY OF THE TREASURY

TRG:cea

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Mar. 8

TO THE SECRETARY
FROM TED R. GAMBLE

The official party will leave here at *two* in the Secretary of the Navy's plane. Congressman Ramspeck will be in this party.

Party will arrive in Atlanta at _____ and will be met by Governor Arnall, Chairman Conner and Marion Allen. You and Secretary Knox will be taken at once to the Governor's Mansion for a rest.

At 6 o'clock, you will be taken to the Capital City Auditorium where a meeting known as "The People's Party" will be held. Details of this meeting are as follows:

Invocation - - - - - Bishop John Moore Walker
Welcome to the People of Georgia - - - Mayor William B. Hartsfield
Announcement of Total War Bond Sales
and Thanks to the People - - - - - John L. Conner
Medley of Service Songs - - - - - Navy Band, Pre-Flight School
University of Georgia
Unveiling of Stage Display - - - - - Margaret Mitchell
A. Presentation of Colors-Guard Composed of all Services
B. National Anthem - Navy Band
Introduction of Distinguished Guests - John L. Conner
and Honor Guests (Parents of Georgia boys on USS ATLANTA)
Introduction of Secretary of Treasury
Henry Morgenthau, Jr.
Introduction of Secretary of Navy
Frank Knox

-2-

Acceptance of Atlanta Fund

Presentation of Awards

Broadcast 9:30 to 10:00 P.M.

AMERICA - - - - - Navy Band

Closing Prayer - - - - - Rev. Herman L. Turner

DIXIE - Exit March - - - - - Navy Band

I will give you the specific details with respect to the acceptance of the Atlanta Fund and the awarding of Certificates by yourself as soon as this is complete.

A 5-minute speech is being prepared for you for use on the half-hour nation-wide broadcast. Also appearing on this program will be Governor Arnall, Chairman Conner and Secretary Knox, who will deliver an 18-minute address.

Senator Russell will attend this meeting. He is already in Georgia.

Senator George expects to attend but will go and return by train.

He is to confirm this today or tomorrow.

Congressman Vinson will not be able to attend.

FROM: MR. SCHWARZ'S OFFICE

TO: The Secretary

The Star's Saturday story on the April drive was based primarily on the American Banker's report of the Philadelphia meeting, with Chairman Williams' description of our hoped-for customers attributed to Mr. Robbins to make the story more local. Mr. Robbins made no statement to the Star reporter.

CS 2/8

Capital Store Sales 10 Per Cent Ahead Of Last Year

Week's Volume Jumps
Eight Per Cent Above
Previous Period

By EDWARD C. STONE.

Department store sales in Washington for the week ended Saturday, February 27, rang up a 10 per cent gain over the like week a year ago, and were 8 per cent over the preceding week this year, the Federal Reserve Bank of Richmond reported today. Two weeks ago sales here were 5 per cent ahead of last year and three weeks ago, "buying spree" week, were 63 per cent above the corresponding week in 1942.

Sales in the Fifth Reserve District last week were 27 per cent better than a year ago, gained 47 per cent in Baltimore and soared 55 per cent in a group of other reporting cities, the report said. Sales in the Fifth District were 11 per cent ahead of the previous week this year.

Cumulative sales in the Capital in the four weeks ending last Saturday showed a 23 per cent rise above the same period a year ago, were up 34 per cent in the Fifth District, 44 per cent in Baltimore and 64 per cent in the other cities, the review stated.

New Pennies in Circulation

The new pennies with the steel finish, replacing the copper cents, are now in circulation in Capital banks, but on a very limited scale. They are practically the same size and similar in design to the present Lincoln pennies.

Bank tellers complain that they are hard to distinguish from dimes, although there is a difference in size and also in the color. The new pennies were sent down from the Philadelphia mint and the banks have only a few on hand. They are not yet being used at the windows.

Bond Drive Unity Planned

W. M. Robbins, head of the United States Treasury War Finance Committee, in charge of the April war financing drive, has announced that the war savings staff and the Victory Fund Committee will work in the closest possible co-operation. The drive begins April 12.

Mr. Robbins also announces that special efforts will be made to obtain funds from sources other than banks. Efforts will be increased to sell war bonds to men, women, children, business concerns, trusts, estates, unions, educational and religious organizations, insurance companies, mutual savings banks and Government units.

In Washington Harold Rust, Jr., is chairman of the War Savings Bond Committee and Winslow B. Van Devanter of the Victory Fund Committee. Plans for the drive already are far advanced.

NEW TREASURY DRIVE TO STRESS SALES TO OTHERS THAN BANKS

PHILADELPHIA, Mar. 4.—In his final act as head of the U. S. Treasury War Finance Committee, W. M. Robbins spoke yesterday to 200 Victory Fund and War Savings Staff executives and county chairmen.

In the address made at the meeting it was stressed that the new April drive would aim at larger sales to non-banking purchasers.

Present with Mr. Robbins were Harold N. Graves, assistant to the Secretary of the Treasury in charge of War Savings, and George Buffington, Treasury assistant in charge of Victory Fund.

In a statement to the combined group, Alfred H. Williams, chairman of the Federal Reserve Bank, Philadelphia, and head of all war financing efforts in this district, said the "size and urgency of the Treasury's job makes it imperative that we consolidate and strengthen our forces on the financial sector of the fighting front." He called upon all the county chairmen to arrange meetings and prepare their organizations for the campaigning due to begin on April 12.

Mr. Williams' statement in part:

"Just as the military authorities have found it necessary to blend the Army and Navy into a unified command in a given area, so the Treasury has asked its two fund-raising units—the War Savings Staff and the Victory Fund Committee—to form a single 'task force' to carry on the April drive."

"These two organizations will be fused for April into one working unit to be known as the 'United States Treasury War Financing Committee.'"

"The two groups—War Savings Staff and Victory Fund Committee—will also be unified as to organization and policy at the county and community centers where final responsibility for success must ultimately rest."

"Campaign methods naturally will differ from county to county and from town to town because of varying problems of human relations and business conditions."

More Funds From Other Than Banks

"Our principal objective is to obtain funds from sources other than banks. We must sell the greatest amounts possible to men, women, children, business concerns, trusts, estates, pension funds, trade unions, educational and religious organizations, insurance companies, mutual savings banks and other types of savings institutions, as well as State and local government units. No idle dollar should escape the April dragnet. Failure to do a thorough job will mean that the banks will have to take an increased share of the total and this, in turn, will mean increased inflationary pressure with its evil effects on all of us."

"It is of the utmost importance that the existing organizations—the War Savings Staff and Victory Fund Committee—consolidate their efforts into one undertaking. War Savings Staff has pioneered in selling War Savings Bonds, particularly Series E through the Payroll Savings Plan and special drives. The Victory Fund Committee has reached out for larger sources of funds. Both have done a yeoman job in their short period of operation. Even working separately, the two organizations sold in the Third Federal District during December approximately \$650 million. It is reasonable to expect that welded together the efforts of these two organizations shall bring greater results than ever before."

Another "Basket" Of Securities To Be Offered

"The size of the forthcoming financing will again require a variety of a 'basket' of securities designed to appeal to all types of purchasers. The effectiveness in the distribution of these securities will be greatly increased by the two organizations working together."

Also present at this meeting were: C. A. Sienkiewicz, vice-president of the Federal Reserve Bank, Philadelphia; Benjamin Ludlow, Pennsylvania State Administrator for War Savings; Donald Ross, Delaware State Administrator for War Savings; Marshall Bainbridge, Southern New Jersey Administrator for War Savings, and E. C. Bender, executive manager of the Victory Fund Committee.

UNITED STATES SAVINGS BONDS - SERIES E

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

(At issue price in thousands of dollars)

Date	March daily sales	Cumulative sales by business days			
		March	February	January	March as percent of February
March 1943					
1	\$ 8,744	\$ 8,744	\$ 6,746	\$ 12,810	129.6%
2	11,888	20,631	21,814	15,621	94.6
3	13,006	33,638	27,284	31,021	123.3
4	19,923	53,561	52,930	47,128	101.2
5	32,229	85,789	84,847	69,173	101.1
6	25,404	111,193	116,513	101,696	95.4

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

March 8, 1943.

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

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

UNITED STATES SAVINGS BONDS-- SERIES F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	March daily sales	March	Cumulative sales by business days			March as percent of February
			February	January		
March 1943						
1	\$ 2,442	\$ 2,442	\$ 806	\$ 2,716		303.0%
2	2,869	5,311	9,720	3,036		54.6
3	6,642	11,953	11,290	6,137		105.9
4	4,467	16,420	28,198	14,820		58.2
5	15,596	32,016	48,264	18,428		66.3
6	9,058	41,074	65,106	29,726		63.1

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

March 8, 1943.

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

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

March 8, 1943.

Dear Mr. Rubican:

I appreciate your very frank letter of March 4, and under the circumstances, I can quite understand why you felt you were not free to come to the Treasury. Naturally we regret the necessity for your decision, but we cannot quarrel with the decision itself.

Even though you are not coming to us, I should like to be able to look to you, as you continue to be in charge of the agency, for any help that you may be especially equipped to give us. I may say that in the past the firm of Young and Rubican has been most helpful to us, and we are and will continue to be appreciative of your attitude in the matter.

With kind regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Raymond Rubican,
c/o Jekake Inn,
Jekake, Arizona.

GEF/dbs

Copy of incoming and
reply to Robbins

File in Diary

Jokake, Arizona

March 4, 1943

Dear Mr. Morgenthau:

After you and Bill Robbins talked to me on the phone Tuesday I called Bill back (after you had left Washington) and told him that I would take the job and report for work on March 17.

Today I have had to call Bill again and reverse that decision; and I feel that I owe both you and him a sincere apology and a full explanation.

My original acceptance was too quickly given because I am anxious to do my utmost in the war and don't like to fail to respond to any appeal. My reversal followed because a facing of facts about the situation at Young & Rubicam convinced me that my place of greatest value is there for the next six months.

Here is the point:

The man on whom I place chief reliance when away from Young & Rubicam is Chet LaRoche, who is now himself away from the company doing a full-time war job as Chairman of the Advertising Council. The assumption on which I agreed to his going was that I would be on the job during his absence. If I had had a war job when Mr. LaRoche left a couple of weeks ago, or had seen one coming, he would not have left.

Shifts are now being made in key jobs in our organization which under the circumstances require my supervision for the next several months. Our personnel problem is almost certain to be still more severely complicated in these months. We have already lost to war service 170 people out of fewer than 700, and under the Manpower Commission policy stand to lose every able-bodied man under 38. In some departments this means 85 or 90% of the skilled personnel.

Our ability to meet these conditions is vital not merely to our client services, but to the work we are doing for the Treasury Department, the War Manpower Commission, the Department of Agriculture and other war agencies.

The organization needs either my leadership or Mr. LaRoche's. I am sure that we should not both be away at the same time. For six months last year, I was in Washington organizing an Information Division for the War Manpower Commission, and it fell on LaRoche to take care of Young & Rubicam. Now the situation is in reverse for a second six months.

In the meantime I shall not be without value to the war effort, through our work in Young & Rubicam. At the end of the six months I shall want to tackle another personal war job.

I appreciate very genuinely your call, and the confidence Bill Robbins expressed in my ability to help him, and I regret the circumstances which make it impossible for me to act at present as I should like to do.

Sincerely yours,

Raymond Rubin

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

Dear Mr. Rubicam:

I appreciate your very frank letter of March 4th, and under the circumstances I can quite understand why you felt you were not free to come to the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 8, 1943

TO Secretary Morgenthau
FROM Mr. ~~Wells~~
Subject: The Business Situation,
Week ending March 6, 1943.

Summary

National income: The long upswing in national income payments carried them to a new high rate in January, when the annual rate of payments advanced to \$132 billions. This compares with 130.1 billions in the previous month and with only 74 billions in the early part of 1940, just before the extended rise began. Actual income payments in January were about 7 percent less than in the previous month, but the decline was less than seasonal, which raised the annual rate.

Department store sales: The FRB seasonally-adjusted index of department store sales in February soared to a new record high of 165 from 143 in the previous month. Although the peak in store buying apparently was reached in the second week in February, department store sales in the last week of the month were still running 26 percent above last year's levels.

Commodity prices: The general price level is rising gradually but steadily. The BLS all-commodity index in the last week in February rose 0.3 percent to a new high at 102.7. This is 36.9 percent higher than in the pre-war month of August 1939. Basic commodity prices last week showed further gains, particularly for livestock and grain.

Stock market: Trading activity on the New York Exchange again increased last week, although the net advance in prices for the week was small. Prompted by the increased trading in low-priced stocks, the president of the New York Stock Exchange has urged investors to use caution in such transactions.

Food supplies: A prospective civilian meat ration substantially less than had been indicated on basis of statistical meat supplies has centered attention on the extent of diversion to black markets. The extent of beef slaughter outside Federally-inspected plants is indicated by a sharp increase in hides marketed from non-inspected sources.

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- 2 -

Rate of income payments higher in January

The rapidly rising trend of income payments provides a background favorable to recurring waves of heavy consumer buying such as that of the past few weeks. The uninterrupted expansion in the annual rate of national income payments since the spring of 1940 carried it to a new peak in January, when the annual rate rose to \$132.0 billions. This compares with a rate of \$130.1 billions in the previous month and with approximately \$74.0 billions in the early part of 1940, before the long upswing got under way. Actual income payments in January were seasonally lower, about 7 percent below those of the previous month, but the decline was less than the normal seasonal expectation, hence the annual rate of payments rose to the new peak.

Total employment in non-agricultural establishments in mid-January was about 1 million less than a month earlier, due almost entirely to the usual seasonal declines in trade and construction. Nevertheless, payments for salaries and wages, by far the most important factor in national income payments, were only slightly lower than in December. Moreover, in comparison with January 1942, payments for salaries and wages in January showed a gain of 33 percent. During the intervening year, civilian employment in non-agricultural establishments rose 3,030,000 to a total of 37,906,000.

Seasonally-adjusted department store sales at record high

As a result of the heavy score buying during February, the FRB seasonally-adjusted index of department store sales in that month soared to a new all-time high of 165 as compared with 143 in January, which in turn was a record figure.

The dominant factor in the recent wave of retail buying has apparently been fear of shortages and extension of rationing. The OWI last week endeavored to reassure buyers that clothing rationing is not imminent, while the WPB Director of Civilian Supply again referred to the heavy stocks of goods in retailers' hands. The full effect of these and other reassuring statements remains to be seen, but buying has moderated somewhat from the peak reached in the second week in February, when department store sales ran 45 percent above year-earlier levels. During the last week in February the sales gain narrowed to 26 percent from 33 percent in the previous week. (See Chart 1.)

- 3 -

Further decline in consumer credit

One outlet for the increased income accruing to individuals has been the reduction of consumer indebtedness. During January, consumer credit outstanding is estimated to have been cut more than 5 percent, thus carrying the total down to \$5.8 billions, according to Federal Reserve Board figures. This represents a decline of about \$4 billions or 41 percent from the peak reached at the end of September 1941.

Charge accounts (superseding automobile credit) now comprise the largest single item of consumer credit, and are estimated to have totaled nearly \$1.4 billions at the end of January. The recent heavy buying at department stores and women's apparel stores probably was accompanied by some increase in charge account credit. This development, together with the necessity of meeting March income tax payments, may result in an increase in the number of frozen charge accounts. However, it is doubtful that this will provide any significant check on sales, since an increasing percentage of sales has been for cash. Thus, in January cash sales accounted for 57 percent of total department store sales volume, as compared with 50 percent a year earlier.

Further increase in stock market activity

It has been predicted by various observers that restricted outlets for consumer spending, coupled with rising income payments, would eventually result in considerable money spilling over into the stock market. The recent accelerated price rise and broadening of activity in the securities markets suggest that this development may be already under way, although other important factors also are at work.

On Monday of last week, and again on Wednesday and Thursday, trading on the New York Stock Exchange rose above 2 million shares, thus attaining levels that had not been reached since the heavy trading following our entry into the war in December 1941. Prices also displayed further strength, but gains were less than in the previous week. At the close on Saturday the Dow-Jones averages of industrial, railroad and utility stocks showed only fractional changes from a week earlier. (See Chart 2.) The recent increase in stock trading has been accompanied by unusually heavy trading in low-priced railroad bonds. Largely as a result of this activity, corporate bond trading on the New York Stock Exchange on Wednesday reached the highest level on record.

- 4 -

Heavy buying of low-priced stocks

An outstanding feature of the recent rise in the stock market has been the heavy volume of trading in low-priced stocks. This has attained such proportions that on Thursday the president of the New York Stock Exchange issued a statement urging investors to exercise caution in buying low-priced shares.

In this connection, an article in Barron's recently stated that reports from some industrial centers such as Detroit and Bridgeport indicated that war workers have been heavy buyers of low-priced stocks. Last week the Journal of Commerce also reported that war workers were using increased earnings to buy stocks, and in addition said that refugees who have been through the experience of inflation in Europe are believed to have contributed to market activity. The bulk of recent buying has been for cash -- about 90 percent, according to Wall Street reports -- and brokers' loans show no evidence of an expansion of credit for security purchasing.

Price level continues to rise

Heavy consumer and Government demand for staples helped push commodity prices to still higher levels last week, while rising stock prices were reported also to have affected the commodity markets. The BLS index of 25 basic commodities increased 0.4 percent in the week ended March 5, and has advanced 3.9 percent since November, when prices were comparatively stable. In the week ended February 26, the BLS all-commodity index advanced 0.3 percent, and at 102.7 stands 36.9 percent higher than in the pre-war month of August 1939. (See Chart 3.)

All 7 uncontrolled basic commodities touched new war-time highs last week, carrying the index up 1.2 percent during the week and up 12.3 percent since November 20. (See Chart 4.) Livestock prices last week were particularly strong. Hog prices were the highest in 22 years as traders realized that the inferior quality of recent supplies was a definite sign that the 1942 spring pig crop was about exhausted. Higher prices for steers also reflected diminishing supplies of cattle available for market.

Grain prices continued to rise as the House Agriculture Committee approved Food Administrator Wickard's plan to sell an additional 100 million bushels of Government-owned wheat for feed, but the Committee plan would partly nullify the advantage of this measure since it directs that none be sold for less than

- 5 -

the parity price of corn. (Feed wheat was previously sold at 85 percent of corn parity.) It was also reported that the Office of Economic Stabilization will shortly direct that the ceiling prices on corn be lifted from the present level of 92 percent to 100 percent of parity, which would tend further to increase feeding costs.

Food demands higher than supplies

Food demands on this country cannot possibly be met in full even if the 1943 production goals are achieved, according to information supplied by Secretary Wickard to the Senate Military Affairs Committee. Last week several measures were taken in an effort to alleviate the food situation. The Senate Military Affairs Committee approved and released for floor action the Bankhead bill for deferment of farm workers from the draft. The Department of Agriculture announced that the CCC will subsidize the production and processing of the entire 1943 crop of canning vegetables if necessary, to compensate canners and growers for additional operating costs expected this year.

Meat ration curtailed

The tightening meat supply situation was high-lighted by an announcement by Food Administrator Wickard of the forthcoming meat ration. This ration, to be effective next month, will consist of 1-3/4 pounds weekly per capita of meat and cheese, instead of 2-1/2 pounds of meat alone as had been suggested earlier. The reduction in the anticipated meat ration may be ascribed to the following:

- (1) Belief that the Government cannot ensure equitable distribution of a larger amount, owing to the small amount of Federally-inspected meat available to enter interstate commerce after Government takings, owing to black market operations and to maldistribution due to price ceilings;
- (2) Probable smaller production than called for by the goals;
- (3) Possibly greater military, lend-lease and United Nations requirements than heretofore have been made public; and
- (4) Possible recognition of the recently-enunciated Cornell suggestion that the only way to save much food is to reduce civilian consumption of livestock products severely, and increase the use of grains and crop products.

Outlook for beef supplies

The Department of Agriculture's goal for beef production in 1943 is about 9 percent higher than 1942 production, although the number of cattle on farms January 1 (other than dairy cattle) was only 5 percent more than last year. Federally-inspected beef production in 1942 was 11 percent greater than in 1941, but the gain narrowed in the latter half of the year, and in the final quarter beef production under Federal inspection was not much larger than in the corresponding quarter of 1941. The decline in the last quarter was due to a sharp and unexpected decline in inspected slaughter of steers, coupled with a falling off in live weight. (See Chart 5.) Slaughter of cows and heifers in 1942 was larger than expected, and compensated somewhat for the decline in slaughter of steers.

Uninspected slaughter increasing

All reports indicate that uninspected slaughter of beef has increased markedly, but no statistics are available to show the extent of the increase. A strong indication, however, is seen in a sharp and unseasonal increase in the number of hides reaching the market from sources other than Federally-inspected plants. Confidential data from the Tanners' Council (see Chart 6) show that in December cattle hides from uninspected slaughter almost doubled those in December 1941. To what extent black market operations are responsible for the increase cannot be definitely estimated. The further decline in Federally-inspected cattle hides in January 1943 may presage a continued rise in uninspected slaughter.

The decline in Federally-inspected beef production is not entirely due to black market operations. Returns from cattle feeding operations are currently less attractive than returns from hog feeding. Owing to uncertainty concerning price ceilings, cattle were late in going into feedlots last fall. This year there is every indication that fed cattle again will be short, and that average live weight will continue to be substantially lower than in 1941, owing to high feed costs and diminished returns for well-finished cattle under meat price ceilings.

Meanwhile a meat control program to be put into effect April 1 has been announced by the Government. All livestock slaughterers, including farmers and local butchers, will operate under a permit, their identifying number to be stamped at least once on each wholesale cut of meat, so that

- 7 -

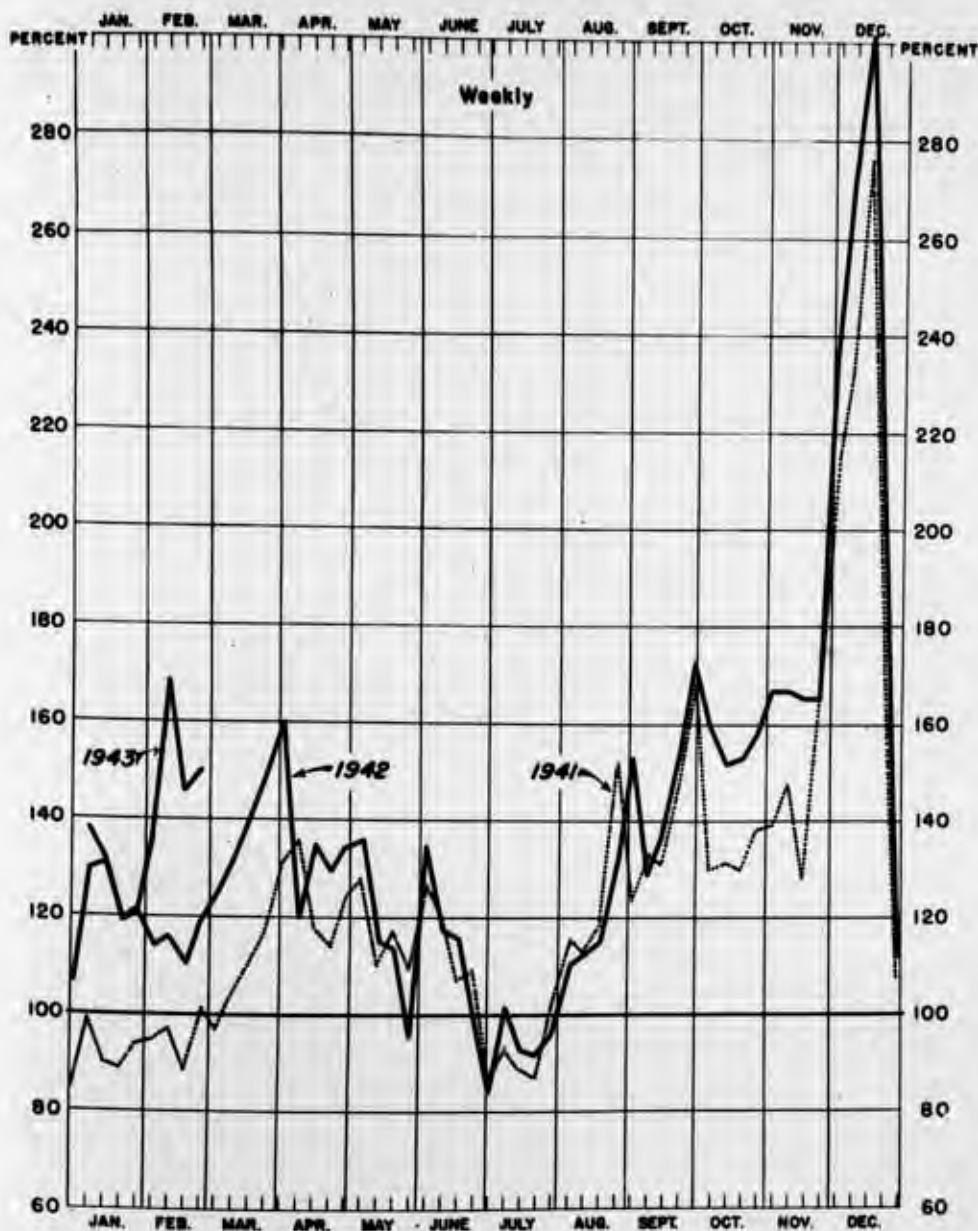
meats can be traced to their origin. All livestock dealers will have to obtain permits to buy and sell livestock and keep records of their operations. Slaughterers operating under Federal inspection must set aside for war uses designated percentages of their production. Retail price ceilings in dollars and cents, by zones, have been announced for pork products, effective April 1, and will be extended to other meats.

Crop prospects

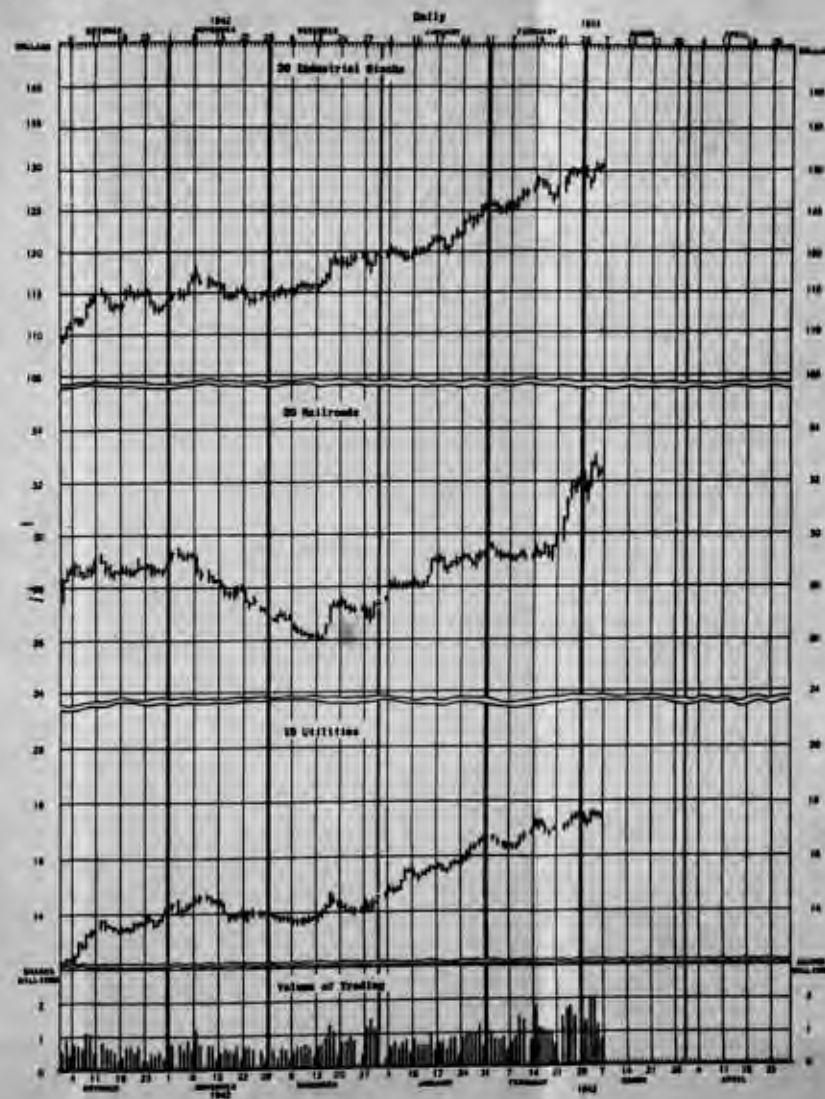
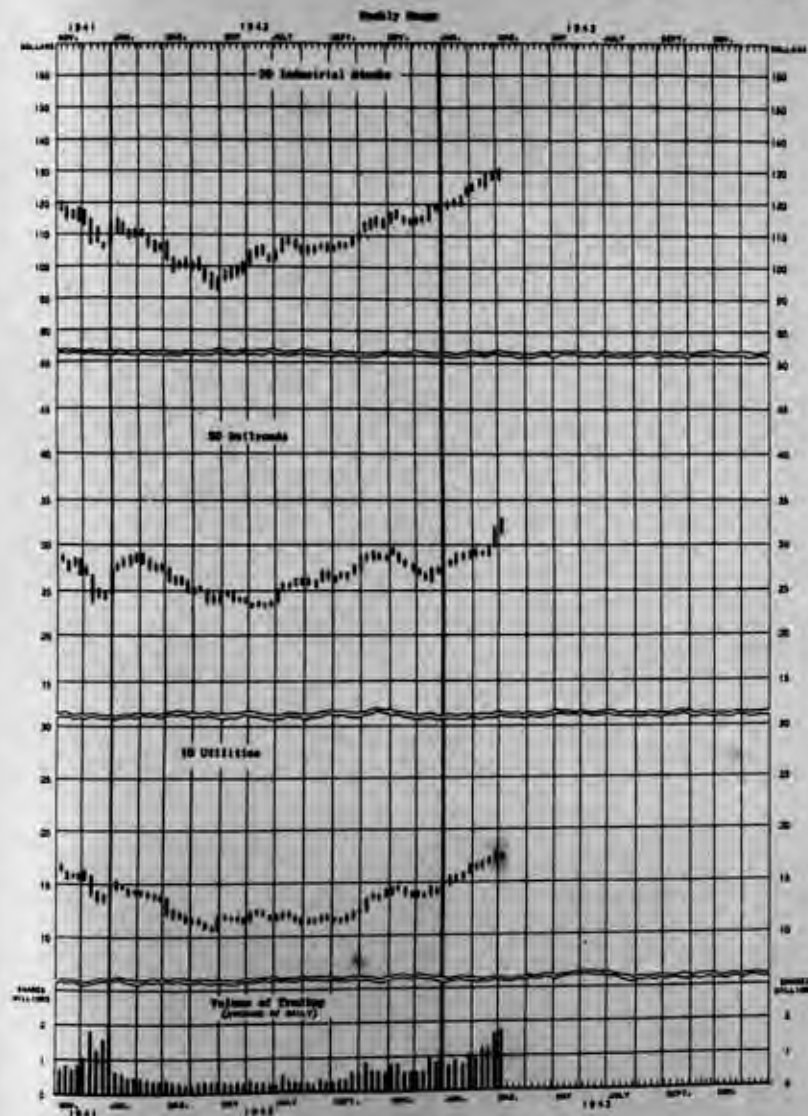
Owing to the great demand for food this year, and the fact that last year's high production was achieved under unusually favorable weather conditions, more than usual attention is being given to the effect of the weather on crop yields. According to last week's report of the Weather Bureau, a rather severe freeze in the week ended March 2 again damaged vegetation in the Southeast, as far south as northern Florida. In the central Gulf States, however, the outlook for truck crops is generally promising. Some damage to wheat is apparent in the Ohio Valley States, and rain is needed in the Western Wheat Belt, but in most of Kansas wheat is still semi-dormant.

DEPARTMENT STORE SALES

1935 - '39 = 100, Unadjusted

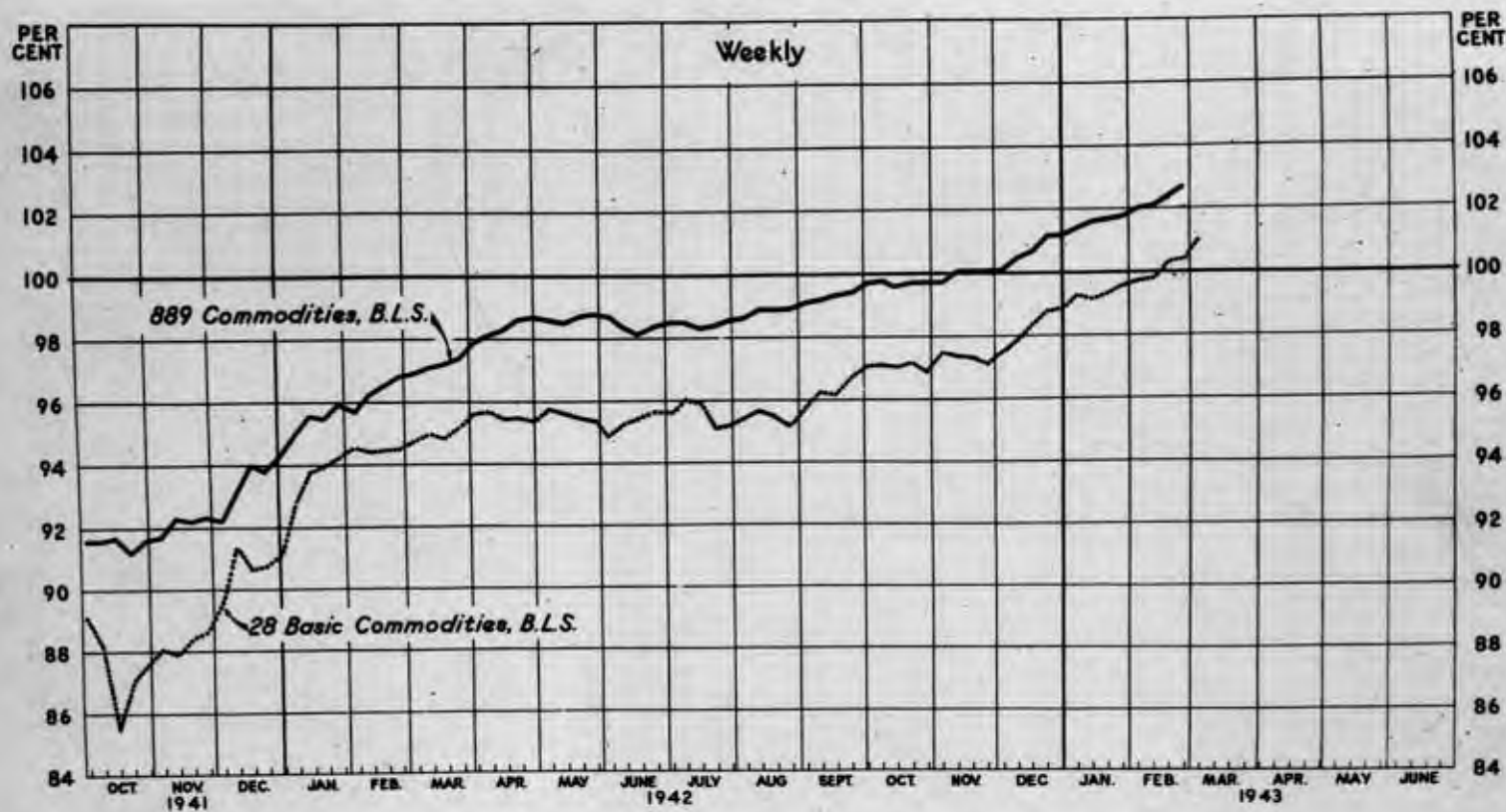


STOCK PRICES, DOW-JONES AVERAGES



COMMODITY PRICES

1926=100



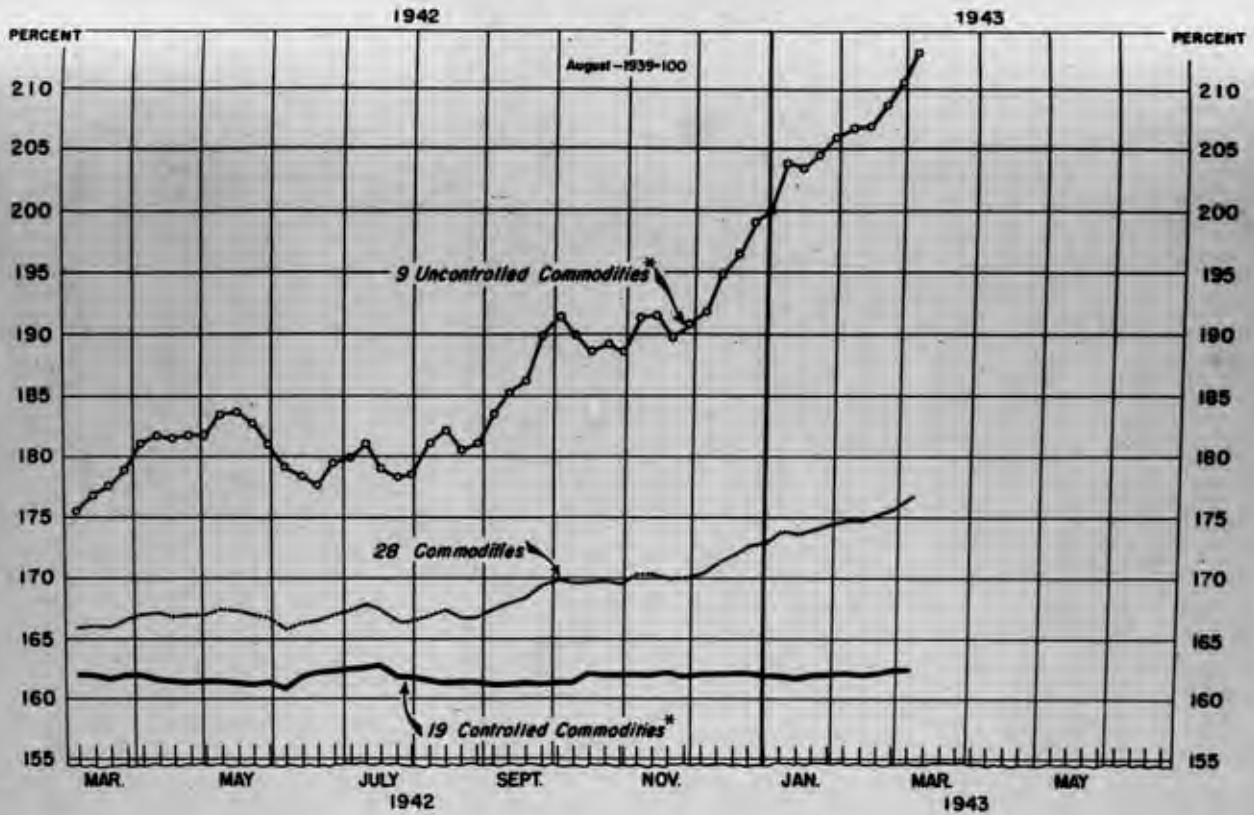
Office of the Secretary of the Treasury
Bureau of Economic Warfare

P-196-E

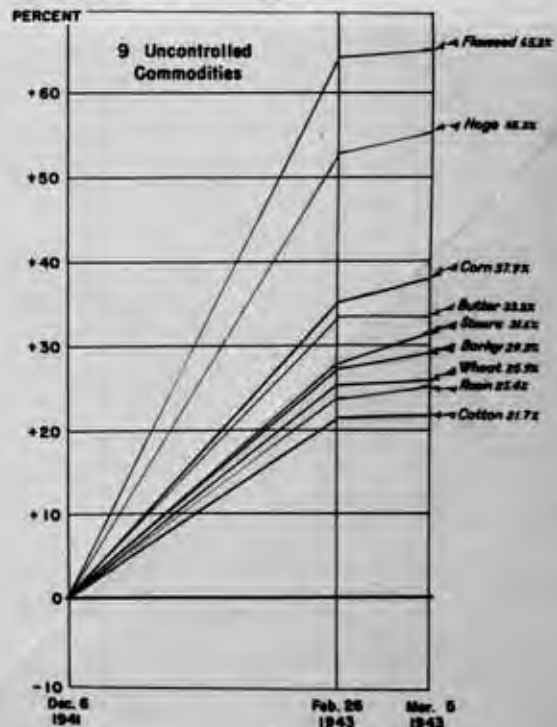
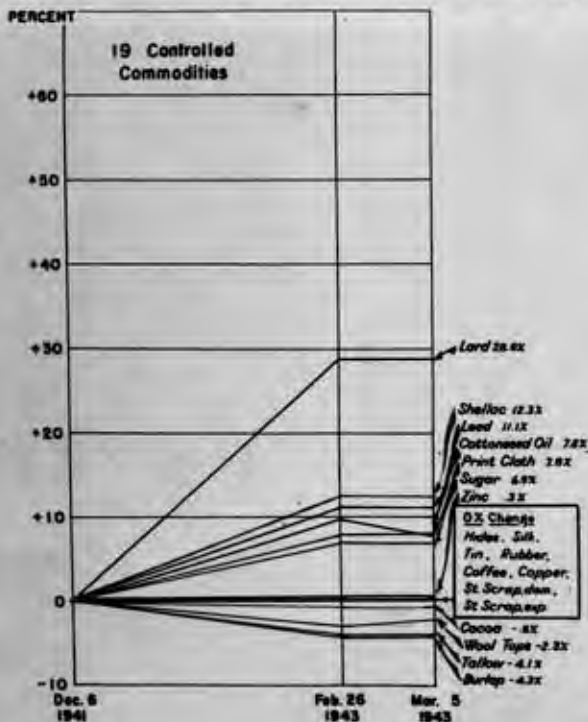
Chart 3
279

Regraded Unclassified

MOVEMENT OF BASIC COMMODITY PRICES

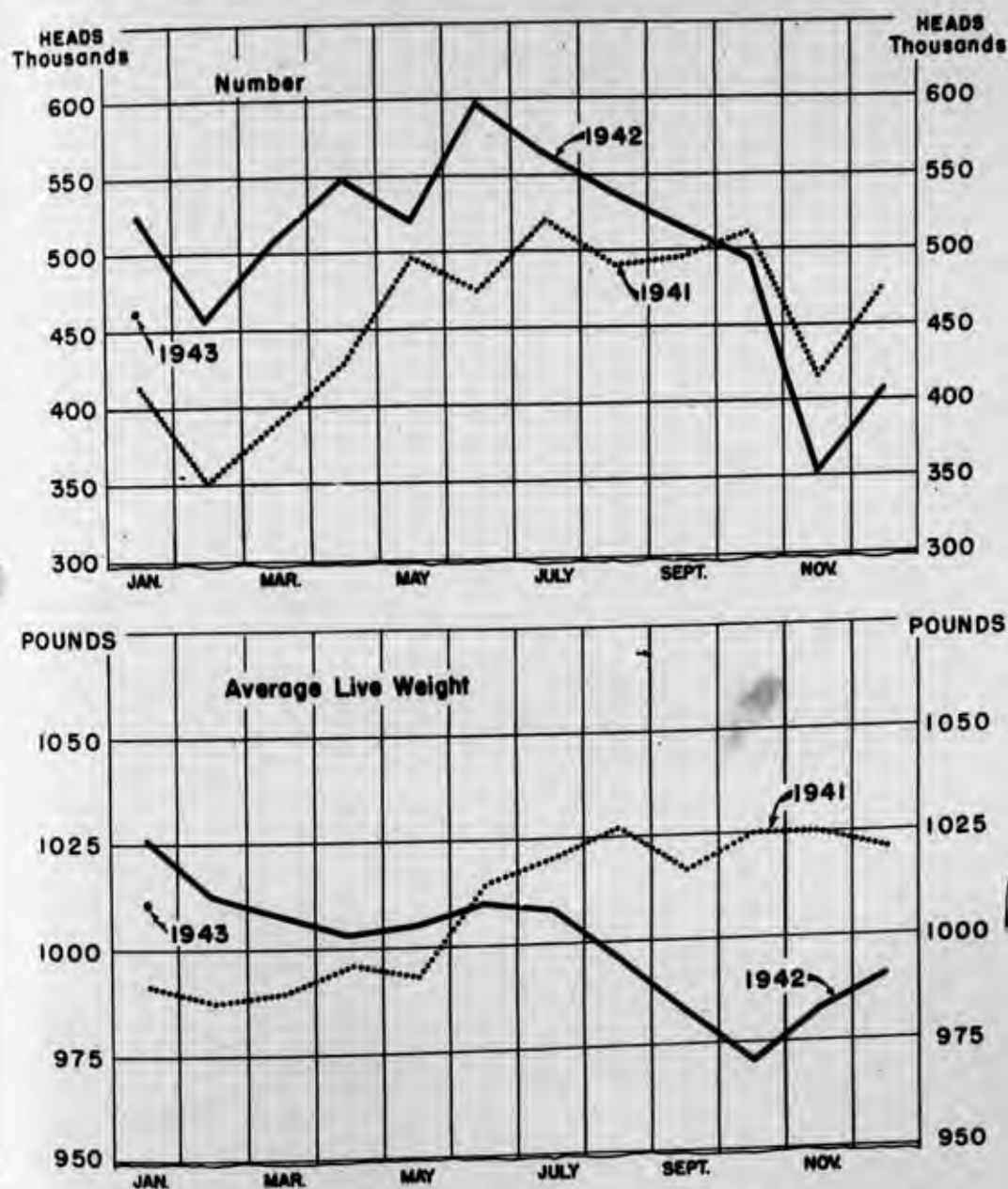


PERCENTAGE CHANGE DEC. 6, 1941 TO FEB. 26 AND MAR. 5, 1943



*20 Controlled and 8 Uncontrolled previous to June 25

STEER SLAUGHTER UNDER FEDERAL INSPECTION

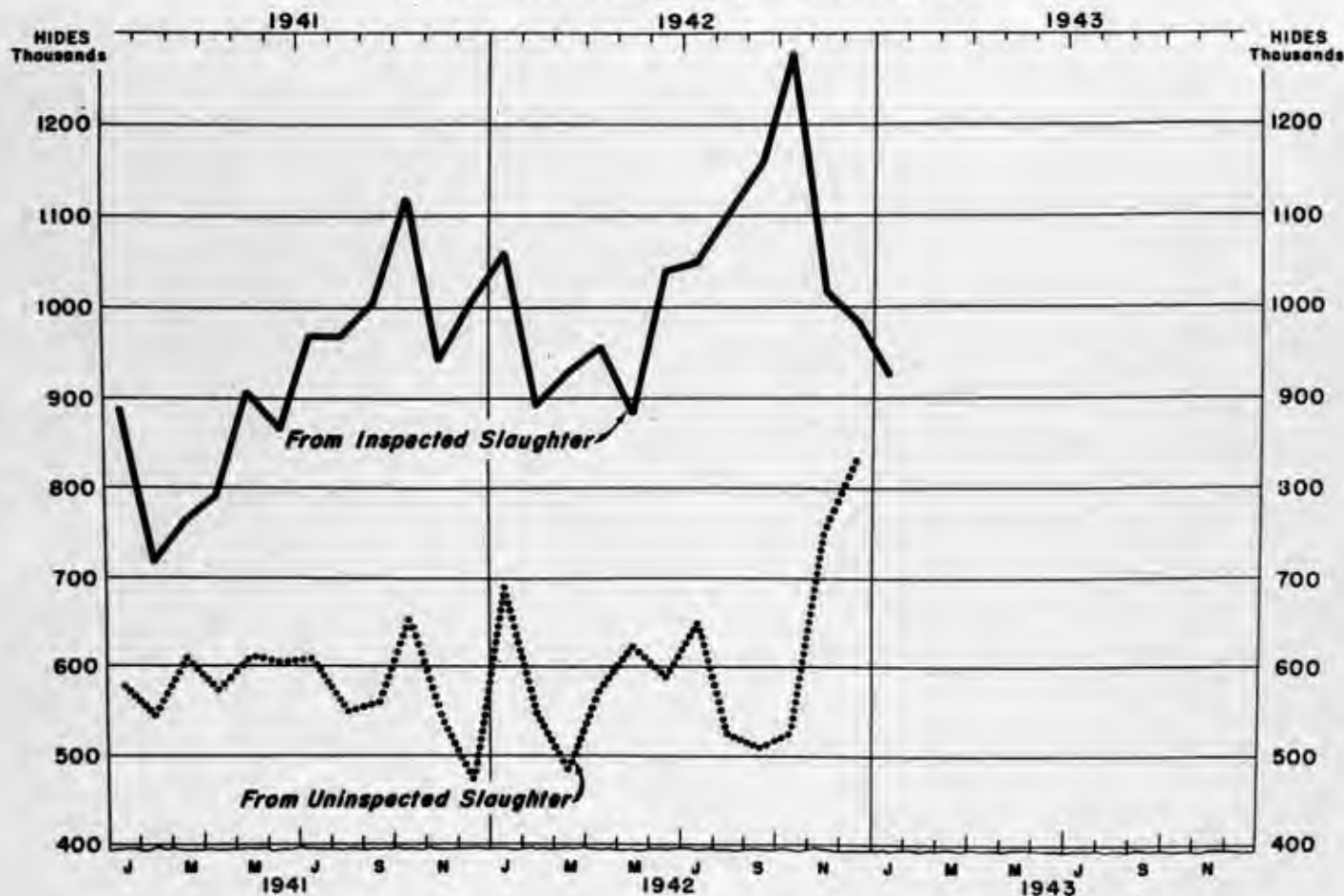


Source: U.S. Dept. of Agriculture

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

C-477

MOVEMENT INTO SIGHT OF CATTLE HIDES FROM INSPECTED AND UNINSPECTED SLAUGHTER



Source: Department of Agriculture and Tanners' Council

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

C-476

Chart 6
CONFIDENTIAL

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Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

March 8, 1943.

TO Secretary Morgenthau
FROM Joseph J. O'Connell, Jr.

At a staff meeting last week you mentioned having met a member of the Catholic clergy on the train coming East, but could not recall his name. At that time I ventured the guess that it might have been Mons. John A. Ryan, formerly of Catholic University, and at present connected with the National Catholic Welfare Conference. You may remember having attended a testimonial dinner for him at the Willard Hotel several years ago. He is quite an elderly man and an outspoken New Dealer. In that connection he made a speech a couple of weeks ago warning of the dire results that would follow a Republican victory in 1944, and I am informed, received a nice letter from the White House about it.

On second thought I am inclined to think that the man to whom you refer was not Mons. Ryan but rather Bishop Hugh Ryan of Omaha, Nebraska. Bishop Ryan was formerly the Rector of Catholic University here.

Joseph J. O'Connell Jr.

March 8, 1943

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

The Ways and Means Committee met all afternoon in executive session, excluding the Treasury staff and the staff of the Joint Committee.

At the end of the session Chairman Doughton announced that the Committee had turned down two plans: (1) By a vote of 16 to 9, the Carlson Bill comprising the Ruml plan, and (2) by a vote of 13 to 12, the proposal of Mr. Disney that withholding at source be imposed but the collections to be applied to the liquidation of past liabilities rather than pay-as-you-go on current liabilities.

The Republican members of the Committee issued a statement setting forth their advocacy of the Carlson Bill.

The Committee is meeting again tomorrow morning. Presumably at that time various compromise measures will be voted on.

At the close of this morning's session, Chairman Doughton in conversation with Mr. Surrey and me, took the Treasury to task for having an inconsistent position on pay-as-you-go. The reason for this may have been the fact that Congressman Robertson claimed that the Treasury was for his plan.

Neither Mr. Robertson's claim nor the Chairman's remarks are justified, in my opinion.

RB

LOUIS LUDLOW
The District Indian

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SUBCOMMITTEE
TREASURY AND POST OFFICE
CHAIRMAN
DEFICIENCY

COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES
WASHINGTON, D. C.

March 8, 1943.

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

AA

Dear Mr. Morgenthau:

You very kindly suggested that there might be a possibility of a position for former Representative William T. Schulte with the bond selling organization at \$5,000 a year.

I have delayed replying to your kind offer until I could hear from Mr. Schulte. I have a letter from him today expressing his appreciation but stating that he did not see how he could get along on the salary, with living conditions so high in Washington and in view of taxes, etc. Therefore I believe you may consider the matter closed.

I wish to express my deep personal appreciation of your kindness in this matter.

Very sincerely yours,

Louis Ludlow

MEMORANDUM

March 8, 1943.

TO: The Secretary
FROM: Mr. Sullivan

JHS

All of the Salary Stabilization Unit offices are clearing applications within a week with the exception of the Chicago and Philadelphia offices where applications require from two to two and one-half weeks for clearance.

New York Post
MAR 6 - 1943

WLB Jam Blocks Wage In Upper Brackets Get Quick

By JOHN BEECHER

The Treasury is giving quick approval to salary boosts for upper wage-earners. To boost a \$50,000 executive to \$60,000, his employer merely

to the Salary Stabilization Unit, Bureau of Internal Revenue, U. S. Treasury Dept., 253 Broadway, explaining how "inequitable" the executive's \$50,000 salary is, and how essential it is to the prosecution of the war that he be granted a \$10,000 annual increase.

Usually the employer's letter of application returns in a few days rubber-stamped "APPROVED" across the face.

The rubber stamp saves time, for the 14 men in the Salary Stabilization Unit are kept so busy with requests for raising executives' salaries that they can't stop to dictate a letter in every case.

Quick Service

While executives get streamlined service from the Treasury, low-paid employees sometimes wait months for War Labor Board action on their wages and salaries.

The regional WLB office, 220 E. 42d St., is bogged down under a constantly increasing load of wage-increase appeals from New York and northern New Jersey.

Appeals "processed" since the office opened Dec. 1, total 2,034, of which 1,066 were approved, 383 denied, 242 sent to Washington for decision and 337 referred to other jurisdictions or withdrawn. On hand are 1,700 "unprocessed" cases, and this backlog grows bigger week by week.

534 New Cases Last Week

Last week, for example, 534 new cases were added. Theodore W. Kheel, Regional WLB Chairman, said the WLB handled 350 old cases in the same week—a record

—but still finished the week 184 cases behind.

The rising cost of living and the growing manpower shortage, in his opinion, are combining to produce both worker and employer pressure for wage boosts.

Samuel Woichok, regional WLB member and president of the United Retail, Wholesale and Department Store Employees (CIO) said, "The Board is ahead of the staff, which can't get cases ready as fast as the Board can act on them."

Larger Staff Needed

Woichok said a larger staff was needed and pointed out that the Little Steel formula keeps the WLB in a strait-jacket.

This formula permits the WLB to raise wage rates 15 per cent above levels prevailing on Jan. 1, 1931, though the cost of living has advanced in greater proportion and is still climbing.

Only in cases where wages are proved to be "inequitable" measured against prevailing wages in a given industry or plant can the "Little Steel" 15 per cent formula be exceeded in the WLB's determinations.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Frances McCathran

March 8, 1943

CONTROVERSIAL ISSUES BEFORE CONGRESS

Unless Congress shilly-shallies, some major decisions on national policy should be reached this week in both the House and the Senate. With Chairman Doughton declaring his committee would act "as swiftly as possible" after weeks of stalemate, the House Ways and Means Committee expects to receive today the day-as-you-go tax proposal drafted by a subcommittee headed by Representative Cooper, called the "Treasury's representative" on the Ways and Means. Although this plan would put the majority of the nation's taxpayers on a current basis, it leaves the question of forgiveness to the full committee and possibly to the House itself. Meanwhile, the bill for a one-year extension of the Lend-Lease program is expected to reach the floor of the House today. Although there is little controversy over the necessity of continuing the program, efforts to tie strings on Lend-Lease aid may be revived. Some quarters predict further debate on the issue of American commercial use after the war of foreign air bases built under the Lend-Lease program, and there are rumors that a definite percentage allotment of material might be made for China. If this bill is disposed of as expected in two days, the much disputed Disney Debt Limit Bill, with the rider nullifying the President's salary ceiling order and replacing it with another drafted by Congress, may reach the House by Wednesday or Thursday. In the Senate, Senator Bankhead insists he will call up his farm labor deferment bill on Tuesday, despite the War Manpower Commission's order over the weekend to continue the deferment of farm labor even at the risk of not meeting the army's quota, and despite indications that the Administration might solve the whole manpower issue through a special committee appointed by the President and headed by OES Director Byrnes. Congress is seeking its own answers to what it terms the "manpower muddle" in such measures as the Austin-Wadsworth Bill, providing for an over-all manpower draft, and in the Johnson Absenteeism Bill, now before the Naval Affairs Committee. In the Senate, too, the McKellar Bill is expected to come up for debate this week. The bill was amended, however,

while McKellar was ill, to read that only "policy-making" officials receiving \$4,500 or over would be subject to Senate confirmation, and to exclude Civil Service appointees and the personnel of the TVA, which agency it is said McKellar seeks to control through approval of its appointments. With Senate committees preparing to advise OPA Brown on his program, Congress as a whole threatening to force its farm proposals on Secretary Wickard, and a newly-created Senate Small Business Subcommittee out to "investigate the supply lines of the home front," there seems to be no phase of national policy which Congress (perhaps, it is beginning to be hinted, like the proverbial bull in the china closet) is not seeking to control.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAR 8 - 1943

TO Secretary Morgenthau
FROM Randolph Paul

For your information:

Pursuant to the request of the State Department, since November 8, 1942, the Foreign Funds Control has been issuing monthly licenses under which approximately \$1,000,000 was taken from French Government funds in the United States under directions of the Treasury Department and used for the purchase of goods to be sent to Martinique. This arrangement has been renewed monthly.

The arrangement has not been renewed as yet for the month of March at the specific request of the State Department which apparently is trying to reach an agreement with Admiral Robert at Martinique on a number of important issues.

Randolph Paul
per
JMT



OFFICE OF THE DIRECTOR

SECRET 291 ✓

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 8, 1943

MEMORANDUM TO THE SECRETARY:

Supplementing my report to you of March 1, 1943, the purchases against the North African Rehabilitation Program from March 1, 1943, to March 7, 1943, totaled \$156,842.79, or a total of purchases for the program thus far of \$19,892,171.67.

Attached is report giving status of shipping against these purchases.


Clifton L. Mack
Director of Procurement



SHIPPING REPORT AS OF MARCH 6, 1943

SECRET

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
New & used clothing	1654	301	170	
Cotton piece goods	3960	1843.25	494	1778
Shoes, boots & soling	150	109	106	
Refined sugar	4196.5			
Raw sugar	1545			
Powdered milk	119.5			
Tea	171.5			
Matches	191.75	198		
Copper sulphate	3913	1848		451
Drugs	6.067			
Books & booklets	2			
Nails	100	5	22	
Lamp chimneys			17	
Newsprint	305	107	207	80
Printers ink	.045	.044		
Mach. finished book paper	2			
Cordage & twine	225	5	40	
Cotton thread	19	22	71	
Chemicals	2	234	261	
Cotton hose	15.25	19	13.75	
Nipples, bottles, eye cups			9	
Phonograph records			1000 Each	
Tooth brushes			.75	
Wash basins			7	
Spark plugs		2		
Storage batteries		47		9
Tires, tubes & tape	65	46		
Parts for autos,				
tractors & harvesters	28	169	203	
Tin plate	845			

SECRET

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Coal cutters		12		
Fullers earth			71	
Wire rope			89	
Pig iron				120
Shoe tacks				15
Babbitt metal		54		
Steel				355
Horse shoes & nails			15	86
Gelatin		1		
Paint pigments		8	2.5	
Asbestos sheet packing			2	
Glycerine		4		9
Calcium carbide		247		
Scrap rubber sheeting				27
Sheet copper				67
Brass rods				30
Files				40
 Totals	 17,515.612	 5,281.294	 1,801	 3,067

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO.....

With the compliments of British Air Commission
who enclose Statement No. 75 - Aircraft Despatched
- for week ended March 2, 1943.

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

March 8, 1943.

STATEMENT NO. 75

Aircraft Despatched from the United States

Week ended March 2nd, 1943

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED USE IN CANADA</u>
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BREWSTER

Bermuda	U.K.	U.K.	4		
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CONSOLIDATED

Liberator GR V	Bahamas	Nassau		1	
Liberator GR V	U.K.	Gander enroute		1	
Liberator GR V	U.K.	Canada enroute		4	

CURTISS

Kittyhawk	Middle East	Port Sudan	27		
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DOUGLAS

Boston III A	U.K.	Canada enroute		9	
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GLENN MARTIN

Baltimore III A	Middle East	Middle East		8	
Baltimore III A	Middle East	Middle East		1	

LOCKHEED

Hudson VI	U.K.	Canada enroute		6	
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NORTH AMERICA

Harvard	S'Africa	Durban	7		
Mitchell II	Bahamas	Nassau		1	

Total	38	31
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(A) Exported week ended February 23rd.

Movements Division, British Air Commission

March 6th, 1943.

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO.....

With the compliments of British Air Commission
who enclose weekly Statement No. 93 covering
Aircraft Flight Delivery as at March.2, 1943.

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

March 8, 1943.

BRITISH

MOST SECRET

2

LOCATION OF OCEANIC PILOT DELIVERY AIRFIELD

March 1, 1963

[illegible]

of landing was transferred to U. S. after delivery to U. K.

PLANNING AND AIRFRAME SUPPLY ENTERPRISE AIR CORPORATION, WASHINGTON, D. C.

Regraded Unclassified

BRITISH MOST SECRET
U.S. SECRET

NOT TO BE RE-TRANSMITTED

OPTAL NO.76

Information received up to 7 A.M. 8th March, 1945

1. NAVAL.

On 6/7th one of our motor gun boats sank an E-Boat off GREAT YARMOUTH.

2. MILITARY.

TUNISIA. 6th. 8th Army. The enemy made two main attacks on our positions from the direction of HALLOF and TOUJANE aimed at the high ground to the south-west of the MARETH - MADJINA ROAD. The first attack was made at first light and the second at 2.30 p.m. In the latter, which was heavy, the enemy employed two Panzer divisions supported by artillery and air bombardment, but at no point penetrated our positions. 30 enemy tanks were destroyed and his infantry casualties were high. We sustained no tank losses and our casualties are reported to be negligible.

First Army. The enemy's attacks have not been followed up and his troops are showing signs of exhaustion. We took over 100 prisoners in patrol encounters. In the Central Sector the French and U.S. Troops are consolidating their recent gains.

BURMA. In upper BURMA a Japanese force of about 2,500, moving north from MYITKYINA, has occupied SUMPRABUM. A second small force advancing up to the HOKANG VALLEY is about 25 miles from the Indian Frontier. The KACHIN levies fought well and inflicted many casualties on the Japanese but they have now split up. Japanese forces have also engaged the Chinese at CHIPAI and the latter are reported retiring towards HKANGAP.

3. AIR OPERATIONS.

WESTERN FRONT. 7th. 19 enemy aircraft crossed the English South and South-east Coast. Two were destroyed by Fighters. 7th/8th. 40 aircraft despatched - Sea-mining 31 (4 missing), Intruders 7, Leaflets 2. 25 enemy aircraft flew over South England, two penetrating the London area. Beaufighters destroyed 3.

TUNISIA. 6th. 257 sorties were flown by Fighter and Fighter Bombers against enemy columns in the MARETH area, and in sweeps over the forward area, tanks M.T. and gun positions were hit. About 50 JU-37 sorties were made against our tanks and Fighter Bombers attacked our forward troops and one of our forward airfields.

BURMA. On 5th and 6th light and fighter aircraft attacked enemy railway communications north of MANDALAY and boats on the KALAIDAN RIVER. On 6th/7th Liberators dropped 16 tons bombs on the MANDALAY railway centre.

RUSSIA. 5th. Russian aircraft torpedoed and sank a 14,000 ton German ship in northern waters.

4. HOME SECURITY.

EASTBOURNE. 13 fatal casualties so far reported from bombs dropped about midday.