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May 26, 1942  
10:24 a.m.

HMJr: Hello.

Operator: Mr. Hoover is still out of town. He's expected late - at the end of this week or the first of next week.

HMJr: Yes.

Operator: His secretary is on the wire.

HMJr: Thank you.

Operator: Right.

HMJr: Hello.

Operator: Miss Gandy.

HMJr: Hello.

Miss Gandy: Yes, Mr. Secretary.

HMJr: Miss Gandy, I'd like you to do something for me in the absence of Mr. Hoover.

G: All right.

HMJr: I have a letter from my niece, Mrs. Henry Fox.

G: Yes.

HMJr: And it comes from Falmouth, Massachusetts. Her husband is Captain Fox. He's a doctor in the United States Army.

G: Uh huh.

HMJr: And they're staying at a place - are you taking this down?

G: Yes.

HMJr: I have to spell it, don't know how to pronounce it. It's C-o-o-n-a-m-e-s-s-e-t-t- Inn.



G: Yes.

HMJr: Coonamessett Inn. And it's near Camp Edwards. And she writes me that there are several Germans in the office of the Inn.....

G: Yes.

HMJr: .....and she's - there are so many Army officers staying there that she thinks it's quite dangerous.

G: Of course.

HMJr: Now, she said it may be just a wild goose chase, but she's writing it to me, because she said the people at the desk there - the Germans - and the bartender is a German - could find out where the officers are going and all that sort of thing, and troop movements.

G: Fine place for them, isn't it?

HMJr: Yes.

G: Would she object to having an agent call on her, do you think?

HMJr: No. That would be quite all right.

G: Fine.

HMJr: And could you - well, now wait a minute. Her letter address is Hatchville, Massachusetts. That's the address. But it's stamped Falmouth.

G: Uh huh.

HMJr: But she writes her address Hatchville, Mass.

G: Must be right near.

HMJr: Yes. And it's Hatchville, Mass., and it's called the Coonamessett Inn.

G: Coonamessett Inn.

HMJr: And I think if somebody called on her, and then

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if they could look into it, and I'd like a report please.

G: Yes, indeed. And we'll take care of it right away.

HMJr: Thank you. And then whoever - could you tell them that I'm still very much interested in the Argentine.

G: All right, I will.

HMJr: And if there's anything fresh that you have of a financial nature that's going on in the Argentine, I'd appreciate it if you'd send it over.

G: All right. That report helped, did it?

HMJr: Oh, yes, and I gave a copy of it to the President within the same day.

G: Good.

HMJr: Yes. It was - I laid on the President's desk.

G: Mr. Hoover will be glad to know that.

HMJr: So if I could have another one, that must be ten days old.

G: Yes.

HMJr: I'd appreciate it.

G: All right. Fine.

HMJr: Thank you.

G: All right.



May 28, 1942

Dear Ruth:

In the absence of Aunt Elinor, who is at Key West with Bob, I called up J. Edgar Hoover's office and gave them the information contained in your letter. They asked if you would object to having an agent call on you, and I said that I was sure you wouldn't. Thank you very much for bringing this to my attention.

I am sorry that we have not had a chance to meet you, but I hope that we will very soon. With fond greetings,

Sincerely yours,

(Signed) Henry Morgenthau, Jr.

Mrs. Henry M. Fox,  
Hatchville, Massachusetts.

cc. Mrs. Morgenthau  
(incoming - sitting)

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1 COPY OF INCOMING AND OUTGOING TO  
MRS. MORGENTHAU





Hatchville, Mass  
May 24, 1942

Dear Aunt Eliza,

I have been meaning for quite awhile to write and tell you that Henry and I bought a very beautiful radio-phonograph with the wedding check, instead of just dishes as I wrote you before. But then Henry was called to camp up here, and almost immediately sent off again, so in all the excitement I never got around to it. But we both want to thank you and Uncle Henry again for something we hope to enjoy for a long while. (over)

Fee Paid 10 C

However this is not just a thank-you letter. I have been galvanized into action by something we discovered just last night.

The fact is that we are staying in cottages here near Camp Edwards which are run in connection with Coona messett Inn. And neither I nor you find that there are several Germans in the Inn office. The bartender is a German & one of the men at the desk is also, I believe.

I am upset because since Henry left I have mailed several letters to him in San Francisco ~~from~~ at the Inn.

Of course it may be nothing at all, but the fact is that the Inn is always overrun with officers & men from Camp Edwards & guests there & in these cottages are mostly Army people, so that it is extremely easy for anyone at the Inn to keep track of the departures & arrivals of many different units.

It seems to be a potentially very serious & dangerous situation and I wondered if you could turn this information over to the right people or advise me? Naturally I'm specially worried on Henry's

Fee Paid 10 Cents



account, and otherwise I don't believe  
I would have dared to bother you at all  
with it! It may be a complete wild goose chase, of course.

At any rate I'll be awfully grateful to  
know if you think something can & should  
be done to investigate it.

Your new niece,  
Ruth Fox

AIR MAIL  
Special Delivery



VIA AIR MAIL  
Special Delivery  
Fee Paid 10 Cents

Mrs Henry Morgenthau  
2434 Belmont Road  
Washington, DC

VIA AIR MAIL  
Special Delivery  
Fee Paid 10 Cents



May 26, 1942  
10:35 a.m.

HMJr: The reason I'm calling you is, this Joseph Willen is coming in to see me this morning.

Colonel  
Patterson: Yes.

HMJr: And I wondered if you could just tell me how much or how little he's already doing for you.

P: Well, he was - I can answer that very readily.

HMJr: Yeah.

P: Joe - I made arrangements with George Medalie.....

HMJr: Yeah.

P: .....to get Joe Willen to come in.

HMJr: Yeah.

P: And I had a formal exchange of letters on it, and then I brought him in to work with one of our strong right arms here, Jack Stevens, of the J. P. Stevens Company.....

HMJr: Yeah.

P: .....and he'd no sooner started than he had to return to the Federation drive, which was put forward. The Federation drive generally comes in the fall, but now it's coming in July; and as a result, Willen quit.

HMJr: I see.

P: He had to quit.

HMJr: Oh.

P: He never started, really.

HMJr: Yeah.

P: He really never started working for us, but

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he has agreed to come back and go to work for us just as soon as the Federation drive is over.

HMJr: Well, he and a man by the name of Blow are coming down at the suggestion of Judge Rosenman to see me, and I don't know what it's about.

P: Will you repeat that?

HMJr: I say, Willen - hello. Hello.....

P: Hello, Henry.

HMJr: Can you hear me?

P: Yes, I can hear you.

HMJr: I say, Willen and a man by the name of Blow.

P: Yeah, Blow.

HMJr: They're both coming down at the suggestion of Judge Rosenman.

P: Yes.

HMJr: And I don't know what it's about, but I wanted to get a little idea what Willen had done, and I gather he hasn't done anything.

P: Oh, no. He's done nothing for us. He came in eight or ten times.

HMJr: Yeah.

P: I had good talks with him.....

HMJr: Yeah.

P: .....and I wanted him - he can do a good job on the F and G Bonds.....

HMJr: Yeah.

P: .....if he gets started.



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HMJr: I see.

P: But up to date, we've - nothing has been accomplished of any moment.

HMJr: Okay.

P: But I'm anxious to get him back.

HMJr: Righto.

P: All right. Say, Henry.

HMJr: Yes.

P: I want to tell you frankly, I don't think we're going to meet our quota.

HMJr: You don't.

P: For the one for May.

HMJr: You don't.

P: No, I do not.

HMJr: Uh huh. Well, that's very disappointing.

P: Oh, I know it. I've been up - I don't know what to say beyond that. We've only got eighty-four million as of this morning - as of last night.

HMJr: What're you supposed to have?

P: Well, we should have, as of today, around a hundred and five million.

HMJr: Yeah.

P: We're twenty million behind, and we've got special - starting yesterday - we put on special crews to work on the F and G Bonds the remaining four days of the month.

HMJr: Is it the F and G that you're behind, or the E?

P: No, we're not behind in the F and G, especially,

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but we feel that it would help meet our quota if this crew of a hundred men which we have, started to work - went to - worked hard the last four days.

HMJr: Uh huh. Are you behind on your E Bonds?

P: We're a little behind on our E Bonds.

HMJr: Yeah. Well.....

P: We're running - no, wait a minute - I'll tell you. We're running about fifty per cent on our E Bonds.

HMJr: Fifty per cent. Hello.

P: We're running about fifty per cent on our E Bonds, about nine per cent on our F Bonds, and the remainder, about forty-one per cent, on our F and G Bonds.

HMJr: I don't get those statistics. Fifty per cent - fifty per cent of what?

P: Fifty per cent of our sales for the month of May are E Bonds.

HMJr: Yeah.

P: About nine per cent are F Bonds, and about forty-one per cent are G Bonds.

HMJr: Yeah. No, what I meant is, are you - on the E Bonds - are you up on your quota or behind?

P: Well, on our E Bonds, we're not up on our quota.

HMJr: No. Well.....

P: The fifty per cent is fifty per cent of the total sales in May, E Bonds; but we're back on our quota.

HMJr: Yeah.

P: We're behind on our quota in all three.

HMJr: Well, it's disappointing.



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P: Of course it is.

HMJr: Yeah.

P: I'm trying to solve it, and I had Sparks in here yesterday all - pretty much all afternoon.....

HMJr: Yeah.

P: .....trying to work the thing out. Now, I don't want to worry you about this. I'm worrying about it.

HMJr: Yeah. Well, I am, too.

P: I'm losing sleep over it.

HMJr: I am, too.

P: God damn it, I'm losing sleep.

HMJr: Yeah.

P: And - maybe I shouldn't have told you about it.

HMJr: No, I know it anyway.

P: But.....

HMJr: I say, I know it.

P: Well, it reached you then quicker than - pretty quick.

HMJr: No, I had the tables last night.

P: You had them last night.

HMJr: Yes. New York, Philadelphia, and Boston are all behind.

P: Well, I just - I don't give a damn about the others. I want New York.

HMJr: Yeah.

P: Well, I do give a damn about the others, of course.

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HMJr: Yeah.

P: I want the country's total to go over - way over.

HMJr: Well, the country's total will, but the Federal Reserve District of New York, Philadelphia, and Boston are all running behind.

P: Well, Henry, what is the reason? Can you help me? Can you relieve my mind any?

HMJr: No, I don't know. I don't know. But I thought your quota for May was easy.

P: So did I when it was given to us.

HMJr: Yeah.

P: So did I, and I've been trying to analyze it.

HMJr: Yeah.

P: Well, let me talk to you again about it.

HMJr: I will.

P: All right.

HMJr: Thank you.

P: Good-bye.



May 26, 1942  
12:03 p.m.

HMJr: Hello.

Operator: All right?

HMJr: Go ahead.

Operator: Go ahead.

HMJr: Hello.

Admiral  
Waesche: Good morning, Mr. Secretary..

HMJr: Hello, Admiral.

W: I was wondering, Mr. Secretary, if some evening this week you could give me about twenty minutes at your home.

HMJr: The morning would be better.

W: Morning? All right. Yes, that'll be fine.

HMJr: What time do you get up in the morning?

W: I'll get up any time that you want me to get down there. I'm in the office every morning at eight o'clock. I usually leave the house about - I get up at six-thirty regularly.

HMJr: Well, that's - you never used to get up that time when you were in the Treasury.

W: (Laughs) No, I used to get up an hour later at Treasury.

HMJr: Well, I tell you, if you're at the house tomorrow morning about eight-thirty, I could see you.

W: Tomorrow morning at eight-thirty.

HMJr: Yeah. Is that all right?

W: Yes, sir. That'll be fine. I have a conference at the Navy at nine-thirty, and that'll be - will suit it fine.

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HMJr: All right.

W: Eight-thirty tomorrow morning at your house.

HMJr: Okay.

W: Fine. Thank you, sir.



May 26, 1942  
2:03 p.m.

HMJr: Hello.

Operator: Mrs. Roosevelt is out of town. I have Miss Thompson.

HMJr: Okay. Hello.

Malvina Thompson: Yes, Mr. Morgenthau.

HMJr: Tommie, yesterday I sent you some - Mrs. Roosevelt some stuff.

T: Yes.

HMJr: On taxes.

T: Yeah.

HMJr: And at lunch today, Mr. Paul tells me for the first time, that that part which has to do with the \$25,000 salary.....

T: Yeah.

HMJr: .....is confidential, because he hasn't given it to the committee yet.

T: Oh. All right. I'll tell her it's confidential.

HMJr: Would you tell her that?

T: Yes, sure. Look, do you know where I'd address a letter to your Elinor?

HMJr: Yes. If - she's leaving there Thursday, though.

T: Yeah.

HMJr: So - it's Hotel La Concha, L-a.....

T: Uh huh.

HMJr: C-o-n-c-h-a.

T: Yeah.

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HMJr: Key West.

T: Well, now, the air mail is so uncertain, do you think if I send it this afternoon.....

HMJr: If you send it this afternoon, it'll be all right.

T: Otherwise, I thought maybe I might send it to her next address.

HMJr: Well, she'll be back here Friday night.

T: She'll be back here Friday night. Well, I'll send it down on a chance that she'll get it. I'll send it right off.

HMJr: If it goes right away, she'll get it.

T: All right.

HMJr: Now, just a minute. Mrs. Klotz is motioning to me. Hello.

T: Yes.

HMJr: Mrs. Klotz said she got a message at noon that you didn't get the package.

T: I know. Well, they were checking up on it over in my office, you see, and it came to my desk and I gave it to Mrs. Roosevelt.

HMJr: Oh.

T: Yeah.

HMJr: Thank you.

T: Thank you very much.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE May 26, 1942.

TO Mr. White

FROM Mr. deBeers

Subject: Meeting with Bolivian Ambassador May 26, 1942.

Present: Ambassador Guachalla, Messrs. White, Southard, B. Bernstein, Glasser, deBeers, Livesey and Luthringer.

Mr. White handed the Ambassador a draft Stabilization Agreement, and the Ambassador said that he would send it to La Paz. The Ambassador mentioned that in mid-June the Bolivian Ministers of Finance and of Economics would be in Washington and would be available to discuss the arrangements or possibly to sign the agreement.

In a brief discussion of the agreement, Mr. White emphasized especially paragraph 10 providing for consultation before changes are made in the exchange rate. He mentioned that in view of the current discussions in Bolivia on the subject of altering the exchange rate, it should be understood that the essential feature of such an agreement is the stabilization of the exchange rate. If a change is contemplated, then the Stabilization Agreement should be postponed. If the Stabilization Agreement goes through, however, this Government would not like soon to be confronted with a request for a conference and would be very reluctant to agree to a change in the exchange rate shortly after the conclusion of the agreement. The Ambassador said he understood and assured Mr. White that he would make that point clear to his Government.

Mr. Bernstein mentioned that the Treasury would draft a note which the Ambassador could send to the State Department in connection with Article XV. The Ambassador stated that a decree would be necessary in Bolivia authorizing the Minister of Finance (or the Ambassador as his representative) to sign the agreement on behalf of the Government of Bolivia. Signature on behalf of the Central Bank would have to be authorized by a special meeting of the Board of Directors of the Bank.

After the departure of the Ambassador, Mr. Bernstein and Mr. Livesey discussed a letter which the State Department would send to the Treasury in relation to Article XV. Mr. Livesey pointed out that valid and binding international agreements of the United States must be published and that if the State Department certifies in writing to the Treasury that this agreement is valid and binding it would then be necessary to publish it, if a text of the agreement could be supplied by the Secretary of the Treasury. Mr. Bernstein indicated that he would discuss this matter further with lawyers in the State Department.

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Division of Monetary  
Research

Mr. White referred to the fact that Under Secretary Welles had warned the Bolivian Ambassador that if the Bolivian Central Bank continues to allocate exchange to Proclaimed List firms, in violation of Article V of the Rio Conference, there will be difficulty in establishing a Stabilization Agreement. Mr. White pointed out that we shall continue to negotiate this agreement in accordance with our regular procedure until the State Department asks that negotiations be stopped on account of the aforementioned exchange allocations.

Mr. White asked if the State Department had any question with regard to the Treasury position on mention of the Bolivian exchange rate in the tin negotiations. Mr. Livesey stated that the words "exchange control" had been inserted in the supplementary letter which is to be presented in connection with the tin contract, but these words were taken out by the Bolivian Government. The Bolivian Ambassador agreed, however, that the assurances regarding taxes and other measures should be interpreted as covering changes in exchange control which might weaken the stimulus to increased tin production provided by the higher prices.



Draft of May 26, 1942.

AGREEMENT made as of the       day of       , 1942, at the City of Washington, District of Columbia, between the Secretary of the Treasury of the United States of America (hereinafter called the Secretary), the Government of the Republic of Bolivia (hereinafter called Bolivia), and the Banco Central de Bolivia (hereinafter called the Bank).

WHEREAS, the monetary and financial cooperation of the United States of America and the Republic of Bolivia and the stabilization of the United States dollar-Bolivian boliviano rate of exchange are important factors in promoting trade and in fostering the welfare and friendly relationships of the two countries;

NOW, THEREFORE, in order to further such objectives and in consideration of the premises and of the mutual covenants herein contained, it is agreed as follows:

1. The Secretary, through the Federal Reserve Bank of New York as Fiscal Agent of the United States (hereinafter in its capacity as Fiscal Agent of the United States called the Federal), shall, as hereinafter provided, purchase Bolivian bolivianos from the Bank from time to time as requested by the Bank, the United States dollars paid therefor to be used exclusively for the purpose of stabilizing the exchange value of the Bolivian Boliviano with respect to the United States dollar. The total amount of bolivianos thus purchased by the Secretary, computed at the rate at which such bolivianos are purchased as hereinafter provided, exclusive of accrued interest thereon and of any bolivianos repurchased, shall not at any time exceed in the aggregate the equivalent of United States \$2,000,000. The bolivianos so purchased shall be credited to the Federal on the books of the Bank in a special account to be opened in the name of "Federal Reserve Bank of New York as Fiscal Agent of the United States". Upon receipt by the Federal Reserve Bank of New York of advice from the Bank by tested cablegram, radiogram, or telegram that this account has been credited with a stated amount of bolivianos, the Federal will in turn, in payment therefor, credit the Bank in a special account to be opened by the Federal in the name of "Banco Central de Bolivia, Special Account", in an amount in United

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States dollars equivalent, at the then prevailing official buying rate of the Banco Central de Bolivia for cable transfers on New York payable in United States dollars, to the amount in bolivianos so credited to the account in the name of the Federal on the books of the Bank. At the time that the Bank requests the purchase of the bolivianos, it shall advise the Federal of its aforementioned buying rate.

2. The Bank shall credit interest to the special boliviano account in the name of the Federal on the last day of each successive month from and after the date hereof. Such interest shall be computed at the rate of  $1\frac{1}{2}\%$  (one and one-half percent) per annum on the daily balance of such bolivianos in such special account as were purchased by the Secretary under this Agreement. There may be reconsideration of the interest rate at any meeting provided for in paragraph 9 of this Agreement.

3. (a) One hundred and eighty days after the receipt of notice from the Secretary or the Federal containing such request, the Bank shall repurchase, or cause to be repurchased, during the next succeeding one hundred and eighty days, in United States dollars (utilizing, if necessary, the gold resources of the Bank and Bolivia), by payments at the Federal Reserve Bank of New York, any or all of the bolivianos purchased by the Secretary through the Federal at the same rate or rates of exchange at which such bolivianos were purchased. Such bolivianos shall be repurchased during such one hundred and eighty days in such amounts so that at the end of any thirty-day period the total amount of bolivianos so repurchased shall not be less than would have been repurchased if the Bank had been repurchasing the bolivianos in six equal installments during such one hundred and eighty day period.

(b) Whether or not such a request has been made by the Secretary, bolivianos in the amount of such accrued interest shall be purchased or caused to be purchased by the Bank by payment in United States dollars at the Federal Reserve Bank of New York on the last day of each successive three-months' period from and after the date hereof and upon the termination of this Agreement, at the average rate of exchange at which the bolivianos, upon which such interest has accrued, were purchased by the Secretary through the Federal.



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(c) The aforementioned special account, the balances credited thereto (including interest), and all transactions respecting such account, and the other obligations of the Bank and Bolivia under this Agreement shall, in so far as the rights, powers, and privileges of the Secretary and the Federal may thereby be affected, be exempt and immune from any taxes, fees, charges, restrictions, and controls of any nature under the laws of Bolivia or any political subdivision or taxing authority thereof.

4. The Bank may also at any time repurchase the bolivianas described in paragraph 3 by payments at the Federal Reserve Bank of New York in United States dollars at the rate of exchange provided in paragraph 3.

5. In the event of any failure to repurchase (or, in the case of interest, purchase) the bolivianos as provided in paragraph 3 or of any other act, done or omitted, not in accordance with the provisions of this Agreement, the Bank shall, if and when the Secretary, acting directly or through the Federal, so elects by giving notice to the Bank and/or Bolivia to such effect, become forthwith obligated to repurchase or cause to be repurchased, or in the case of interest, purchase or cause to be purchased, all of the bolivianos at a total purchase price in United States dollars determined as provided in paragraph 3 by payment at the Federal Reserve Bank of New York and the dollars remaining in the "Cuenta Central de Bolivia, Special Account" shall be retained by the Federal and applied by the Secretary or the Federal as a payment on account of such purchase price. No failure or delay on the part of the Secretary in exercising any of his rights, powers, or privileges, in whole or in part, under this Agreement shall constitute a waiver thereof, or of any other rights, powers, or privileges granted to the Secretary under this Agreement; and no failure or delay on the part of Bolivia or the Bank in exercising any of its rights, powers or privileges, in whole or in part, under this Agreement shall constitute a waiver thereof, or of any other rights, powers or privileges granted to Bolivia or the Bank under this Agreement.

6. It is understood that the Federal Reserve Bank of New York will act only as Fiscal Agent of the United States in carrying out this agreement and in

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doing and performing any acts or transactions in connection with this Agreement, and that it will not incur any liability for any acts done or omitted pursuant to instructions of the Secretary. The Federal is authorized to accept and act upon any writing relating to the purchase of Bolivianos under this Agreement or to the "Cuenta Central de Bolivia, Special Account", which is received by the Federal in the name of the Bank and which is believed by the Federal to be genuine, and upon any cablegram, radiogram, or telegram relating to the foregoing which is received by the Federal in the name of the Bank and which conforms to existing or future arrangements agreed upon between the Bank and the Federal Reserve Bank of New York, or to arrangements hereafter agreed upon between the Bank and the Federal with regard to the authentication of cablegrams, radiograms, or telegrams by the use of test numbers, and all such writings, cablegrams, radiograms, and telegrams shall be binding upon the Bank and Bolivia.

7. Bolivia hereby unconditionally guarantees the full performance by the Bank of all the obligations, duties, and liabilities of the Bank under this Agreement and any arrangements made pursuant thereto.

8. Any notice given by the Secretary or the Federal either to the Bank or Bolivia, shall be deemed and taken as full notice to both of them, and such notice may be given by the Secretary or the Federal to the Bank at its head office in La Paz, Bolivia, or to Bolivia at the office of the Minister of Finance in La Paz, Bolivia, or to the Bolivian Embassy at Washington, D. C. The Bank and Bolivia hereby waive diligence, protest, notice, and demand of every kind, except as expressly provided for in this Agreement.

9. Bolivia, the Bank, and the Secretary agree that at periodic intervals of approximately six months from and after the date on which this Agreement becomes effective (the precise dates to be agreed upon) there shall be held a consultative meeting to be attended by the representatives of each of such parties to discuss and consider the United States dollar-Bolivian Boliviano rate of exchange, problems of mutual interest in connection therewith, and all other monetary, financial, and economic problems of mutual interest.



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10. The Bank and Bolivia agree that, without first providing the Secretary with an opportunity for consultation, no change will be made in the United States dollar-Bolivian boliviano rates of exchange and no material modification affecting directly or indirectly the United States dollar-Bolivian boliviano rates of exchange or the allocation of exchange will be made in the regulations relating to the control of foreign exchange.

11. The Bank and Bolivia agree that the dollars made available under this Agreement will be used as a revolving fund for the stabilization of the exchange value of the Bolivian boliviano with respect to the United States dollar, and that due diligence will be exercised to prevent the permanent exhaustion of the fund. In particular, the Bank and Bolivia agree to take all reasonable measures to prevent unwarranted internal currency and credit expansion such as would cause an undue drain on the dollars made available hereunder. The Bank and Bolivia further agree to exercise or cause to be exercised such diligence as will avoid, so far as possible, any undue delay in payments for imports from the United States or in other remittances to the United States.

12. Each of the parties to this Agreement shall take and cause to be taken all the necessary measures to effectuate the purposes and intent of this Agreement and to provide each other with such information in their possession relative to foreign exchange transactions, stabilization operations and other matters of mutual interest as is relevant to the proper functioning of this Agreement.

13. Any obligation of the Secretary pursuant to this Agreement shall be subject to and dependent upon the due performance by the Bank and/or Bolivia of any obligations to be performed or liabilities to be discharged by them, or either of them, under this Agreement and any arrangements made pursuant thereto.

14. Any obligation of the Secretary to purchase bolivianos under this Agreement shall terminate on June 30, 1943, subject to earlier termination at any time thirty days after receipt by the Bank of a written communication or cablegram, radiogram, or telegram from the Secretary or the Federal to that effect. The termination of any such obligation of the Secretary shall not affect any of the rights, powers, or privileges of the Secretary or of the Federal, or

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any of the duties, liabilities, or obligations of the Bank or of Bolivia hereunder, all of which shall continue in effect until the Bank and Bolivia shall have fully performed their said duties and obligations and discharged said liabilities. If an extension of the Agreement is agreed upon, the Agreement shall continue in full force and effect during the period thus agreed upon. In the event that the Bank and Bolivia wish an extension of this Agreement, they will give the Secretary notice to that effect in writing or by cablegram, radiogram, or telegram at least thirty days prior to the termination of the Agreement or of any extension thereof.

15. This Agreement shall come into operation and effect as between the parties hereto when Bolivia shall file with the State Department of the United States appropriate documents satisfactorily evidencing the authority of the Bank and Bolivia to enter into this Agreement or satisfactorily evidencing ratification of the action of the Bank and Bolivia in entering into this Agreement. The Bank and Bolivia each for itself represents and agrees that upon the delivery of the aforementioned documents, the execution and delivery of this Agreement shall have in all respects been duly authorized or ratified, and that all acts, conditions, and legal formalities which should have been completed prior to this Agreement becoming effective shall have been completed as required by the constitution, laws, statutes, decrees, and regulations of Bolivia, and under the statutes, by-laws, regulations, resolutions, and rules of the Bank, and in conformity therewith.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate.

SECRETARY OF THE TREASURY OF THE UNITED STATES

GOVERNMENT OF THE REPUBLIC OF BOLIVIA

By \_\_\_\_\_

BANCO CENTRAL DE BOLIVIA

By \_\_\_\_\_



May 26, 1942.

Memorandum to The President:

Re: Importation of Postage Stamps

There is enclosed herewith a draft reply to the letter of Aaron E. Carpenter of Philadelphia on the subject of German stamp imports. Also enclosed are two copies each of Confidential Circulars Nos. 96 and 105 issued by Foreign Funds Control. The effect of these circulars is to prohibit, except pursuant to Treasury Department licenses,

(1) the importation of shipments of stamps valued at more than \$100 if the stamps were issued in a blocked country since the date on which that country was blocked; and

(2) the importation of stamps by or from persons concerning whose activities we have reason to be suspicious.

Under the instructions to collectors of customs set forth in the attached confidential circulars, it is quite possible for importations of stamps of any type to be imported without the requirement of a Treasury Department license, provided that they are of small value and are sent by or to a person who is not regarded by us as suspicious. It is doubtful, however, that this loophole is serving to admit large quantities of stamps from Axis-occupied areas.

In addition to the controls being exercised by the Treasury Department through Foreign Funds Control and Customs, the Office of Censorship is scrutinizing importations of stamps through the mails. It is

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In addition to the controls being exercised by the Treasury Department through Foreign Funds Control and Customs, the Office of Censorship is scrutinizing importations of stamps through the mails. It is



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understood that the position taken by the Office of Censorship is that it will condemn all shipments of stamps coming directly from Axis-occupied areas, and that it will likewise condemn importations of stamps issued in occupied areas since the effective date of the freezing control wherever it is possible to recognize such stamps. The submission slips prepared by the censorship field stations with respect to importations and exportations of stamps by mail are being received by Foreign Funds Control and are being carefully scrutinized from day to day with a view to discovering any objectionable activities.

The Director of Censorship has lately asked our opinion as to the desirability, if it is within his power, of completely prohibiting the import and export of all postage stamps for the duration of the war.

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

*n.m.c.*

*S.S. Agent 1:45*  
*Copies to Thompson*

Enclosures.

HEG:pm

Dear Mr. Carpenter:

I am writing to thank you for your letter of May 14, in which you directed my attention to the trade in this country in German stamps and the stamps of German-occupied countries. I think you will be glad to know that the Treasury Department has been giving close attention to this traffic from the standpoint in which you are interested, and early this year, through the Division of Foreign Funds Control, issued regulations which have had the effect of blocking the use of this device for obtaining American funds.

At the present moment active consideration is being given to the whole problem of stamp importation with the possibility that additional measures may be adopted.

Sincerely,

Mr. Aaron E. Carpenter,  
E. F. Houghton & Co.,  
303 West Lehigh Avenue,  
Philadelphia, Pennsylvania.

HEG:ym



THE WHITE HOUSE  
WASHINGTON

May 18, 1942.

MEMORANDUM FOR THE  
SECRETARY OF THE TREASURY

FOR PREPARATION OF REPLY  
FOR MY SIGNATURE.

F.D.R.

# E. F. HOUGHTON & CO.

303 WEST LEHIGH AVENUE

PHILADELPHIA

May 14, 1942

OFFICE OF THE PRESIDENT

Dear Mr. Roosevelt:

I am simply addressing this letter to you as one stamp collector to another and because I do not know to whom else to address it, but I presume your secretary will see that it reaches the proper authorities.

I am simply amazed at the hundreds of complete sets of German stamps and stamps from German-occupied countries that are finding their way into the hands of certain dealers in this country, and I think the matter is well worth investigating.

I am told these stamps are reaching the States via South America, but they are undoubtedly paid for in dollar exchange and in some way, shape or form this money probably reaches Germany eventually through neutral European countries, either in the form of dollar exchange or the equivalent thereof, and, therefore, in all probability, is being used against us.

Immediately upon the outbreak of the war, English stamp dealers were prohibited from dealing in current German stamps and have subsequently been prohibited from dealing in post-war German issues and in issues from German-occupied countries.

I think it would be an excellent idea to prohibit dealing in stamps of Germany and Italy and German and Italian occupied countries issued since December 7, 1941.

The same, naturally, could be applied to Japanese and all other Axis stamps issued since December 7, 1941, and, furthermore, the importation of such stamps into the United States should be prohibited.

Yours very truly



Aaron E. Carpenter

Honorable Franklin D. Roosevelt  
The White House  
Washington, D. C.



TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE MAY 26 1942

TO Secretary Morgenthau  
FROM Mr. Foley

I thought you might be interested in reading the attached confidential report on the Japanese occupation of the Philippines.

This report was prepared by Mr. Saxon, a member of Pehle's staff, who at the time of the Japanese attack on the Philippines was stationed in Manila, and who went to Corregidor with the government when it was evacuated from the capital.

Since Mr. Saxon was in position to observe at first-hand the events leading up to the Japanese occupation of the Islands and, later, at Corregidor, to receive information of happenings in Japanese-occupied area and to become better acquainted with Filipino leaders, his appraisal of the developing situation and his impressions of Filipino officials should be of considerable interest.

Mr. Saxon did not bring documents or notes with him when he left Corregidor. His report is based upon his letters sent to this office while he was in the Islands and upon his personal observation.

If you agree, it is our thought copies of the significant portions of Saxon's memorandum might be sent to the following: *ml*

Secretary of State  
Secretary of the Interior  
Secretary of War  
Secretary of the Navy  
Executive Director, Board of Economic Warfare  
Coordinator of the Office of Information.

*S. H. F. h.*

Attachment

## NOTES ON THE JAPANESE OCCUPATION OF THE PHILIPPINES

### The Propaganda Program in General

By means of characteristically Fascist techniques already thoroughly developed in their own and in conquered countries, the Japanese in occupied areas of the Philippines are rapidly coordinating the economy and reorienting the outlook of the people to conform with the invader's aims of empire.

All avenues of communication are being used in a relentless campaign to recondition the minds of the Filipino people in order to assure their wholehearted support of the Japanese program. Japanese spokesmen play on prejudices against white people and "white imperialism." Much is made of the idea that the Filipinos were "sold short" by the Americans, whose primary objective was the defense of the British Empire rather than the Philippines. Every effort is made to impress the Filipinos with the grandeur and success of Japanese arms, thereby appealing to the native's admiration of power. Filipino leaders in all walks of life have lent their endorsement, both voluntarily and involuntarily, to the Japanese program.

Great emphasis is being placed on thrift, hard work and the simple life. As part of this program the Japanese seek to change the "undesirable" customs of the people, and in so doing to reap political capital and economic benefit. For example: Filipino men are urged to abandon the almost universal habit of wearing their hair long and full. It is contended that the use of hair dressing, heretofore supplied by American concerns, is a waste of money and an example of the American's effort to degrade the Filipino. Dancing and drinking are ruinous to the individual and to national morals. Under American imperialism the Filipino became vain in his dress, and he must now divest himself of this attitude. Clothing serves only to maintain decency and to protect the body. Therefore, one suit or dress is sufficient. It is untrue that women must wear attractive clothes in order to attract men.



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Incentive for acceptance of the Japanese program is offered in the dream of a great and independent Philippines, and in the ultimate freedom of the individual. The Japanese flatter the cultural and physical heritage and the character of the Filipino. Fraternization of Japanese and Filipinos in religious and other activities are pictorialized to create the illusion of social equality. Promise is given that all economic groups will share equitably in what is produced. Singled out for special attention are the farmers and peasants, numerically the largest group in the Islands, who are assured that they will receive fair prices for their produce and will not be exploited by the urban classes.

#### The Pattern for Agriculture, Industry, and Business

1. Agriculture - It is clear that the Japanese aim to make the Philippines produce sufficient food for its own requirements, those of the army of occupation, and surpluses for export. The invader wants to obviate the need for imports of food, which have been necessary in the past, and he tells the agricultural classes that production is too low.

Repeating constantly that every family can become practically self-sufficient, the Japanese have ordered under threat of penalty for noncompliance that every inch of arable land -- even lawns and gardens -- be planted with some edible. Emphasis is placed on the satisfaction to mind, body and country that derives from growing one's own food, and of the harmfulness to health and country of Western foods. Farmers and peasants are encouraged to secure free advice on improved methods of production.

2. Plans for exploitation of resources - The Japanese doubtless will try to reorganize and expand all lines of production. Early in January they announced that technicians and advisers were being sent to the Philippines to serve the Japanese Government's developmental corporations. It also was stated that the natural resources of the Islands would be developed on a large scale and that the period of deliberately arrested economic development under American imperialism is at an end.

It will not be easy for the Japanese to regain former levels of production in all industries. Gold mining, most important section of the mining industry, which is the Islands' leading nonagricultural industry, is a case in point. An engineer for one of the large companies told me

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that his firm had destroyed between one and two million dollars worth of installations, equipment, and materials, including a tank containing one million gallons of gasoline. Unfortunately, not all companies wrecked their operations. Where installations and equipment were destroyed and the mines allowed to flood, six months to a year would be required to restore them to efficient operation even if the necessary equipment is available.

With the beginning of the occupation economic activity came virtually to a standstill. Japanese authorities took steps to open Japanese businesses and to encourage Filipino, German, Swiss, and Spanish firms. Orders were given that normal life be resumed.

3. Economic controls - To establish comprehensive control over the Islands' economy a series of decrees was promulgated: (1) Central marketing and selling organizations were established for the principal food, rice; (2) later, all available stocks of certain staple foods and other commodities, including forestry products, were commandeered, to be dispensed for civilian and military purposes under regulation; all prices were fixed; and rationing was put into effect. Wages and salaries were fixed along with prices. In addition, a compulsory savings plan was introduced and the salaries of public and semi-public employees, such as those in the Philippine National Bank, were cut. Along with this the Japanese inaugurated a campaign for thrift, which is extolled as a sure means to individual success and national greatness.

As was true of many other decrees, some of these orders were issued by the so-called "Council of State," a Japanese-created legislative and executive body composed of former Filipino officials and leaders and run by George Vargas, the "Filipino Quisling," and his Japanese "advisers." Vargas had been appointed by President Quezon to the previously non-existent office of Mayor of Greater Manila when the Government went to Corregidor. By means of this puppet device it is possible to give the impression that decrees are issued by duly constituted officials of the Philippine Government. Vargas and other Filipino leaders are discussed in the final section of the paper.

#### Currency, Banking, and Security Regulations

1. Changes in the currency - The first alteration of the currency by the Japanese was made by giving each soldier



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a supply of currency notes. Printed on cheap paper and bearing across the top the words "Japanese Government", the notes were issued in denominations from five centavos (I did not see any of smaller denomination) upward. Notes of small denomination were necessary because coins had gone out of circulation. By decree the notes became legal tender and assumed par status with the Philippine peso.

The next step was to require all persons holding U. S. dollars and other foreign currencies (Japanese excepted) to turn them in for pesos. Whether these were to be Philippine or Japanese pesos was not stated, but later (see below), all Philippine pesos had to be exchanged for Japanese. After a specified date ownership or possession of "outlaw" foreign currency was a punishable offense. The same provisions applied to bullion, securities and other negotiables drawn in terms of foreign currencies.

On February 1 the Japanese required all persons holding Philippine pesos to exchange them for Japanese pesos before February 9. I was not able to get satisfactory confirmation that this decree was put into effect. A portion of the Philippine currency could not be so converted since it had been destroyed at Corregidor. On December 29, Quezon, at Corregidor, instructed Vargas in Manila to destroy part of the Philippine Treasury Reserves, but it is not known whether he obeyed orders.

Through forced conversion the Japanese undoubtedly secured a certain amount of securities, among which there undoubtedly were a good many United States Government's, and also U. S. currency and checks. However, most of the dollar and sterling securities of residents of the Islands were kept in New York and London. It was my observation that not much U. S. currency was carried during peacetime, but military payments and heavy withdrawals from banks as a result of the prospects of occupation had increased the circulation of our dollars.

2. Preventive action by the American Administration - The Treasury Department had given the American Administration complete authority, interpretation of which had been clarified by several communications, to take custody of and to destroy, if necessary, all securities and other evidences of wealth. However, the action taken in the Philippines was confined almost exclusively to banks, and within these institutions to gold, and to currency, checks, and bonds of the United States. It would have been desirable to have reached individuals and firms and other kinds of securities and currencies as the Treasury contemplated.

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3. Banks and the stock exchange - The Japanese did not reopen the banks immediately after they began occupation. Finally, on January 30, they reopened a favored few -- the Philippine National, the Yokohama Specie, and the Bank of Taiwan -- and apparently planned to reopen others under supervision.

From several regulations recently published it appears likely that Filipino and Axis nationals will be given access to their deposits and deposit boxes in closed banks. Some of the regulations provide that: any deposits made between January 15 and 30 are to be given free status; withdrawals can be made only if ownership and need can be established; and personal withdrawals are limited to \$200 per month.

There is no indication that the Manila Stock Exchange is still functioning. The market receded sharply just before the Government fled. Between December 24 and 30, officials at Corregidor debated whether to advise Vargas that all transactions consummated after December 24 should be considered invalid, but this was not done.

4. Destruction of property; attacks on persons - The Japanese evidently are encountering real difficulty preventing looting, damage to and destruction of property. Several orders have been issued and the newspapers have warned of the severity of punishment for violations. Lists of apprehended violators, some of whom were executed, appeared in the Manila Bulletin. A Filipino Army espionage man told me that he thought the Japanese were trying to protect American property. He said that Japanese soldiers were maintaining discipline among themselves. It appears that very little disorder has been caused by attacks by natives on Japanese soldiers. So far as I know, there was only one published incident of attack on a Japanese soldier. The newspaper stated that the assailant was executed.

#### Filipino Leaders and Politics

Comment on the personalities who make up the Commonwealth Government and on the political situation in Manila may throw some light on future problems for the United States. My evaluations of these persons have been formulated primarily on the basis of close observation and contact with them at Corregidor for two months, but they are personal opinions nevertheless. Some of my remarks are based on stories from individuals who themselves may not have been impartial, but such opinions have been drawn upon with discrimination.



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About a week before the outbreak of the war, Quezon delivered a speech at the University of the Philippines. It was a savage personal attack on High Commissioner Sayre. It also was subtly aimed at General MacArthur, who, as Quezon implied, had in his five years failed to prepare adequate defenses for the Islands. He denounced the "imperialist" American newspapers and the "imperialist" attitude of the American Colony. Indirectly, criticism was leveled at the President of the United States, inasmuch as Quezon charged that he had prevented him (Quezon), through High Commissioner Sayre, from exercising emergency powers which were vested in him for the protection of the Islands.

I was not present, but I learned that the address was delivered with such passion that Quezon frequently lost control of his voice. I should say that the principal motivations for his address were: (1) an effort to absolve himself before his own people of blame for the imminent catastrophe; (2) genuine sorrow over the certain prospects of invasion; and (3) acute personal disagreement between himself and the High Commissioner, which had its inception as soon as the latter took office and which continued unabated up to the time the two men departed from Corregidor.

Although a majority of the American colony would be of contrary opinion, I believe that Quezon has a profound love for his people and a great admiration for their efforts to defend themselves. At Corregidor he was deeply moved by a message from Occidental Negros stating that 50,000 of them were arming to defend the Islands.

At the same time, Quezon's activities did not augur well for the interests of the United States. He never cooperated genuinely with High Commissioner Sayre. During the past two years he struck out repeatedly for independence in public statements, but in his private political maneuvers, at which he is so adept, he straddled the issue.

Although the newspapers played it down, Quezon's speech gave comfort to the enemy. It indicated that disharmony existed in the Government, Philippine defenses were inadequate, and Government officials were pessimistic over the prospects of successfully defending the Islands.

The cabinet ministers and other high officials accompanied Quezon to Corregidor. Among them were Jose Abad Santos, who was Secretary of Finance, of Justice, and, as I recall, of Commerce; Sergio Osmena, the Vice President;

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General Basilio Valdes; Manuel Roxas; and some lesser functionaries. Just before the occupation Quezon appointed George Vargas, his confidential secretary, to the newly-created position of Mayor of Greater Manila and gave him power to deal with the occupation authorities.

A description of these leaders is given in the next few paragraphs.

For years Osmena was the dominant political leader of the Philippines. A frequent visitor to the United States, he is well acquainted with many of our Government and business leaders. Reserved but friendly, possessed of a keen mind, an astute political tactician, his temperament is quite different from that of the impetuous and brooding Quezon. Osmena comes from the Province of Visaya and is of mixed Chinese and Philippine blood.

When the semi-independent Commonwealth was established by the Tydings-McDuffie Act and the question of whom to elect president of the Commonwealth arose, neither Quezon nor Osmena was considered able to win without the support of the other. Quezon was at that time Speaker of the Assembly. Osmena had been in the States for a year and had been instrumental in securing passage of the Hare-Hawes-Cutting Act, which provided, contingent upon acceptance by the Philippine Legislature, for the eventual independence of the Islands. Fearful of the prestige which Osmena was winning as a result of the passage of the Act, Quezon influenced the Assembly to reject the measure on the grounds that it did not satisfy the desires of the Philippine people, and immediately thereafter went to the United States to secure passage of what he considered would be a more satisfactory measure. As a result, Congress passed the Tydings-McDuffie Act. This Act was in major respects the same as the Hare-Hawes-Cutting Act. Having achieved his purpose, Quezon returned to the Philippines. A political merger was arranged between Quezon and Osmena and the former was easily elected president. Osmena became vice president.

General Valdes, dominantly of Spanish blood, got into the government through marriage. A doctor of medicine about 45 years of age, he served with the American Army in the first World War. His rise in government has been phenomenal. Besides being Commander-in-Chief of the Philippine Army, he held various secretaryships in the Government. Valdes is personable and seems to be well liked.



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Roxas is the protege of Osmena. He also comes from Visaya, and from a rather wealthy family. He has been connected with the government finances for years. Elected Senator in the last election, he was previously Speaker of the House and a dominant figure in government circles. This man is well-educated and well-traveled, both in Europe and the United States. He has an exceptional intellect and an obvious facility in finance. I think he has remarkable knowledge of facts and the ability to interpret them. He is no theoretician, but knows techniques and is extremely practical. He seems to be cool, disciplined, and exceedingly responsive to suggestions of others. He is considered to be the successor to the "throne" by an arrangement between Osmena and Quezon. This man undoubtedly will dominate the future political picture in the Philippines.

Santos was recently appointed Chief Justice. He was formerly Assistant Attorney General. Educated at Northwestern, his leanings are strongly American. Like Osmena, with whom he spent most of his time during the two months at Corregidor, he is retiring but friendly. He was the only prominent Filipino who stood with General Wood, during his Governor-Generalship, in his celebrated dispute with the Filipino leaders. Santos' approach to problems of all types is conservative. Oddly enough, his brother is probably the outstanding Communist leader in the Philippines.

On January 1, 1942, Vargas met with the Japanese Commander to arrange the terms of the occupation. So far as I know, Claude Buss, who remained to represent the High Commissioner's Office, did not figure in these discussions. Following the discussions Vargas declared that order could be preserved only by cooperation of the people with the Japanese authorities. Shortly thereafter formation of the Council of State, to which reference already has been made, was announced. Among the fifty Filipinos who comprised the Council were some who were extremely prominent, such as Vicente Madrigal, one of the financial tycoons of the Islands who had well-established relations with Axis interests in the Orient.

The Council signed a four-page statement that appeared in an issue of the Manila Bulletin dated some time in January. The statement emphasized that: the people must cooperate with the Japanese occupation forces; a return to normal life must be accomplished as quickly as possible; the signers were satisfied that the Japanese would govern in the best interests of the people; the government would be put into the hands of the Council; and the United States had failed

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to keep its pledge to the Philippines. Four of the original fifty members did not sign the pledge. The reasons given for their failure to sign were ill-health and absence from Manila. One of the four was Delgado, former Philippine Resident Commissioner in the United States. At Corregidor it was felt that the four had refused to sign the document.

As the days wore on, the actions and expressions of the Council became more and more abusive of the United States. The propaganda barrage of the Council and the Japanese must have had a strong effect on the simple Filipinos. It was unceasing, shrewdly conceived, and relentlessly applied. It reached a high point in the publication of a leaflet signed by George Vargas. The leaflet was distributed throughout Manila and vicinity and over our troops in Bataan, from planes. The language was vitriolic. Vargas called for clear and unqualified adherence to the Japanese "Co-Prosperity" philosophy. He asked our soldiers to surrender. A message in a similar vein was delivered by him over Radio Manila and other prominent Filipinos also gave such talks. In some cases these individuals may have been forced at pistol-point to give the addresses. An American who was connected with the Atlantic and Gulf Steamship Company, an elderly man who had lived for years in the Philippines, also made a pro-Japanese talk. Some listeners felt that it was voluntary, others that it was not.

Probably the most outstanding pro-Japanese address by a Filipino was made by General Aguinaldo, the revered insurrectionist leader of the Philippines, who had been living in retirement for years close to Manila. It should be noted, however, that his criticisms of the United States and its so-called "imperialist" policies were more moderate than those of Vargas. Whether in this case there was merely a change of strategy, or whether the man himself refused to deliver the same kind of a talk that Vargas did, no one seemed to know. At any rate, the points that Aguinaldo emphasized were the following: the United States had defaulted in her obligations to the Philippines but the Philippines had not defaulted in her obligations to the United States; the Philippines had fought a great battle; in view of the great superiority of the Japanese it was impossible to win; it seemed improbable that help would come; the United States evidently was more interested in Great Britain and her possessions than in the area over which the American flag flew (and this view was held by a great many other Filipinos who could not understand why the Philippines did not come first); a courageous struggle had been waged, but further destruction of life and property could avail nothing and the Army at Bataan should surrender.



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Following Aguinaldo's address the Philippine leaders at Corregidor held a lengthy discussion. General MacArthur and High Commissioner Sayre attempted, without success, to get Quezon to answer Aguinaldo. Previously, Quezon had issued a series of stirring messages to the soldiers urging them to fight to the end. His failure to approve an answer to Aguinaldo was accepted by some people as proof of some prearrangement between him and Vargas, whereby Vargas was to hand over the country to the Japanese. Others felt that Vargas, who previously had not exhibited strong political ambitions, had grasped this opportunity to make himself the dominant political leader of the Filipinos.

The following day I indirectly asked Roxas whether Quezon was going to answer Aguinaldo. He said that it was the feeling of Quezon, Osmena, Santos and himself that such an answer would accomplish nothing except, probably, to require another statement by Aguinaldo, followed by a rejoinder from Quezon, and so on indefinitely; that perhaps the most practical method of handling the issue was to ignore it.

Whether Vargas' actions were in consequence of agreement with Quezon is a question to which no definite answer can at this time be given. Some felt that Quezon maintained communication with Vargas after the occupation. Vargas' moral reputation was not considered to be of the highest order. It very frequently was said that he was not beyond improving his financial position by unethical means. Quezon, of course, frequently has been accused by Americans of the same practices.

It is said that for years Vargas has been a shield for Japanese interests in the Philippines. My personal view is that Quezon had granted Vargas limited powers to deal with the crisis in Manila; that neither Quezon nor the Filipino leaders who were at Corregidor approved of the actions of Vargas; and that Vargas, when the Japanese occupied Manila, simply seized the opportunity to elevate himself to political leadership under the aegis of the invader in preference to remaining loyal to a government that, temporarily, was in retreat.

James J. Saxon,  
Foreign Funds Control,  
Treasury Department.



OFFICE OF THE DIRECTOR

## TREASURY DEPARTMENT

PROCUREMENT DIVISION

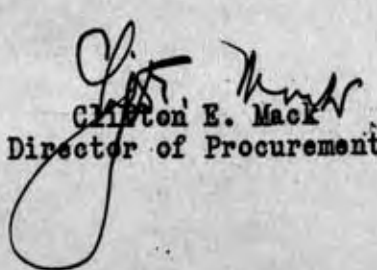
WASHINGTON

May 26, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended May 23, 1942.

We are now working on a plan with the Office of Lend-Lease Administration and the foreign governments participating in the Lend-Lease program for the programming of requirements, so that an all over picture may be had as to the needs inasmuch as practically all of the items requisitioned are of shortage materials, likewise we are endeavoring to coordinate a forecast of available shipping with programmed requirements.

  
Clifton E. Mack  
Director of Procurement

FOR DEFENSE





LEND-LEASE  
 TREASURY DEPARTMENT, PROCUREMENT DIVISION  
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND  
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS  
 AS OF MAY 23, 1942  
 (In Millions of Dollars)

|                                                           | Total                | U. K.              | Russia             | China              | Administrative<br>Expenses | Undistributed &<br>Miscellaneous |
|-----------------------------------------------------------|----------------------|--------------------|--------------------|--------------------|----------------------------|----------------------------------|
| Allocations                                               | \$1700.8<br>(1707.4) | \$708.2<br>(704.1) | \$271.6<br>(262.2) | \$ 59.5<br>( 55.2) | \$ 1.6<br>( 1.6)           | \$659.4<br>(684.3)               |
| Purchase Authoriza-<br>tions (Requisitions)               | \$1000.8<br>( 963.3) | \$655.7<br>(637.4) | \$292.2<br>(275.3) | \$ 45.7<br>( 44.1) | -                          | \$ 6.7<br>( 6.5)                 |
| Requisitions Cleared<br>for Purchase                      | \$ 926.2<br>( 904.5) | \$628.1<br>(619.9) | \$247.4<br>(238.0) | \$ 45.7<br>( 41.7) | -                          | \$ 5.0<br>( 4.9)                 |
| Obligations (Pur-<br>chases)                              | \$ 893.7<br>( 880.2) | \$610.8<br>(605.5) | \$239.8<br>(231.9) | \$ 39.1<br>( 39.0) | \$ 1.1<br>( 1.0)           | \$ 2.9<br>( 2.8)                 |
| *Deliveries to For-<br>eign Governments<br>at U. S. Ports | \$ 378.7<br>( 362.6) | \$300.9<br>(287.3) | \$ 57.2<br>( 55.0) | \$ 19.1<br>( 19.0) | -                          | \$ 1.5<br>( 1.3)                 |

\*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

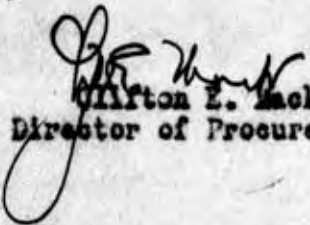
Note: Figures in parentheses are those shown on report of May 16, 1942.

May 26, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended May 23, 1942.

We are now working on a plan with the Office of Lend-Lease Administration and the foreign governments participating in the Lend-Lease program for the programming of requirements, so that an all over picture may be had as to the needs inasmuch as practically all of the items requisitioned are of shortage materials, likewise we are endeavoring to coordinate a forecast of available shipping with programmed requirements.

  
Clinton E. Mack  
Director of Procurement



**LEND-LEASE**  
**TREASURY DEPARTMENT, PROCUREMENT DIVISION**  
**STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND**  
**DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS**  
**AS OF MAY 23, 1942**  
**(In Millions of Dollars)**

|                             | <u>Total</u>    | <u>U. K.</u>   | <u>Russia</u>  | <u>China</u>   | <u>Administrative</u><br><u>Expenses</u> | <u>Undistributed &amp;</u><br><u>Miscellaneous</u> |
|-----------------------------|-----------------|----------------|----------------|----------------|------------------------------------------|----------------------------------------------------|
| <b>Allocations:</b>         | <b>\$1700.3</b> | <b>\$708.2</b> | <b>\$271.6</b> | <b>\$ 59.5</b> | <b>\$ 1.6</b>                            | <b>\$659.4</b>                                     |
|                             | (1707.4)        | (704.1)        | (262.2)        | ( 55.2)        | ( 1.6)                                   | (684.3)                                            |
| <b>Purchase Authoriza-</b>  |                 |                |                |                |                                          |                                                    |
| <b>tions (Requisitions)</b> | <b>\$1000.3</b> | <b>\$655.7</b> | <b>\$292.2</b> | <b>\$ 45.7</b> | <b>-</b>                                 | <b>\$ 6.7</b>                                      |
|                             | ( 963.3)        | (637.4)        | (275.3)        | ( 44.1)        | -                                        | ( 6.5)                                             |
| <b>Requisitions Cleared</b> |                 |                |                |                |                                          |                                                    |
| <b>for Purchase</b>         | <b>\$ 926.2</b> | <b>\$628.1</b> | <b>\$247.4</b> | <b>\$ 45.7</b> | <b>-</b>                                 | <b>\$ 5.0</b>                                      |
|                             | ( 904.5)        | (619.9)        | (238.0)        | ( 41.7)        | -                                        | ( 4.9)                                             |
| <b>Obligations (Pur-</b>    |                 |                |                |                |                                          |                                                    |
| <b>chases)</b>              | <b>\$ 893.7</b> | <b>\$610.8</b> | <b>\$239.8</b> | <b>\$ 39.1</b> | <b>\$ 1.1</b>                            | <b>\$ 2.9</b>                                      |
|                             | ( 880.2)        | (605.5)        | (231.9)        | ( 39.0)        | ( 1.0)                                   | ( 2.8)                                             |
| <b>Deliveries to For-</b>   |                 |                |                |                |                                          |                                                    |
| <b>ign Governments</b>      |                 |                |                |                |                                          |                                                    |
| <b>at U. S. Ports</b>       | <b>\$ 378.7</b> | <b>\$300.9</b> | <b>\$ 57.2</b> | <b>\$ 19.1</b> | <b>-</b>                                 | <b>\$ 1.5</b>                                      |
|                             | ( 362.6)        | (287.3)        | ( 55.0)        | ( 19.0)        | -                                        | ( 1.3)                                             |

Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of May 16, 1942.

## DEPARTMENT OF STATE

ASSISTANT SECRETARY

May 26, 1942.

Dr. Harry White

Revised draft sent to you  
in accordance with Mr. Achilles  
instructions.



## DRAFT

FROM THE BRITISH AMBASSADOR TO THE SECRETARY OF STATE

With a view to supplementing Articles II and VI of the Agreement of February 23, 1942 between our two Governments for the provision of reciprocal aid, I have the honor to set forth below my understanding of the principles and procedures applicable to the provision of aid by the Government of the United Kingdom to the armed forces of the United States and the manner in which such aid will be correlated with the maintenance of those forces by the United States Government.

1. Each of our Governments pledged itself in the United Nations Declaration of January 1, 1942 to employ its full resources, military or economic, against those nations with which it is at war. Each Government undertook in the Agreement of February 23, 1942 to provide the other with such articles, services, facilities or information, useful in the prosecution of their common war undertaking, as each may be in a position to supply. The general principle to be followed in providing

such

-2-

such aid is that the war production and war resources of both nations should be used by the armed forces of each, and of the other United Nations, in ways which most effectively utilize available materials, manpower, productive facilities and shipping space.

2. Where appropriate, decisions as to the most effective use of resources shall be made in common, pursuant to common plans for winning the war.

3. As to financing the provision of such aid, within the fields mentioned below, it is my understanding that the general principle to be applied is that as large a portion as possible of the articles and services to be provided by each Government to the other shall be in the form of reciprocal aid so that the need of each Government for the currency of the other may be reduced to a minimum. It is accordingly my understanding that the United States Government will provide, in accordance with the provisions of, and to the extent authorized under, the Act of March 11, 1941, the share

*an insert**verbal revision*

of



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of its war production made available to the United Kingdom. The Government of the United Kingdom will provide, on the same terms and as reciprocal aid, in accordance with the Agreement of February 27, 1942, the share of its war production made available to the United States.

4. The Government of the United Kingdom will provide the United States or its armed forces with the following types of assistance, as such reciprocal aid, when it is found that they can most effectively be procured in the United Kingdom or in the British colonial empire:

(a) All military equipment, munitions and military and naval stores, whether provided in the United Kingdom, in the field, or in the United States, including such material produced in the United States under United Kingdom contracts, it being assumed that the United States <sup>[understood]</sup> Government will finance, to the extent that funds have been or may be made available, the payment with respect to such contracts of all

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installments remaining unpaid on June 1, 1942;

(b) Other supplies, materials, facilities and services for the United States forces, except for the pay and allowances of such forces and such local purchases as its official establishments may make other than through the official establishments of the Government of the United Kingdom as specified in paragraph 5.

(c) Supplies, materials and services needed in the construction of military projects, tasks and similar capital works required for the common war effort in the United Kingdom or in the British colonial empire, *[other than at leased bases]* except for the wages and salaries of United States citizens.

(d) Supplies, materials and services needed in the construction of such military projects, tasks and capital works in territory other than the United Kingdom or the British colonial empire or territory of the United States to the extent that the United Kingdom or the British colonial empire is a more practicable source of supply than the United States.



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or another of the United Nations.

5. Requests by the United States Government for such aid will be presented by duly authorized authorities of the United States to <sup>designated authorities</sup> official agencies of the United Kingdom which will be designated or established in London and in the areas where United States forces are located for the purpose of facilitating the provision of reciprocal aid.

6. It is my understanding that all such aid accepted by the President of the United States or his authorized representatives from the Government of the United Kingdom will be received as a benefit to the United States under the Act of March 11, 1941. In so far as circumstances will permit, appropriate record of aid received under this arrangement, except for miscellaneous facilities and services, will be kept by each Government.

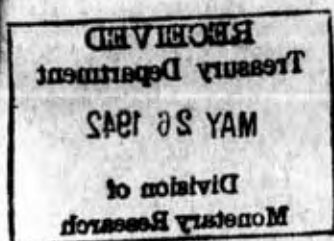
7. The aid to be provided each other by the signatory Governments under the Agreement of February 23, 1942, and as indicated above, will be provided on the

-4-

same terms by each Government to the forces of each of the other United Nations as shall enter into similar arrangements with them.

If the Government of the United States concurs in the foregoing, I would suggest that the present note and your reply to that effect be regarded as placing on record the understanding of our two Governments in this matter.

I have the honor to be at estera, et estera.





BRITISH EMBASSY  
WASHINGTON, D.C.

May 26th, 1942.

Dear Mr. Morgenthau,

Very many thanks for your letter of May 22nd. I can assure you that it was a real privilege to contribute a foreword to the British edition of "There were Giants in the Land" and I am sure that a book of this sort can play a really useful part.

Believe me,

Yours sincerely,

*Halifax*

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

COPY

BRITISH EMBASSY

WASHINGTON, D. C.

By Safe Hand  
No. TF. 95

May 26th, 1942.

Dear Mr. Dietrich,

In connection with recent changes in U.S. General Rulings Nos. 5 and 6A and British Enemy Currency Regulations, you may be interested in some of the following observations which we have gathered from British sources:-

1. On May 5th our Lisbon mission stated that U.S.\$ bank-notes were then quoted at Esc. 11.9612, while £ sterling bank-notes were a wide market at Esc. 25 to Esc. 30. One of the foremost local bankers stated that the fall in the price was due entirely to sales of these notes by the Germans under pressure of their great need for escudos.
2. London, replying to our Lisbon mission on May 12th, expressed gratification at the increased discounts above mentioned, which they felt might be taken to show the efficacy of U.S. Treasury General Ruling 6A and British Enemy Currency Regulations.

In the same message, London quoted a report of U.S.\$2 million in bank-notes being thrown on the Basle market on April 24th, with a resultant similar downward influence on rates.

3. On May 16th, London stated that they had learned of the following rates for U.S.\$ bank-notes:-

May 11th - Esc. 12.20/12.30  
 May 12th - Esc. 12.50/12.90

adding that deals in amounts of \$5,000 to \$10,000 have been done by:-

Cardoz, Lisbon  
 J. Burnay Lda., Lisbon  
 Sdad, Cambista Jose Bonnex, Lisbon  
 Manoel da Silva Carvalho, Lisbon.

London requested our Lisbon mission to ascertain if possible whether the renewed demand was due to any new methods of disposal having been discovered and asked in such case for details with names of ultimate buyers.

Mr. Frank Dietrich,  
 U.S. Treasury Department,  
 Stabilization Office,  
 Washington, D. C.



- 2 -

4. On May 23rd, Lisbon replied to London's questions as to why the U.S.\$ bank-note rate had risen from Esc. 11.85 to Esc. 13.13, with a large number of transactions being consummated during the week ending May 16th. Lisbon stated that reliable information showed that this sudden rise was due to unrestricted speculative buying by Latin American diplomatic people being repatriated from Axis countries. Endeavours were being made to ascertain the names of the principal individuals involved. Our Lisbon mission is keeping the U.S. Commercial Secretary there informed.

It may be interesting to note the rates at which U.S.\$ bank-notes exchanged hands between Swiss and Portuguese bankers at the following dates:-

|                  |                  |
|------------------|------------------|
| January 1942     | Esc. 16.10/16.70 |
| February 1942    | Esc. 16.20/16.90 |
| March 1/18 1942  | Esc. 16.15/16.70 |
| March 19/30 1942 | Esc. 15.80/15.   |

After this date we have some figures by weeks as follows:-

|                    |                   |
|--------------------|-------------------|
| April 17th to 23rd | Esc. 14.35/14.35  |
| April 24th to 30th | Esc. 13.25/14.55  |
| May 1st to 7th     | Esc. 12.30/13.425 |

Yours sincerely,

(Signed) R. J. Stopford.



Ottawa, 26th May, 1942.

Dear Mr. Morgenthau,-

I am much obliged to you for your letter of May 15th enclosing certain material used in the campaign for the sale of War Stamps through the drug stores of the United States.

We are undertaking something of the kind here and the vigorous and skilful steps taken by your Department will prove to be of great assistance and value.

Yours sincerely,

*[Handwritten signature: J. H. Miller]*

The Honourable Henry Morgenthau,  
The Secretary of the Treasury,  
Washington,  
U. S. A.

RECEIVED  
MAY 28 1942  
U.S. DEPT. OF TREASURY



*W. A. R. M. S.*

The Honourable Henry Morgenthau,  
The Secretary of the Treasury,

Washington,

U. S. A.



Sales of United States Savings Bonds  
From May 1 through May 25, 1942  
Compared with Sales Quota for Same Period  
(At issue price in millions of dollars)

58

CONFIDENTIAL

|    | Series E     |         |         |         | Series F and G |        |        |         | Total        |         |         |         |
|----|--------------|---------|---------|---------|----------------|--------|--------|---------|--------------|---------|---------|---------|
|    | Actual Sales |         | Quota,  | Sales   | Actual Sales   |        | Quota, | Sales   | Actual Sales |         | Quota,  | Sales   |
|    | May 1        |         | May 1   | to Date | May 1          |        | May 1  | to Date | May 1        |         | May 1   | to Date |
|    | Daily        | to      | to      | as % of | Daily          | to     | to     | as % of | Daily        | to      | to      | as % of |
|    | Date         | Date    | Date    | Quota   | Date           | Date   | Date*  | Quota   | Date         | Date    | Date    | Quota   |
| 1  | \$ 12.7      | \$ 12.7 | \$ 14.0 | 90.7%   | \$ 7.3         | \$ 7.3 | \$ 9.0 | 81.1%   | \$ 20.0      | \$ 20.0 | \$ 23.0 | 87.0%   |
| 2  | 11.6         | 24.3    | 25.7    | 94.6    | 7.9            | 15.2   | 16.0   | 95.0    | 19.4         | 39.4    | 41.7    | 94.5    |
| 4  | 22.3         | 46.5    | 47.8    | 97.3    | 10.3           | 25.5   | 29.5   | 86.4    | 32.6         | 72.0    | 77.3    | 93.1    |
| 5  | 8.9          | 55.5    | 57.8    | 96.0    | 7.6            | 33.1   | 37.1   | 89.2    | 16.6         | 88.6    | 94.9    | 93.4    |
| 6  | 18.4         | 73.8    | 70.5    | 104.7   | 15.6           | 48.8   | 49.8   | 98.0    | 34.0         | 122.6   | 120.3   | 101.9   |
| 7  | 23.2         | 97.0    | 84.0    | 115.5   | 12.1           | 60.8   | 60.3   | 100.8   | 35.3         | 157.9   | 144.3   | 109.4   |
| 8  | 17.2         | 114.2   | 98.0    | 116.5   | 6.4            | 67.2   | 69.3   | 97.0    | 23.6         | 181.4   | 167.3   | 108.4   |
| 9  | 14.5         | 128.7   | 109.7   | 117.3   | 5.6            | 72.8   | 76.3   | 95.4    | 20.0         | 201.5   | 186.0   | 108.3   |
| 11 | 23.3         | 152.0   | 131.8   | 115.3   | 8.1            | 80.8   | 89.8   | 90.0    | 31.3         | 232.8   | 221.6   | 105.1   |
| 12 | 9.4          | 161.3   | 141.8   | 113.8   | 4.6            | 85.4   | 97.4   | 87.7    | 14.0         | 246.8   | 239.2   | 103.2   |
| 13 | 15.8         | 177.1   | 154.5   | 114.6   | 9.0            | 94.4   | 110.1  | 85.7    | 24.8         | 271.5   | 264.6   | 102.6   |
| 14 | 16.9         | 194.0   | 168.0   | 115.5   | 7.7            | 102.1  | 120.6  | 84.7    | 24.6         | 296.2   | 288.6   | 102.6   |
| 15 | 14.9         | 208.9   | 182.0   | 114.8   | 6.8            | 108.9  | 129.6  | 84.0    | 21.7         | 317.9   | 311.6   | 102.0   |
| 16 | 14.3         | 223.2   | 193.7   | 115.2   | 5.2            | 114.1  | 136.6  | 83.5    | 19.5         | 337.4   | 330.3   | 102.1   |
| 18 | 24.3         | 247.5   | 215.8   | 114.7   | 9.4            | 123.5  | 150.1  | 82.3    | 33.7         | 371.1   | 365.9   | 101.4   |
| 19 | 9.8          | 257.4   | 225.8   | 114.0   | 4.2            | 127.7  | 157.7  | 81.0    | 14.0         | 385.1   | 383.5   | 100.4   |
| 20 | 13.7         | 271.1   | 238.5   | 113.7   | 11.2           | 138.9  | 170.3  | 81.6    | 24.9         | 410.0   | 408.8   | 100.3   |
| 21 | 19.4         | 290.5   | 252.0   | 115.3   | 10.6           | 149.5  | 180.8  | 82.7    | 30.0         | 440.0   | 432.8   | 101.7   |
| 22 | 19.1         | 309.6   | 266.0   | 116.4   | 7.1            | 156.6  | 189.8  | 82.5    | 26.2         | 466.2   | 455.8   | 102.3   |
| 23 | 14.1         | 323.7   | 277.7   | 116.6   | 4.8            | 161.4  | 196.8  | 82.0    | 18.9         | 485.1   | 474.5   | 102.2   |
| 25 | 23.8         | 347.5   | 299.8   | 115.9   | 9.9            | 171.3  | 210.3  | 81.5    | 33.7         | 518.8   | 510.1   | 101.7   |
| 26 |              |         | 309.8   |         |                |        | 217.9  |         |              |         | 527.7   |         |
| 27 |              |         | 322.5   |         |                |        | 230.5  |         |              |         | 553.0   |         |
| 28 |              |         | 336.0   |         |                |        | 241.0  |         |              |         | 577.0   |         |
| 29 |              |         | 350.0   |         |                |        | 250.0  |         |              |         | 600.0   |         |

May 26, 1942.

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

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

\* Takes into account daily trend within the week, but does not take into account the trend by weeks during the month.



Sales of United States Savings Bonds  
From May 1 through May 25, 1942  
Compared with Sales Quota for Same Period  
(At issue price in millions of dollars)

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| Date | Series E     |         |         |                             | Series F and G |        |         |                             | Total        |         |         |                             |
|------|--------------|---------|---------|-----------------------------|----------------|--------|---------|-----------------------------|--------------|---------|---------|-----------------------------|
|      | Actual Sales | Quota   | Sales   | to Date<br>as % of<br>Quota | Actual Sales   | Quota  | Sales   | to Date<br>as % of<br>Quota | Actual Sales | Quota   | Sales   | to Date<br>as % of<br>Quota |
|      | May 1        | May 1   | to Date |                             | May 1          | May 1  | to Date |                             | May 1        | May 1   | to Date |                             |
|      | Daily        | to      | to      |                             | Daily          | to     | to      |                             | Daily        | to      | to      |                             |
|      | Date         | Date    | Date    |                             | Date           | Date*  | Date    |                             | Date         | Date    | Date    |                             |
| 1    | \$ 12.7      | \$ 12.7 | \$ 14.0 | 90.7%                       | \$ 7.3         | \$ 7.3 | \$ 12.0 | 60.8%                       | \$ 20.0      | \$ 20.0 | \$ 26.0 | 76.9%                       |
| 2    | 11.6         | 24.3    | 25.7    | 94.6                        | 7.9            | 15.2   | 21.4    | 71.0                        | 19.4         | 39.4    | 47.1    | 83.7                        |
| 4    | 22.3         | 46.5    | 47.8    | 97.3                        | 10.3           | 25.5   | 39.4    | 64.7                        | 32.6         | 72.0    | 87.2    | 82.6                        |
| 5    | 8.9          | 55.5    | 57.8    | 96.0                        | 7.6            | 33.1   | 49.3    | 67.1                        | 16.6         | 88.6    | 107.1   | 82.7                        |
| 6    | 18.4         | 73.8    | 70.5    | 104.7                       | 15.6           | 48.8   | 64.9    | 75.2                        | 34.0         | 122.6   | 135.4   | 90.5                        |
| 7    | 23.2         | 97.0    | 84.0    | 115.5                       | 12.1           | 60.8   | 76.9    | 79.1                        | 35.3         | 157.9   | 160.9   | 98.1                        |
| 8    | 17.2         | 114.2   | 98.0    | 116.5                       | 6.4            | 67.2   | 86.1    | 78.0                        | 23.6         | 181.4   | 184.1   | 98.5                        |
| 9    | 14.5         | 128.7   | 109.7   | 117.3                       | 5.6            | 72.8   | 92.6    | 78.6                        | 20.0         | 201.5   | 202.3   | 99.6                        |
| 11   | 23.3         | 152.0   | 131.8   | 115.3                       | 8.1            | 80.8   | 104.2   | 77.5                        | 31.3         | 232.8   | 236.0   | 98.6                        |
| 12   | 9.4          | 161.3   | 141.8   | 113.8                       | 4.6            | 85.4   | 110.6   | 77.2                        | 14.0         | 246.8   | 252.4   | 97.8                        |
| 13   | 15.8         | 177.1   | 154.5   | 114.6                       | 9.0            | 94.4   | 120.8   | 78.1                        | 24.8         | 271.5   | 275.3   | 98.6                        |
| 14   | 16.9         | 194.0   | 168.0   | 115.5                       | 7.7            | 102.1  | 129.3   | 79.0                        | 24.6         | 296.2   | 297.3   | 99.6                        |
| 15   | 14.9         | 208.9   | 182.0   | 114.8                       | 6.8            | 108.9  | 136.5   | 79.8                        | 21.7         | 317.9   | 318.5   | 99.8                        |
| 16   | 14.3         | 223.2   | 193.7   | 115.2                       | 5.2            | 114.1  | 142.1   | 80.3                        | 19.5         | 337.4   | 335.8   | 100.5                       |
| 18   | 24.3         | 247.5   | 215.8   | 114.7                       | 9.4            | 123.5  | 153.0   | 80.7                        | 33.7         | 371.1   | 368.8   | 100.6                       |
| 19   | 9.8          | 257.4   | 225.8   | 114.0                       | 4.2            | 127.7  | 159.2   | 80.2                        | 14.0         | 385.1   | 385.0   | 100.0                       |
| 20   | 13.7         | 271.1   | 238.5   | 113.7                       | 11.2           | 138.9  | 169.6   | 81.9                        | 24.9         | 410.0   | 408.1   | 100.5                       |
| 21   | 19.4         | 290.5   | 252.0   | 115.3                       | 10.6           | 149.5  | 178.4   | 83.8                        | 30.0         | 440.0   | 430.4   | 102.2                       |
| 22   | 19.1         | 309.6   | 266.0   | 116.4                       | 7.1            | 156.6  | 186.1   | 84.1                        | 26.2         | 466.2   | 452.1   | 103.1                       |
| 23   | 14.1         | 323.7   | 277.7   | 116.6                       | 4.8            | 161.4  | 192.3   | 83.9                        | 18.9         | 485.1   | 470.0   | 103.2                       |
| 25   | 23.8         | 347.5   | 299.8   | 115.9                       | 9.9            | 171.3  | 204.9   | 83.6                        | 33.7         | 518.8   | 504.7   | 102.8                       |
| 26   |              |         | 309.8   |                             |                |        | 212.5   |                             |              |         | 522.3   |                             |
| 27   |              |         | 322.5   |                             |                |        | 226.2   |                             |              |         | 548.7   |                             |
| 28   |              |         | 336.0   |                             |                |        | 238.7   |                             |              |         | 574.7   |                             |
| 29   |              |         | 350.0   |                             |                |        | 250.0   |                             |              |         | 600.0   |                             |

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

May 26, 1942.

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

\* Takes into account both the daily trend during the week and the monthly trend during the month.



May 26, 1942

*from Mr. [unclear]*  
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## PROPOSAL FOR A SHORT OPEN-END TREASURY NOTE ISSUE

It is proposed that the Treasury should make a continuous offering of 2 1/2 year nonmarketable notes. These notes would be available in unlimited amounts to subscribers including commercial banks. The notes would pay interest semiannually at annual rates that would increase from 1/2 of 1 per cent for the first six months to 7/8 of 1 per cent for the next six months and by six month periods to 1 1/8 per cent, 1 3/8 per cent, and 1 1/2 per cent. In order to enable investors to dispose of their holdings if that should become necessary provision would be made for redemption by the Treasury on 60 days' written notice at par but with no accrued interest. The sale of these notes would be actively promoted by the Victory Fund Committees.

Such an issue would have many advantages:

1. It would attract funds that will not be invested in marketable securities.
2. It would enable investors to fill their entire demands at par as their funds accumulate. On marketable issues the subscriber is allotted only a fraction of his subscription and must either leave the remainder of his available funds idle until the next offering or pay a premium in the market.
3. It would protect the investor from price risk. This risk can never be completely avoided on marketable securities and can be reduced to small proportions only by purchasing short securities with a low return.
4. It would adjust the investor's return to the length of time that he actually held the securities. On marketable securities the holder's return generally depends on the amount of price risk that he has taken. In a war period, when the price of marketable securities must be stabilized, the risk on intermediate and long securities is greatly reduced, but the rate of return is nevertheless at a relatively high level.
5. The proposed issue would enable the investor to solve his problem of maturity distribution. The notes although having a single maturity would have the advantage of early redemption privileges, which among marketable securities can be obtained only by short issues, and it would also carry a higher rate if not redeemed, which among marketable securities can be obtained only by longer issues. The notes could be redeemed on short notice either in total or serially to suit the convenience of the holder. This can be accomplished with marketable securities only by purchasing a wide variety of different maturities.
6. Since the issue would be channeled directly to investors, it would avoid the market problem of secondary distribution.
7. It would not depend for its success on market conditions of a single day, as is the case with offerings of marketable securities.
8. Finally, it would avoid the problem of frequent refunding that is involved in offerings of certificates and short notes. In large part it could replace certificates and short notes, although it could not do so entirely, since investors to some extent would prefer the greater liquidity of these issues, even though they involve some market risk.



The offering would not depress materially the prices of outstanding marketable securities, since it would be of a type so different from outstanding issues that it could not be directly and easily compared with them. Added safeguards in this connection are the existence of a buying rate on bills and the maintenance of the present pattern of rates on all maturities.

The offering would in reality involve less of a demand liability than is involved on marketable securities in a war period. It is generally recognized that the tremendous amount of war financing cannot be accomplished on a widely fluctuating or a declining market. The maintenance of a stable market, however, converts marketable issues into virtually demand liabilities of the Government, while nonmarketable issues require the giving of notice.

On marketable issues subscriptions cannot be accepted in full without either creating a difficult market problem or requiring the establishment of prices below which trading will not be allowed. It is primarily to obtain the advantages of open-end issues and to avoid the difficulties and the arbitrary restrictions on trading that would be involved in open-end marketable issues that the proposal is made for a nonmarketable issue.

Commercial banks as well as other investors would be allowed to purchase the issue. The Treasury has offered bills, certificates, and short bonds to provide media for the necessary amount of commercial bank purchases, and nothing would be accomplished by prohibiting commercial banks from purchasing an open-end security with a maturity that commercial banks want and should have. The inclusion of commercial banks would also have a positive advantage, in that it would help to relieve a feeling that some commercial bankers may have that the Treasury is discriminating against them in prohibiting them from purchasing open-end issues.

The proposed maturity of 2 1/2 years has been chosen with a view to balancing a number of opposing factors. A long maturity might deter some investors and would increase rapidly the cost to the Treasury. On the other hand, a short maturity would carry an unattractive rate and would involve frequent refunding.

The notice period of 60 days also has been chosen with a view to balancing a number of offsetting factors. A long period of notice would deter many investors. A short period, however, would not give the Treasury sufficient time to prepare for meeting large redemptions if they should develop. A short period immediately after issuance would be especially undesirable in view of the heavy registration expense. Funds that are to be invested for only a few weeks or months should be placed in short marketable securities.

The rate of interest payments would be graduated steeply in the earlier part of the period, in order to attract investors who might expect to hold the notes for only six months or a year and who would want to receive a reasonable return on their investment. The rate of interest payments would increase more slowly in the latter part of the period, when investors would be likely to hold the notes both because of inertia and because of the relatively high current return for a short investment. The average return for all periods, however, would be in line with rates on marketable securities.

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## PROPOSAL FOR SERIAL ISSUES BY THE TREASURY

A proposal has been made that for maturities up to ten years the Treasury should offer serial issues instead of single large issues. Each subscriber to an offering would receive a strip of 10 issues of equal amount. One of these issues would mature in each of the succeeding ten years, and each maturity would carry a different coupon rate.

The following advantages are claimed for the serial form of issue:

1. The larger variety of maturities and yields on each offering would meet the individual needs of more investors and consequently would reduce the amount of secondary distribution and would give the Treasury lower rates on new issues.
2. The Treasury would be relieved of the necessity of determining the maturity and the rate best suited to the conditions of the moment and would shift to the secondary market the task of appraising each maturity in relation to the others.
3. The Treasury's refunding problem would be spread.
4. Commercial banks could obtain a balanced distribution of maturities.
5. The market would be broadened, since corporations would purchase the short maturities. The issues would be marketable, and the Treasury's redemption liabilities would not be increased.
6. The shorter maturities would be in effect revolving credits at low costs.
7. Serial issues would reduce trading in the market that now takes place incident to the adjustment of positions to large new offerings.
8. By subscribing to repeated strips of one to ten year maturities the banks after two or three years would have an average maturity of less than five years.

This proposal seems to overlook the fact that the Treasury already has outstanding 73 billion dollars of debt. This debt already is distributed among more than 75 different marketable issues as well as many different types of nonmarketable issues. The amount of the debt that is due or callable in each year, moreover, varies widely.

Under this proposal 10 new issues would be added each quarter or a total of 40 new issues the first year in addition to other offerings such as of bills and long bonds. In subsequent years the number of new issues would be less than 40 if previous issues were reopened at premiums. Since the premiums in some cases would be substantial, however, this possibility



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would be limited. It should be recalled, moreover, that a number of investors object to the reopening of any issues particularly at premiums.

Even the more than 75 issues now outstanding present a real problem to both dealers and investors. Dealers have long complained of the difficulty of making markets in a large number of individual issues. Now that the System Account must maintain the pattern of rates on all maturities, the difficulty of keeping all issues in line is increased as the number of issues is increased. From the practical point of view of operating in the market the number of new issues should be kept at the lowest possible point. Each issue should be of relatively large size instead of the small size that would result from serial issues.

From the point of view of establishing an even distribution of maturities serial issues might be helpful if the Treasury were starting with a small debt or if the distribution were already fairly even. Neither of these conditions is present. For example, the Treasury has 6.8 billion dollars of securities that are due or callable in 1944 compared with 1.5 billion in 1947. If equal amounts were added in each year, the present uneven distribution would be continued. The original purpose of serial issues was to expedite debt retirement, but there is no reason to believe that these issues will be retired as they mature. From the point of view of spreading the Treasury's refunding problem it would be preferable to place new issues in the years where the amount of outstanding issues is relatively small and to avoid as far as possible the years that already have large amounts. The flexibility of Treasury refunding could also be increased by issuing securities with call periods rather than serial issues with a series of definite maturities.

Although commercial banks have been trying to establish a fairly even distribution of maturities in their portfolios, the actual distribution is roughly parallel to the distribution of the outstanding debt. This is illustrated by the two years cited above. Commercial banks on February 28 had 3.1 billion dollars of issues that were due or callable in 1944 and only 700 million dollars in 1947. The years in which commercial banks need and want to increase their holdings are not every one of the next ten but those where their holdings are now relatively small. The complexities of serial issues are such that at best they are probably understood only by large city banks.

Corporations would prefer short maturities, and their demands can best be met by increasing the amount of such issues. Although the average due or callable period on commercial bank holdings is about five years, there are wide variations among individual banks. The portfolios of some banks are much shorter than five years while others are much longer depending on individual policies.

It appears that the amount of secondary distribution would be increased rather than decreased by serial offerings. Each subscriber would receive ten issues maturing in from one to ten years. Corporations and some banks would sell the longer issues and buy the shorter, while other banks

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would do the reverse. Although the success of a serial offering would depend in the first instance on the attractiveness of the bundle of maturities as a whole, each of the ten issues would have a different attractiveness and would involve a different problem of secondary distribution. For each offering there would be ten problems with which to deal. In the proposal it is said that the task of appraising each maturity in relation to the others would be shifted from the Treasury to the secondary market. Under present conditions this means the System Account.

A preferable program would be to offer maturities and types of issues that fit individual needs. Among marketable securities these would include bills, certificates, notes, and short, intermediate, and long bonds. They would also include issues similar to the recent offering of registered 1962-67 bonds.

Among nonmarketable securities would be included a short open-end note issue. The latter issue would include many of the advantages of the serial type and would avoid the disadvantages. It would enable the investor to solve his problem of maturity distribution. The notes although having a single maturity would have the advantage of early redemption privileges, which among marketable securities can be obtained only by short issues, and they would also carry a higher rate if not redeemed, which among marketable securities can be obtained only by longer issues. The notes could be redeemed on short notice either in total or serially to suit the convenience of the holder. This can be accomplished with marketable securities only by purchasing a wide variety of different maturities.



## THE PLACE OF A SHORT-TERM NON-MARKET SECURITY IN THE TREASURY FINANCING PROGRAM.

The Treasury has now established the outlines of a war financing program.

Rates - A range in rates from  $\frac{3}{8}$  of 1% on 90-day bills to  $2\frac{1}{2}\%$  on 20-25 year bonds is in existence (excluding War Savings Bonds).

Maturities - An increased supply of short paper (bills and certificates of indebtedness) has been put into the market - The period up to 10 years has been pretty well defined as the area suitable for bank investment - The needs of longer term investors have been met with a  $2\frac{1}{2}\%$  20-25 year registered bond, offerings of which may be repeated at intervals.

Special Issue - Special obligations have been provided to meet a variety of needs (Series E, F and G War Savings Bonds and Series A and B Tax Anticipation Notes).

Organization - In addition to the War Savings Bond organization set up by States, the Victory Fund Committees set up by Federal Reserve Districts are now being organized to function with respect to all Treasury obligations other than Series E Savings Bonds.

Under all of these headings some improvements can be made in the existing situation. For example:

- (a) Some further rise in very short-term rates might be desirable now that the ability of the System to "fix the rate" on 90-day bills is being demonstrated; a rate of  $\frac{1}{2}$  of 1% on 90-day bills would mean rates on short maturities which would be a little more attractive to non-bank investors than are present rates; it would reduce the possibility of abuse of our "pattern of rates" by purchasers of intermediate term securities for short-term holding; it would give us a short-term rate structure with which we could "see it through," as we can with a maximum rate of  $2\frac{1}{2}\%$  at long term.
- (b) Some further increase, over a period, in the supply of bills and certificates would be useful;
- (c) Some changes in the rules with respect to existing special issues might be helpful, such as an increase in the limit of purchases for Series A Tax Anticipation Notes, and in the rate on Series B Notes;
- (d) Some further definition of the coordination of work of the War Savings Bond organization and the Victory Fund Committees with respect to the sale of Series F and G War Savings Bonds is needed;
- (e) A partial payment or instalment purchase program to facilitate the purchase of government securities of all kinds by non-bank investors, not reached by payroll allotment plans, should be productive.

One particular gap in the program is the lack of a special short-term issue designed to bring in the temporarily idle funds of business concerns, public bodies, and others who are not reached with the regular market issues of bills and

certificates, or which could be better reached, at least from the standpoint of the Treasury, with a special issue. Spot checking has indicated a divergence of opinion among corporate treasurers as to whether such a special issue would be attractive and considerable banker opinion has been expressed in opposition to it. The only way to determine the effectiveness of such an issue, however, is to try it, and with the organization of the Victory Fund Committee, the means of giving it a fair trial will be at hand.

It is suggested that the Treasury again give consideration to a special short-term non-market issue having the following general features:

Maturity - 3 years.

Issue Price - \$100.

Issue Date - First of month for all sold during month.

Callability - None.

Redeemability - At any time after 30 days from issue date on 60 days notice, at \$100 and accrued interest, except that if cashed in less than 6 months from issue date, no interest will be paid.

Interest - Payable semi-annually by check at graduated rates.

Negotiability - None.

Eligibility as Collateral - None.

Class of Purchasers to Whom Available - All except banks receiving demand deposits.

Limit on amount Which May Be Purchased in One Year. - None.

Minimum Denomination - \$1,000.

Under present conditions it should be possible to devise an interest rate for such an obligation which would be sufficiently attractive in comparison with market rates to attract funds, and yet which would not disrupt the short-term nor intermediate-term markets. The following schedule of rates is suggested:

| Period Held<br>(Years) | Semi-Annual<br>Interest Payment<br>per \$100 | Yield Return | Yield from<br>One Interest<br>Period to Another* |
|------------------------|----------------------------------------------|--------------|--------------------------------------------------|
| $\frac{1}{2}$          | \$0.3125                                     | 0.625%       | .625%                                            |
| 1                      | 0.6875                                       | 1.00         | 1.375                                            |
| $1\frac{1}{2}$         | 0.50                                         | 1.00         | 1.00                                             |
| 2                      | 0.50                                         | 1.00         | 1.00                                             |
| $2\frac{1}{2}$         | 0.50                                         | 1.00         | 1.00                                             |
| 3                      | 1.25                                         | 1.25         | 2.50                                             |

\* On an annual basis (twice semi-annual interest payment)



No increase in yield return is provided after it reaches 1% at 1 year, until the last coupon which is raised to 1.25% as a bonus to encourage holding to maturity. With redemption on 60 days notice, the incentive to hold after the first year would be the return of 1% on what is actually 60 day paper. No further inducement would, therefore, seem necessary to encourage the holder to retain the security, if possible, except for the small bonus for holding to final maturity. It is not deemed likely that the funds we are here seeking would generally be available for more than 3 years.

This is a piece of "merchandise" which it would be desirable to have on the shelves if we are to keep our committees continuously at work selling government securities, and, more important, if we are to exhaust all possible means of financing outside the banking system.

June 2, 1942.

The Market Consequences of a "Pattern of Rates."

In all of our discussions of a "pattern of rates" we have perhaps assumed that a market in which a "pattern of rates" has been established, by action of the Treasury and the Federal Reserve System, would continue to display the characteristics of an otherwise free market.

This may be a warranted assumption. The deep rooted habits of banks and other investors may cause them to continue to follow their ordinary investment practices, even though a "pattern of rates" has been established. Alternatively, even though the difference between a market in which prices are free and one in which prices are controlled is recognized, doubts as to the permanence and direction of control may result in disregard of the immediate implications of the establishment of a "pattern of rates."

If the assumption is not warranted, however, difficulties for the financing program may be the consequence. The establishment of a "pattern of rates" creates a situation in which investors in government securities by following a definite program of purchase and sale may secure relatively long term rates of interest on short term holdings. The "pattern of rates" which we have discussed with the Treasury has always been a pattern clustered around a smooth curve, which shows a gradual rise in yield as maturity is extended. So long as the pattern is held, a bond offered for original subscription at par must enjoy a gradual appreciation in price as it approaches maturity. Under such conditions it would be possible to subscribe, say, for <sup>a</sup>2% bond of 1949-51 at par; to hold the bond until the first, or second or some other nearby interest date, collecting interest at the rate of 2% per annum; to sell the bond at a premium thus adding to the net return; and then to repeat the process. This could interfere with the market for short term issues and could become an impediment to the maintenance of a "pattern of rates." Higher rates at the lower end of the pattern would reduce but not eliminate the hazard.



The possibility of such a market situation developing emphasizes the importance of segregating long term bonds from the rest of the market, as was done in the case of the 2 1/2% registered bonds of 1962-67 offered for subscription last month. It also emphasizes an attractive feature of redeemable bonds which bear rates of interest directly geared to the time the bond has been outstanding when presented for redemption. It is not suggested that all of our financing be done with such obligations. It is suggested that there is an added reason for using such obligations when and where they are appropriate; and specifically in meeting short term funds which may temporarily become idle in the hands of business concerns, public bodies and other non-bank investors.

It is also suggested that the possibility of abuse of a "pattern of redemption" technique indicates that the pattern should not be too rigid; that it permit some fluctuation of price around "the line" in order that the certainty of continuing price appreciation may be reduced in the minds of investors.

June 1, 1942.  
AS:R

MONETARY RESERVES, RESERVE REQUIREMENTS, CREDIT POLICY  
AND TREASURY FINANCING

We have consistently taken the view that a large volume of excess reserves is not necessary to assure the success of the war financing program. We have also held the view that the retreat from the excessive excess reserves of the pre-war period should be gradual, so that we might watch its effects on Treasury financing and on interest rates. Finally, we have recommended that the market volume of short-term Treasury paper (bills and certificates) be substantially increased, so as to make more effective whatever aggregate volume of reserves is available to the banks, and so as to provide a convenient medium of System open market operations.

The problem has now become one of determining whether and when the natural decline in excess reserves should be arrested, and by what means. It is obvious that the Federal Reserve Banks are going to have to supply a very large amount of reserve funds to the banks of the country, during the next fiscal year, in order to enable the banks to subscribe to succeeding issues of government securities. It has been estimated that during this twelve month period the commercial banks may have to purchase up to \$30 billions of government securities. Except to the extent that this expansion in bank investment is offset by a reduction in loans, it is to be expected that there will be a corresponding rise in deposits and a proportionate increase in the reserve requirements of the banks. If there is no change in the volume of loans and an increase of \$2 billions in the amount of currency outstanding, the increase in deposits which would accompany purchases

*W. C. C. C.*



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of \$30 billions of government securities by the banks would be \$25 billions.

Assuming no change in the percentages of reserves which member banks are required to maintain, but a greater growth of deposits in reserve city and country banks than in central reserve city banks, the increase in required reserves entailed by this growth in deposits would be in the neighborhood of \$5 billions, which, with the estimated increase of \$2 billions in currency circulation, would require \$7 billions of reserve funds. At the beginning of the fiscal year, excess reserves will probably be between \$2 and \$2½ billions, so that about \$5 billions of additional reserve funds will have to be provided during the year, even though excess reserves were allowed to disappear.

Should we begin to provide such funds immediately in sufficient volume to maintain the present level of excess reserves, or should we allow excess reserves to decline further, and if so, how far? By what method (reduction in reserve requirements, open market operations, or bank borrowing) should these additional reserve funds be made available to the banks, either now or in the future? These questions demand answers which are related not only to the war financing program, but also to the situation with which we shall have to content in the post-war period.

The experience of the past seventeen months sheds some light on these questions. Since the beginning of 1941, excess reserves of all member banks have shrunk from nearly \$7 billions to about \$2½ billions, and in New York City excess reserves have been reduced by about 87%, without harmful effects on interest rates and without interference with the success of Treasury financing. The market has been subject to various

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disturbing influences, and has shown occasional weakness, but these situations have been taken care of without difficulty by System open market operations. Short-term rates have risen, but these rates are still low, and the moderate rise which has occurred has had the beneficial effect of promoting wider distribution of short-term government securities.

This experience does not determine for us the precise amounts of excess reserves which might need to be maintained, either in the country as a whole or in the central money market, to assure a satisfactory response to Treasury offerings of new securities. It does indicate, and experience in recent weeks further confirms the indication, that if the shrinkage in excess reserves is not so abrupt as to cause disturbance in the money market, and is cushioned by open market operations, when necessary, it can probably proceed considerably further without materially affecting interest rates or the response to new issues of government securities. For example, since the first of April excess reserves of New York City banks have been reduced from approximately \$900 millions to about \$500 millions. In the interval Treasury financing has been in the largest volume ever attempted in such a short space of time, the new issues have been well absorbed, and the government security market, in general, was stronger at the end of the period than at the beginning. There is some evidence here that bank participation in war financing, to whatever extent is necessary, will depend not on the maintenance of any particular amount of excess reserves, but upon the degree of ease with which additional reserves can be obtained.



- 4 -

This suggests that the most desirable credit program would be one which would permit a further reduction in the amount of excess reserves, while giving additional assurance that whatever amount of reserve funds is needed by the banks to support the Treasury's financing program will be readily available. The means of doing this without danger to the Treasury's financing program are believed to be at hand.

The first step would be to determine the level of reserve requirements which we wish to try to maintain during the war and immediate post-war periods. Assuming that this would be below the present level, it could then be announced that reserve requirements would be reduced to the determined level. (Meanwhile, of course, we should continue with measures designed to bring into effective use whatever volume of reserves is available throughout the country.) Under present conditions some justification for lowering reserve requirements is not hard to find. Requirements were raised to present levels at a time when excess reserves were much larger and a rapid expansion of bank loans, at least partly to finance inventory accumulation, seemed to justify action to restrain unnecessary credit expansion. There is now little evidence of unnecessary expansion of bank loans, and we know that a considerable expansion of bank credit, in the form of enlarged holdings of government securities, will be essential to the success of the war financing program.

Nor is there obvious need for the wide differentials which now exist between the reserve requirements of the three principal classes of member banks. Prior to August, 1936, the differential between the reserve requirements against demand deposits for country banks and for central reserve city banks was 6 percentage points; now it is 12 percentage

- 5 -

points. Partly as a consequence of this wide differential, banks in the large cities, and particularly in New York City, are less favorably situated with respect to excess reserves than banks whose percentage reserve requirements are lower.

Furthermore, the current figures on excess reserves of the various classes of banks do not accurately portray their true position. In addition to having proportionately much larger excess reserves in their balances with the Reserve Banks, country banks have balances with city correspondents, a considerable part of which is the equivalent of excess reserves. These claims of country banks upon city banks are in excess of the excess reserves of the city banks. In considering reductions in reserve requirements, therefore, it would seem appropriate to effect proportionately greater reductions in reserve requirements of central reserve city banks than of reserve city banks, and proportionately greater reductions in reserve requirements of reserve city banks than of country banks.

In considering how far to go in reducing the percentage reserve requirements of member banks, however, it must be borne in mind that any reduction has the effect not only of increasing excess reserves, but also of increasing the ratio of potential credit expansion to a given amount of reserve funds. We are going to emerge from the war period with a greatly expanded money supply in the form of bank deposits and currency outstanding. If it can be avoided, it would be inadvisable to go so far in lowering reserve requirements during the war period as to increase greatly the possibility of an undesired credit expansion after the war is over.



- 6 -

There are at least two other reasons for not attempting to meet all of the demand for reserve funds during the war period by lowering bank reserve requirements. First, it is too easy and human nature being what it is, our efforts to pay for the war by taxation, saving, and borrowing from non-banking sources will suffer if this easy method of assuring the success of Treasury borrowing from the banks is used. Second, if war expenditures on the scale estimated for the coming fiscal year were continued a second year, the rise in currency in circulation might be in the neighborhood of \$4 billions and the expansion in bank deposits at least \$50 billions. A 50% reduction in reserve requirements, the maximum now permitted by law, would release only about \$5 billions of reserves. Taking account of present excess reserves, this would provide only about half of the reserves which the banks would be required to hold against their increased deposits, after meeting anticipated currency withdrawals. There is a visible end to this road, therefore, and so long as it is being travelled questions will persist as to what is to be done when the end is reached.

The following figures are suggested as limits for reductions to be made in reserve requirements during the war period:

Percentages of Reserves to be Maintained against -

|                 | Central Reserve<br>City Banks | Reserve City<br>Banks | Country<br>Banks |
|-----------------|-------------------------------|-----------------------|------------------|
| Demand Deposits | 20                            | 15                    | 12               |
| Time Deposits   | 5                             | 5                     | 5                |

The approximate amount of reserves which would be released by reductions to these levels would be as follows (based on deposits in March-- last published figures):

|                            | (Millions of Dollars) |
|----------------------------|-----------------------|
| Central Reserve City Banks | \$1,120               |
| Reserve City Banks         | 610                   |
| Country Banks              | 280                   |
|                            | \$2,010               |

If this program of reductions in reserve requirements were adopted, it should be done gradually or, if it is done rapidly, offsetting measures should be taken to avoid sudden large increases in excess reserves, with consequent disruption of the government security market. In the latter case, the disruptive effects might be offset, to whatever extent seemed desirable, by calling for the transfer of funds from war loan deposit to the Reserve Bank, and then gradually releasing these funds through Treasury expenditures. In this way it would be possible to avoid a sudden overflow of funds in the money market, which would tend to cause an undesirable temporary run-up in security prices.

The timing of reductions in reserve requirements is not so important once the underlying policy has been determined and announced. It would seem advantageous, however, <sup>to</sup> begin the reductions before an income tax date, when Treasury receipts tend to be low, and borrowing heavy. For example, the first reduction might be made effective on August 15, to be followed by the second or succeeding reductions on whatever schedule is adopted.

Open market operations meanwhile would be directed continuously toward helping maintain whatever pattern or range of rates in the government security market may be agreed upon with the Treasury. On balance the System would do more buying than selling, thus supplementing the reserve funds provided by a reduction in reserve requirements. Open market operations, on the basis of recent experience, however, <sup>could</sup> maintain a pattern of rates without also maintaining the volume of excess reserves. Gradually, existing excess reserves and those newly created by the lowering of reserve requirements, would be reduced as a result of rising bank deposits and increased currency circulation. Eventually, if this



program were followed, banks would have to begin to borrow from the Federal Reserve Banks if they were to continue to subscribe to new issues of government securities.

It may be questioned whether the banks could be depended upon to subscribe for the necessary volume of Treasury securities, at the rates now contemplated, if they had to obtain all of the necessary reserve funds through borrowing. As part of a program involving a lowering of reserve requirements, continued use of open market operations, and some preparation for the borrowing phase, however, bank borrowing is practicable. A schedule of discount rates would have to be devised and announced which would permit the banks to borrow from the Reserve Banks, without loss or with some profit, when borrowing was necessary. Even then, however, banks might feel that the purchase of government securities, when they had to borrow reserves to do so, involved a net loss if government deposits continued to be subject to assessment for the support of the Federal Deposit Insurance Corporation. It is suggested, therefore, that government deposits be exempted from this assessment, since these secured deposits create no risk for the Federal Deposit Insurance Corporation and since this would facilitate the Treasury's financing program. Finally, it could be arranged, if necessary, to have some of the leading banks of the country set the fashion, so that no discredit would adhere to the practice of borrowing reserves in order to continue to participate in financing the war. Under such conditions, it is believed that the banks would resume the habit of borrowing from the Federal Reserve Banks; that a semi-automatic method of providing additional reserve funds where needed in the banking system would have been established; and that the Federal

- 9 -

Reserve System would be placed in a preferred position as to credit control.

Unless some such combination program of providing the banks of the country with reserve funds can be devised and made operative, it is difficult to see how the use of bank credit in financing the war program is to be kept at a minimum, or how we are to retain a satisfactory degree of control of credit in the post-war period.

June 2, 1942.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE May 26, 1942

TO Secretary Morgenthau  
FROM Ferdinand Kuhn, Jr.

Here are the detailed results of Gallup Poll on Presidential possibilities; you asked about these results last week. The detailed figures are not going to be published and they are being kept strictly confidential for obvious reasons.

The question was: "Will you tell me frankly what you think of each of these men as Presidential material for 1944? Generally speaking, is your opinion of them favorable or unfavorable?"

|             | <u>Favorable</u> | <u>Unfavorable</u> |
|-------------|------------------|--------------------|
| Roosevelt   | 59%              | 35%                |
| MacArthur   | 56               | 30                 |
| Willkie     | 44               | 45                 |
| Dewey       | 40               | 34                 |
| Wallace     | 31               | 39                 |
| Nelson      | 29               | 22                 |
| Taft        | 26               | 33                 |
| Knudsen     | 22               | 28                 |
| McNutt      | 22               | 29                 |
| Farley      | 21               | 54                 |
| Douglas     | 20               | 18                 |
| Roberts     | 18               | 21                 |
| Vandenberg  | 15               | 30                 |
| Henderson   | 13               | 37                 |
| Stassen     | 11               | 16                 |
| Edison      | 10               | 19                 |
| Lindbergh   | 10               | 80                 |
| Saltonstall | 8                | 13                 |

J. K.

Treasury Department  
Division of Monetary Research

Date 6/3/42 19

To: Miss Chauncey

From: L. Shanahan

Returned for your files.

Mr. White and Mr. Foley talked to the  
Secretary about this prior to the  
McCarran hearings on silver.



WAR PRODUCTION BOARD  
WASHINGTON, D. C.

OFFICE OF  
DONALD M. NELSON  
CHAIRMAN

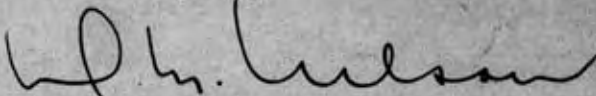
May 26, 1942

My dear Mr. Secretary:

In accordance with your request, I attach herewith several documents on silver, including data on the amount of silver we would like to have made available and the uses to which we would like to put it.

If you would like any further details, please let me know.

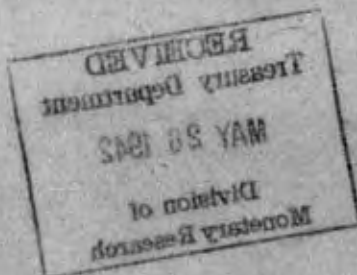
Sincerely yours,



Donald M. Nelson

The Honorable Henry Morgenthau, Jr.  
Secretary of the Treasury

Attachments



May 26, 1942

HAA

Mr. Donald M. Nelson  
Chairman, War Production Board

Dear Mr. Nelson:

Attached hereto are the following:

(1) Summary of silver situation, May 26, 1942

(2) Tabulation showing estimated potential annual consumption of silver in industrial uses (This is a revision of the tabulation sent to Mr. Morgenthau with your letter of April 29 and represents no change in substance but does include a showing of the scarce materials which are saved through the use of silver. )

You will probably wish to forward copies of these to Mr. Morgenthau and to Mr. Jones in accordance with Mr. Morgenthau's request.

(3) For your own information, prior to your appearance before the silver committee, attached is a summary of possible legislative action including a copy of Mr. Morgenthau's letter to you of May 7, 1942.

Very sincerely yours,

(Signed) Lessing J. Rosenwald

Lessing J. Rosenwald  
Chief  
Bureau of Industrial Conservation

Enclosures

LMJ:cel



May 26, 1942

Silver SituationSupplyTreasuryShort  
Tons

|                                         |               |
|-----------------------------------------|---------------|
| Free bullion                            | 46,880        |
| Bullion securing silver certificates    | 39,700        |
| <b>Total silver bullion in Treasury</b> | <b>86,580</b> |

Estimated additions, 1942

|                          |              |
|--------------------------|--------------|
| Domestic Mine production | 2,500        |
| Imports                  | 3,700        |
| <b>Total</b>             | <b>6,200</b> |

Demand

|                                                                                                                           |          |
|---------------------------------------------------------------------------------------------------------------------------|----------|
| Estimated to be used in bus bars and similar non-consuming uses in plants essential to war effort, presently contemplated | 40,000   |
| Additional similar possible uses                                                                                          | 20,000   |
| Estimated industrial uses of silver if the silver is available 1942 and annually thereafter (Approximately)               | 11,000 * |

Current Situation

As a result of U.S. legislation, the only silver currently going into industrial uses is the imported silver, so approximately 3,700 tons a year are being used to satisfy a potential demand for industrial silver of approximately 11,000 tons. This means that currently there is a potential shortage for industrial uses of around 7,500 tons a year and if importations should stop the shortage would be 11,000 tons a year.

Even if the domestic mine production is allowed to go into industrial use there will still be a shortage of from 5,000 to 6,500 tons a year, based on the estimated potential demand. From the figures shown above, this entire demand could be satisfied for a number of years out of Treasury-owned silver.

\* Details shown on attached tabulation, April 29, 1942 (rev.)

**ESTIMATED POTENTIAL ANNUAL CONSUMPTION OF SILVER, BY MAJOR USES  
AND SCARCE MATERIALS SAVED  
(Short Tons)**

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| Use                                           | Potential<br>Annual<br>Consumption | Scarce<br>Materials<br>Saved <sup>a/</sup> |
|-----------------------------------------------|------------------------------------|--------------------------------------------|
| <b>Total Consumption (including military)</b> | <b><u>11,285</u></b>               |                                            |
| Bearing Materials                             | <u>500</u>                         | 2,7,9                                      |
| Chemical Industry                             | <u>685</u>                         | 2,3,5                                      |
| Electroplating Anodes and Salts               | <u>305</u>                         |                                            |
| Photographic                                  | <u>320</u>                         |                                            |
| Other                                         | <u>60</u>                          |                                            |
| Containers (Returnable)                       | <u>1,500</u>                       | 1,2,4,6,7                                  |
| Dental and Medical                            | <u>100</u>                         | 2,3,6                                      |
| Electrical Industry                           | <u>2,000</u>                       | 1,2,8                                      |
| Contacts                                      | <u>500</u>                         |                                            |
| Other                                         | <u>1,500</u>                       |                                            |
| Solder                                        | <u>2,300</u>                       | 2,9,7                                      |
| Copper-zinc                                   | <u>700</u>                         |                                            |
| Lead                                          | <u>1,600</u>                       |                                            |
| Miscellaneous                                 | <u>500</u>                         | var.                                       |
| Decorative Arts                               | <u>1,700</u>                       | var.                                       |
| Silverware and Holloware                      | <u>1,350</u>                       |                                            |
| Other                                         | <u>350</u>                         |                                            |

Source: War Production Board, Division of Statistics

<sup>a/</sup> Scarce Materials Saved.

- |                         |                                                     |
|-------------------------|-----------------------------------------------------|
| 1) Aluminum             | 6) Stainless Steel                                  |
| 2) Copper <sup>b/</sup> | 7) Tin (Solder at 2½% silver saves 21,000 tons tin) |
| 3) Chromium             | (Containers with .001" silver coat saves            |
| 4) Monel Metal          | 2500 tons tin)                                      |
| 5) Nickel               | 8) Tungsten                                         |
|                         | 9) Zinc                                             |

<sup>b/</sup> Additional non-recurring uses for bus bars, etc. will save 40,000 to 60,000 tons of copper.

April 29, 1942 (rev.)



May 26, 1942

Possible Legislation with Reference to SilverCurrent Legislative Situation

The Treasury, with the approval of the Attorney General, has decided that it can permit the use of its free silver in non-consuming uses in essential war plants. It does not feel, however, that under existing legislation it can permit the silver held as security for the silver certificates to be used as bus bars.

Also, under existing legislation the Treasury is required to pay 71.11 cents per ounce for all domestically mined silver offered to it. (Act of July 8, 1939).

Under the Silver Purchase Act of 1934 the Secretary may sell silver when either

- (a) the market price exceeds its monetary value, or
- (b) when the monetary value of silver is greater than 25% of the monetary value of combined stocks of silver and gold,

Provided the Secretary must retain silver coin or bullion equal in monetary value to the face amount of silver currency outstanding.

The term "monetary value" is defined as a value calculated on the basis of one dollar for an amount of silver equal to the amount contained in the standard silver dollar. This amounts to about \$1.29 per ounce at the present time.

Since neither of these conditions presently exists, the Treasury is not in a position to sell any silver for industrial uses at the present time.

What Can Be Done

There are various ways of solving this problem by legislation, as pointed out in the attached letter of May 7, 1942 from the Secretary of the Treasury to Donald M. Nelson.

The following are suggested as reasonable possibilities:

- (1) Repeal the Act requiring the Treasury to pay 71 cents an ounce for domestically mined silver. This would permit such silver to be purchased for industrial uses and would free about 2,500 tons a year at present production rates.
- (2) Permit the sale by the Treasury of free silver bullion.

Since it is anticipated that 40,000 tons of the 46,850 tons of free silver presently held by the Treasury is to be loaned to Defense Plant Corporation for use as bus bars, etc., in essential war plants, this would leave only 6,850 tons of free silver available for sale. Accordingly, it would seem necessary as a supplement to (2) that legislation permit the plying of the silver certificate collateral in non-consuming uses, such as bus bars in essential war plants.

As an alternative the legislation might suspend the requirement for the maintenance of silver as collateral for outstanding silver certificates during the war. Since the present collateral for the silver certificates practically equals the (40,000 tons) contemplated uses as bus bars the legislation suggested in (2) above would permit the sale of the entire amount of presently free bullion for industrial uses.

Whether the legislation should name a price limit of around 35 cents at which the free silver could be sold by the Treasury is a matter to be considered. The present market price is about 35 cents an ounce. It is debatable how this price would be affected if the Treasury was to sell a substantial amount of its free silver. However, with the increased demand for industrial use, it would seem that the Treasury could pretty well control this price in its sale.

#### Considerations in Connection with Possible Legislation

Present silver legislation requires that the Treasury pay 71.11 cents per ounce for all domestically mined silver. With the market price around 35 cents, this means the Treasury, as a result of this legislation, is forced to pay twice as much for its silver as it otherwise would. Since it is buying about 70 million ounces a year, which is costing the Government about 50 million dollars, it means that we are paying the silver mines in this country a subsidy of about 25 million dollars a year.

The War Production Board's sole interest is to see that the silver is made available. The Silver Committee may prefer not to mend the legislation requiring the Treasury to purchase domestically mined silver at 71 cents. However, if legislation is enacted which permits the Treasury to sell silver for industrial uses at 35 cents, public disclosure of the situation would appear to place a severe strain on the Act which requires the Treasury to pay 71 cents for this silver.



## THE SECRETARY OF THE TREASURY

WASHINGTON

May 7, 1942

Dear Mr. Nelson:

I have been giving careful consideration to your letter of April 29, 1942, in which you ask for my views as to what additional amount of silver from the monetary stocks of the United States can be made available for war production purposes with and without additional legislation.

In connection with the possibility of obtaining new silver legislation, I should like to mention that I have stated to the Special Silver Committee in the Senate that I would not urge the enactment of new silver legislation or the sale of substantial amounts of silver without first consulting that Committee.

In the event that you desire to urge the enactment of new legislation, there are a number of different ways of dealing with the problem, among which are the following:

(a) Repeal or suspend during the war the Act of July 6, 1939, requiring the Treasury to pay 71.11 cents per ounce for domestically mined silver.

(b) Repeal or suspend for the duration of the war sections 3 and 4 of the Silver Purchase Act and grant authority to the Secretary of the Treasury to sell the free silver stocks at a minimum price of 35 cents an ounce and also grant the authority to the Secretary of the Treasury to dispose of such silver without monetary consideration for use in the production of war materials produced or manufactured pursuant to contract with the United States.

- 2 -

(c) Authorize the Secretary of the Treasury to call in outstanding coinage, melt down the same, and sell, lease, or otherwise dispose of the metals therein contained for purposes of war production, and to substitute for such coinage other coins made of non-strategic materials.

(d) Authorize the Secretary of the Treasury to suspend the issue of silver certificates and to retire outstanding silver certificates. In the alternative, authorize the suspension during the war of the requirement for the maintenance of silver as collateral for outstanding silver certificates, thereby making possible the use of all silver in the monetary stocks as free silver.

The Treasury Department will continue to be available to discuss with you and representatives of the War Production Board any problems relating to the use of silver in the war effort.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

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



MAY 26 1942

My dear Mr. President:

I am enclosing report on our exports to some selected countries for the period ending May 10, 1942.

Faithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The President,

The White House.

Enclosure.

n.m.c.

By Messenger S.S. Agent. 3:40  
copied to D. White

HDW:meh  
5/23/42

Ref. to Secretary's office

May 22, 1942

Exports to Russia, Free China, Burma and other  
blocked countries, as reported to the Treasury  
department during the ten-day period ending  
May 10, 1942

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending May 10, 1942, amounted to nearly \$29,000,000. Motor trucks and military tanks were the principal items. However, due to changes in reporting procedure by the Department of Commerce, these figures and those given below do not give a complete report for the period under review. (See Appendix C.)

2. Exports to Free China and Burma

Exports to Free China during the ten-day period ending May 10, 1942 amounted to about \$296,000, of which military equipment accounted for considerably more than half. (See Appendix D.)

No exports to Burma were reported.

3. Exports to France

No exports to France were reported during the period under review.

4. Exports to other blocked countries

Exports to other blocked countries are given in Appendix A. Most important were exports to Sweden amounting to \$85,000.

ISF/efa  
5/23/42



STRICTLY CONFIDENTIAL

SUMMARY OF UNITED STATES  
DOMESTIC EXPORTS TO SELECTED COUNTRIES  
AS REPORTED TO THE TREASURY DEPARTMENT  
FROM EXPORT DECLARATIONS RECEIVED  
DURING THE PERIOD INDICATED 1/

July 28, 1941 to May 10, 1942.

(In thousands of dollars)

|                        | July 28<br>to<br>April 30 | Period ended<br>April 30 | Period ended<br>May 10 6/ | Total<br>Domestic Exports |
|------------------------|---------------------------|--------------------------|---------------------------|---------------------------|
| U. S. S. R.            | \$397,731                 | \$50,988                 | \$38,652                  | \$477,371                 |
| Free China             | 70,866                    | 2,827                    | 296                       | 73,989                    |
| Burma 2/               | 12,196                    | -                        | -                         | 12,196                    |
| France 3/              | 6                         | -                        | -                         | 6                         |
| Occupied France        | 2                         | -                        | -                         | 2                         |
| Unoccupied France      | 28                        | -                        | -                         | 28                        |
| Spain                  | 2,849                     | 5/                       | 5/                        | 2,849                     |
| Switzerland            | 9,783                     | 223                      | 5/                        | 10,006                    |
| Sweden                 | 17,491                    | 185                      | 85                        | 17,761                    |
| Portugal               | 8,744                     | 51                       | 5/                        | 8,795                     |
| French North Africa 4/ | 6,283                     | -                        | -                         | 6,283                     |

Treasury Department, Division of Monetary Research

May 20, 1942.

- 1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period. The longer the period covered, the closer will these figures come to Department of Commerce revised figures.
- 2/ From September 11, 1941 to date -- it is presumed that a large percentage of material listed here, consigned to Burma, is destined for Free China.
- 3/ Includes both Occupied and Unoccupied France through week ending October 4, 1941. Occupied and Unoccupied France separated thereafter.
- 4/ Includes Morocco, Algeria, and Tunisia.
- 5/ Less than \$500.
- 6/ Due to changes in reporting procedure by the Department of Commerce, this report is incomplete for the period indicated.

JNW:rl 5/20/42

Regraded Unclassified

## APPENDIX B

Exports from the U. S. to Free China, Burma and  
U. S. S. R. as reported to the Treasury Department  
July 26, 1941 - May 10, 1942  
(Thousands of Dollars)

|                                 | Exports to<br>Free China | Exports to<br>Burma $\frac{1}{2}$ | Exports to<br>U. S. S. R. |
|---------------------------------|--------------------------|-----------------------------------|---------------------------|
| July 26 - Aug. 2                | 395                      |                                   | 4,523                     |
| Aug. 4 - Aug. 9                 | -                        |                                   | 551                       |
| Aug. 11 - Aug. 16               | 309                      |                                   | 586                       |
| Aug. 18 - Aug. 23               | 2                        |                                   | 2,735                     |
| Aug. 25 - Aug. 30               | 1                        |                                   | 1,023                     |
| Sept. 2 - Sept. 6               | 204                      |                                   | 4,260                     |
| Sept. 8 - Sept. 13              | 2,881 $\frac{2}{2}$      |                                   | 5,217                     |
| Sept. 15 - Sept. 20             | 3,822 $\frac{2}{2}$      |                                   | 752                       |
| Sept. 22 - Sept. 27             | 110                      | 449                               | 2,333                     |
| Sept. 29 - Oct. 4               | 1,225                    | 684                               | 523                       |
| Oct. 6 - Oct. 11                | 5,312                    | 1,157                             | 6,845                     |
| Oct. 13 - Oct. 18               | 5                        | 35                                | 1,924                     |
| Oct. 20 - Oct. 25               | 269                      | 403                               | 5,623                     |
| Oct. 27 - Nov. 1                | 4,772                    | 58                                | 4,484                     |
| Nov. 3 - Nov. 8                 | 1,672                    | 342                               | 4,552                     |
| Nov. 10 - Nov. 15               | 2,851                    | 88                                | 2,877                     |
| Nov. 17 - Nov. 22               | 1,228                    | 1,021                             | 3,581                     |
| Nov. 24 - Nov. 29               | 3,239                    | 1,364                             | 2,436                     |
| Dec. 1 - Dec. 6                 | 791                      | 64                                | 3,609                     |
| Dec. 8 - Dec. 13                | 2,337                    | 18                                | 12,040                    |
| Dec. 15 - Dec. 20               | 111                      | 8                                 | 4,580                     |
| Dec. 22 - Dec. 27               | 1                        | 196                               | 1,829                     |
| Dec. 29 - Jan. 3                | 35                       | 2                                 | 3,993                     |
| Jan. 5 - Jan. 10                | 91                       | 1,073                             | 8,247                     |
| Jan. 12 - Jan. 17               | 1,695                    | 447                               | 5,874                     |
| Jan. 19 - Jan. 24               | -                        | -                                 | 3,885                     |
| Jan. 26 - Jan. 31               | 6,938                    | 923                               | 9,608                     |
| Feb. 1 - Feb. 10 $\frac{1}{2}$  | 4,889                    | 1,054                             | 13,315                    |
| Feb. 10 - Feb. 20               | 4,853                    | 583                               | 26,174                    |
| Feb. 20 - Feb. 28               | 2,921                    | -                                 | 28,119                    |
| Mar. 1 - Mar. 10                | 2,879                    | 23                                | 32,309                    |
| Mar. 10 - Mar. 20               | 8,098                    | 3                                 | 28,556                    |
| Mar. 20 - Mar. 31 $\frac{5}{2}$ | 2                        | 2                                 | 42,435                    |
| Apr. 1 - Apr. 10                | 4,836                    | 447                               | 51,698                    |
| Apr. 11 - Apr. 20               | 5,335                    | 639                               | 66,906                    |
| Apr. 21 - Apr. 30               | 2,827                    | -                                 | 50,958                    |
| May 1 - May 10 $\frac{1}{2}$    | 296                      | -                                 | 28,652                    |
| Total                           | \$76,592                 | \$11,083                          | \$477,832                 |

1. These figures are in part taken from copies of shipping manifests.
2. Figures for exports to Free China during these weeks include exports to Rangoon which are presumed to be destined for Free China.



**Appendix B**  
**Exports from the U.S. to Free China,**  
**Burma, and U.S.S.R.**

3. It is presumed that a large percentage of exports to Burma are destined for Free China.
4. Beginning with February 1 figures will be given for 10-day period instead of week except where otherwise indicated.
5. 8-day period.
6. 11-day period.
7. Due to changes in reporting procedure by the Department of Commerce, this report is incomplete for the period indicated.

**Appendix B**  
**Exports from the U.S. to Free China,**  
**Burma, and U.S.S.R.**

3. It is presumed that a large percentage of exports to Burma are destined for Free China.
4. Beginning with February 1 figures will be given for 10-day period instead of week except where otherwise indicated.
5. 8-day period.
6. 11-day period.
7. Due to changes in reporting procedure by the Department of Commerce, this report is incomplete for the period indicated.



## APPENDIX C

Principal Exports from U. S. to U.S.S.R.  
as reported to the Treasury Department  
during the ten-day period ending  
May 10, 1942 1/

(Thousands of Dollars)

TOTAL EXPORTS \$ 28,652

## Principal Items:

|                                                             |       |
|-------------------------------------------------------------|-------|
| Motor trucks                                                | 4,232 |
| Military tanks - medium                                     | 2,880 |
| Eggs, frozen, dried or canned                               | 2,348 |
| Landplanes - pursuit, interceptor<br>and fighter (1 engine) | 2,059 |
| Landplanes - pursuit, interceptor and<br>fighter (2 engine) | 1,287 |
| Insulated copper wire                                       | 1,045 |
| Steel sheets                                                | 935   |
| Sausage, canned                                             | 875   |
| Landplanes - light bombers (1 engine)                       | 750   |
| Steel bars                                                  | 615   |
| Aircraft engine parts and accessories                       | 570   |
| Pork, canned                                                | 535   |
| Military tanks - light                                      | 468   |
| Infantry support weapons - 3-inch anti-tank                 | 459   |
| Armor plate                                                 | 452   |
| Refined copper                                              | 438   |

1. Due to changes in reporting procedure by the Department of Commerce,  
this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research

May 22, 1942

LSW/af  
5/22/42

APPENDIX B

Principal Exports from U. S. to Free China  
as reported to the Treasury Department  
during the ten-day period ending  
May 10, 1942 1/

(Thousands of Dollars)

TOTAL EXPORTS

\$ 296

Principal Items:

|                                                   |     |
|---------------------------------------------------|-----|
| Military equipment                                | 188 |
| Ore and rock crushing and sorting machinery       | 59  |
| Other mining quarrying machinery and parts        | 43  |
| Iron and steel pipe, n.e.s.                       | 2   |
| Telephone equipment and parts                     | 2   |
| Relief supplies - surgical and hospital equipment | 1   |

1. Due to changes in reporting procedure by the Department of Commerce, this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research May 22, 1942

ISW/af  
5/22/42



MAY 26 1942

My dear Mr. Secretary:

I am enclosing copy of report on  
our exports to some selected countries  
for the period ending May 10, 1942.

Sincerely yours,

(Signed) H. Morgenthau, JFJ  
Secretary of the Treasury

The Honorable,  
The Secretary of State,  
Washington, D. C.

Enclosure.

H.M.C.  
By Messenger *Reached 5:15*  
*Copies to Dr. White*

HDW:mah  
5/25/42

*Let to Secy's office*

MAY 26 1942

My dear Colonel Donovan:

I am enclosing copy of report on  
our experts to some selected countries  
for the period ending May 10, 1942.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Colonel William J. Donovan,  
Coordinator of Information,  
Old National Institute of Health Building,  
25th and E Streets, N. W.,  
Washington, D. C.

Enclosure.

n.m.c.

By Messenger *Recd 3:15*  
*Copies to Dr. White*

HDW:mah  
5/25/42

*Ret. to Secy's office*



MAY 26 1942

My dear Mr. Perkins:

I am enclosing five copies of the report on our exports to some selected countries for the period ending May 10, 1942.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Milo Perkins,  
Executive Director,  
Board of Economic Warfare,  
Room 3710,  
Department of Commerce Building,  
Washington, D. C.

Enclosures.

H.M.C.

By Messenger

Vouch 3:15  
up to Dr. WhiteH.M.C.  
5/23/42

Ret. to Sec. office

COPY NO. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 172

Information received up to 7 A.M., 26th May, 1942.

1. NAVAL

The outward bound Russian convoy was attacked for three hours yesterday evening by a total of at least 32 torpedo and dive bombers of which one was certainly and four were probably destroyed. Our only casualty was one U.S. ship which fractured a steam pipe and is being towed back.

2. MILITARY

LIBYA. 23rd. 75 enemy tanks were reported near SEGNAI and on 24th a large enemy camp, four miles by five in area between CHERIMA and SIDI BREGHIS.

RUSSIA. The Germans' claim to have surrounded large Russian forces in the area South of KHARKOV is not yet confirmed. It is, however, possible that German counter attacks have isolated Russian elements in the ISYUM area.

3. AIR OPERATIONS

WESTERN FRONT. 25th. 15 Squadrons of fighters carried out sweeps over Northern France. Two Spitfires are missing. A Beaufighter attacked a 1200 ton ship off KERGEN. One German bomber was damaged near LEICESTER.

LIBYA. Four Wellingtons attacked shipping off BENGHAZI, a vessel of about 5,000 tons is believed to have been hit and another smaller one was straddled.

4. EASTERN MEDITERRANEAN

Throughout the winter there has been regular shipping traffic from THE PIRAEUS to CRETE carrying stores and reinforcements, in particular there has been a steady build-up in CRETE and the DODECANESE of Army and Air Force material with strengthening of Coastal and A.A. defences. The trend of traffic to Cretan ports is slightly upwards. So far Naval and Military preparations in the AEGEAN have been essentially defensive and/or long term. Air preparations, however, indicate increasingly offensive intention which may be directed primarily against shipping and communications in North Africa. There are also some pointers towards more offensive Naval intentions.



COPY NO. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 175

LIBYA. On 26th, enemy advanced East and southeast about 15 miles from ROTUNDA SEGNAI. 66 tanks and 10 Armoured cars observed, all probably Italian. Movement with 51 tanks probably German also made towards our main division about GENZALA. No large concentration enemy tanks yet seen. Enemy movement is possibly first phase of operation but no indication yet of direction of main thrust.

OPTEL No. 176

Information received up to 7 A.M., 28th May, 1942.

1. NAVAL

Constant attacks by aircraft and U-boats on the convoy to RUSSIA are reported to have sunk six ships since the 26th. Several others and a Polish Destroyer, one of the escort, were damaged. There were 8 killed on the Destroyer. A Naval Minesweeper was sunk by mine off GREAT YARMOUTH yesterday. 7 Officers and 97 Ratings were rescued. Three enemy aircraft attacked and sank a Naval Trawler at SPITHEAD yesterday afternoon. One of them was shot down by Spitfires.

2. MILITARY

LIBYA. On 27th it was reported that 250 German tanks after making a night approach march South of BIR HAKEIM were being engaged by our First and Seventh Armoured Divisions between BIR HAKEIM and EL GOBI. At the same time the enemy was carrying out an apparent demonstration on the Front of First South African Division in the GAZALA Area. BIR HAKEIM itself had not so far been attacked.

RUSSIA. The Germans are continuing to press their counter attack in the ISYUM area.

3. AIR OPERATIONS

WESTERN FRONT. 27th. During three Fighter Sweeps 3 enemy minesweepers were attacked and damaged, two enemy fighters were destroyed, one probably destroyed and 6 damaged. One Spitfire was lost. 27th/28th. About 48 enemy aircraft operated over or near our coasts, the majority sea mining between TEES and HUMBUR. One Heinkel was probably destroyed.

- 2 -

LIBYA. In operations between 22nd/23rd and 26th/27th landing grounds at MARTUBA and DERNA were each attacked three times by a total of 65 of our bombers. 2 enemy aircraft were destroyed and three damaged on the ground. Mines were laid in BENGHAZI and DERNA Harbours. Our fighters, some carrying bombs, made six attacks on TMIMI landing ground. Kittyhawks destroyed 6 large M.T. and damaged 9 others. In all operations our fighters and A/A destroyed 7 enemy aircraft, probably destroyed 3 and damaged 3. 3 Bombers, 6 fighters and 1 reconnaissance Hurricane are missing. Attacks by enemy aircraft caused little damage except on the railway south of SIDI BARRANI where 30 petrol wagons were set on fire.

MALTA. Between 1300/25th and 0530/27th about 30 enemy bombers and 105 fighters attacked the Island. No serious damage is reported. Our fighters destroyed three enemy fighters and probably destroyed one while a further 7 aircraft were damaged by fighters and A/A fire.



UNITED STATES GOVERNMENT  
COORDINATOR OF INFORMATION  
WASHINGTON, D. C.



May 26, 1942

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

Dear Henry:

Tha attached from our London Office  
is a summary of the British Home Intelligence  
Report on South Western England for the week  
ending May 18.

Sincerely,

*Bill*  
William J. Donovan

Expressed and complete unwillingness to make voluntary sacrifices, but readiness to face compulsory sacrifices is apparent.

a. Expressed intention is to make as much money out of the war as permitted--and this often put into practice.

b. Lack of interest in war incidents unless they are close; this is coupled with certainty that the Allies will win.

c. There is unanimous admiration for the Russian people, and almost equally unanimous belief that the success of the Russian Army is due to the political system.

d. That "After the war things cannot be as have been" is constantly reiterated. There is definite antagonism to party politician and rich man.

General: Public confidence, expectancy, optimism widespread due primarily to the Churchill Speech. "Absence of major defeats" is secondary cause along with Russian resistance and postponement of the fuel rationing plan.

R.A.F.: The slackening of air attacks on Germany has drawn much adverse comment. Possible reasons: "tacit understanding", "our forces less powerful than led to expect", weather, increased effectiveness of enemy defense.

Martinique: Firm stand of the United States praised by five regions. Four regions slightly bewildered and slightly irritated at not seizing as Madagascar was seized by the British and at parleying with Vichy.

"Communist activity continues, and heavy increase in membership referred to in two regions. Due to their support of second front, communists claim to have doubled party membership in third town in Eastern Region.



Far East: Many are convinced that if Germany is finished off soon Japan won't be hard to deal with. Public interest declined.

7-105  
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 26, 1942

TO Secretary Morgenthau  
FROM Mr. Kamarck  
Subject: Summary of Military Reports

Libya

The Axis is carrying on extensive movements behind its front and shows an obvious and determined intention of preventing the British from observing the movements. (It would appear that this may be an indication of a coming offensive. It will be recalled that the British reported that Rommel is now in a position to take the offensive, if it were demanded of him.)

(U.K. Operations Report, May 25, 1942)

Norway

The construction of five submarine shelters at Trondheim is now taking shape. Two of the shelters, which were begun a year ago, are probably ready for roofing. (It seems clear that the German concept of the naval power they need is an air-submarine team. The Germans are not constructing any more large naval ships, but all resources are concentrated on building submarines and building bomb-proof shelters for them.)

(U.K. Operations Report, May 25, 1942)



OF POSSIBLE INTEREST

(You might be interested in Goering's description of the experiences of the German Army in Russia during the winter. This is extracted from his speech made on May 20. The full text has only now been made available to us by the Federal Communications Commission. Raymond Gram Swing quoted parts of this speech last Sunday.)

"... And now it had to come: the defense of the front in the Russian winter. It is easier in a victorious advance to add further victories to the banners than to endure difficult defensive fighting against the enemy and the elements and still not to yield. It was not a front in the sense in which we old world war soldiers knew it in stationary warfare, here a dugout, there a dugout, here a lightly fortified village, there a forest's edge and endless space of many thousands of kilometers reaching from the soldiers farthest North to those farthest South.

"Swamps, lakes, roaring rivers were situated in between; and now suddenly the landscape had become calm. The roaring streams were covered with ice, and the swamps and lakes as well. One single white cover of death extended over the infinite land; and while before natural obstacles still made it possible to hold some lines with weak forces, the Russians could now penetrate at night over frozen rivers, lakes, and swamps and succeed in getting behind our lines. One sad message followed upon another: the Russians were at our rear in the North, at our rear in the central sector, at our rear in the South. Partisan troops blew up railroads, waited in ambush for our supply; inconceivably cold weather almost froze our troops. We had to get warm clothes to our troops as fast as possible, but this cold weather prevented operations of railroads also. Rails cracked because of the ice-cold temperatures; locomotives could no longer proceed; for days the front was without supply, without ammunition, without food; without clothes. For days the courageous infantryman was out there in snow and ice, his fingers numb. When he touched the barrel of a gun, the skin of his hand adhered. Motors failed; they did not start. The tanks drove in high snow and were immobilized. One thing was thus heaped upon another. The front became familiar for the first time with the horrible Russian winter to an extent and with a severity as has not been known for a century.

\* \* \*

- 2 -

"But something else was clear in our minds: If we had started to sidestep and retreat, where would the front have ended then, where would the front have been? No dug-out trenches were available, as they were in the World War, no dug-outs, nothing of the kind, villages for miles were in ruins and destroyed, there was nothing left; and still it was important that the front should be held. What it means to hold a front in such a fight can be understood only by someone who has experienced these hours, weeks and months. I have already said in the Reichstag: There were two things which enabled us to accomplish the greatest of all victories in world history, the victory in the winter battle; the courage of our soldiers, and our Fuehrer.

\* \* \*

"...He had compassion with them; he was once a soldier too; he knew the fate of each individual infantryman, his feelings, his great sufferings; he knew that he was asking of them the impossible, and yet it had to be performed, he could not yield. Only one thing could save them here, extreme hardness. So we could experience the miraculous happening that in one and the same man dwelt simultaneously infinite kindness and iron-hard sternness. This hardness, however, was inherent in him, after all, and came from his love for his people. For he was aware that had he not asked the extreme and utmost of his soldiers now, perhaps all victories accomplished heretofore might have been in vain and useless.

"Yet, when one felt that he has done everything, everything possible, and when one was grateful, one had to wait and wait and see whether the materials were now supplied, wait until through the ice of the winter, over cracked rails, broken switches, by means of damaged, destroyed locomotives, transports would finally and slowly again come to the front. Then a deep breath of relief!

"Soon, it was reported that one army again finally had ammunitions. Then followed the report that the armies to the left and to the right were without ammunitions....

"During those weeks we were happy that it was December, that finally January had passed; then we said: 'Still another two months to go'. February passed then, too; the front still stood. Although it had been dented at some places, on the whole it still stood. The temperature started to rise, and we were glad. We thought it was over. One week later the



- 2 -

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\* \* \*

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- 3 -

thermometer again sank below forty degrees, but still we were approaching Spring with every passing hour and the feeling of strength radiating from the bunk of the Fuehrer's Headquarters, this strength was carried on to the front and upheld the last man...."

(Comment: Although Goering may have exaggerated the desperate condition the Germans were in last winter, still there are certain conclusions which may be drawn:

1. The repulse of the Germans before Moscow which kept them out in the cold was an important victory.
2. The Germans, during the winter, came close to disaster. If the Russians had been stronger, they might have eliminated the Nazi menace last winter.
3. The Germans had difficulty in bringing up sufficient supplies to keep the front going during the winter. They could not have created, then, reserves near the front for a Spring offensive -- which partly explains why there has been no German Spring offensive.



May 27, 1942  
10:10 a.m.

WAR SAVINGS BONDS

Present:

Mr. Graves  
Mr. Bell  
Mr. Buffington.  
Mr. Odegard  
Mr. Bryce  
Mrs. Klotz

H.M.JR: The boss is full of beans this morning; he wants to sell the F and G thing.

MR. BELL: If I may, I will take up another problem, too.

H.M.JR: Well, I will just say the thing that got me thinking was this committee in New York, with one hundred and fifty new bond experts who are going to go out as salesmen. It is in the New York Times. Did you see it?

MR. BUFFINGTON: I saw it.

H.M.JR: As I say, I want to sell some F and G Bonds. Harold didn't want me to sell any in May, but he is willing to have me sell some in June. He has been holding back on me, and I think now that we can't get them in on the May quota he will be willing to talk about it.

MR. GRAVES: That is right.

MR. BELL: He is honest.

H.M.JR: So I mean, will somebody tell me - I don't care who takes the initiative, but somebody tell me how

- 2 -

we can go out and get down, for instance, to the fact that - you have got a bank, and this fellow knows what his deposits are, and they are lying in his bank, a hundred accounts, a hundred thousand dollars or more in that bank, just idle money. People for one reason or other don't want to invest it. There is no use kidding ourselves; we have got to get down and get those idle funds in those bank accounts.

It doesn't need a securities salesman; it needs the president of this bank to be willing to go in and say, "Here, that is just lying there." It is just the way Ned Brown told me about the number of accounts - a million dollars or more in his bank just lying there. I call them "scared" accounts. But if we are going to get the stuff into F and G we have pretty much got to have an official from the bank who is going to point out these accounts and say, "There is the money."

MR. BELL: Well, an official of the bank might be able to talk to those individuals, but it is going to be a little difficult to get the official of the bank to give those names to somebody outside.

H.M.JR: Now, wait a minute, I didn't say that, did I?

MR. BELL: No, you didn't, but I am pointing that out.

H.M.JR: Didn't I say it gets down to the--

MR. ODEGARD: The president of the bank talking to the people.

H.M.JR: I thought I said that.

MR. BELL: But it means the presidents of a lot of banks, and I take it you are thinking about the work being done by committees.



- 3 -

H.M.JR: Dan, you have been thinking about it. Odegard, Graves, Buffington - everybody has been talking about it, and Harold has been stalling so as not to get too much now; but we have got the May quota finished. Now we have got June and July, and I want to get going.

MR. GRAVES: We sent out instructions--

H.M.JR: I want to get going.

MR. GRAVES: ... on the 12th of May, in detail, to every one of our State organizations, telling them that we wanted them in June to carry on a strong promotional campaign for the sale of F and G Bonds. That memorandum was, I think, some four or five pages, single-spaced, and gave all of the analysis of the market, the kind of people that are to be approached, who are eligible to buy these bonds, who have bought them in the past, and so on.

Now, what you are seeing in New York is their compliance with that instruction which we sent out on the 12th of May. We are going to see that in every other State.

H.M.JR: But, Harold, I happen to have an orderly mind. I like to see things down so that I can hold people responsible for results. See? I don't want to have happen what happened to me yesterday, Dick Patterson saying to me, "I can't sleep nights; I haven't made my quota. Tell me what is wrong." See? Well, I don't know how to answer him because I can't - take the New York organization, which is the worst example; I can't tell who is responsible for what.

So I want to get it so that if Mr. Patterson - let's call a spade a spade - falls down on his June quota he can't say, "You took this thing away from me; you gave it to Buffington or Bell, and I could have gotten it for you but you interfered." See?

MR. BELL: That is just the problem.

- 4 -

MR. GRAVES: I think we ought to settle that now.

H.M.JR: I have got all the time - I thought we would settle it right this morning, right now. I was trying - they gave me a speech to make tomorrow night, bloodsuckers on war profits - that wasn't in the speech, but I put it in, and I have rewritten the whole speech. They are working on it, and my time is free. I rewrote the whole speech; oh, boy, am I going to town about war profiteers. It is going out to the public; it is not any hidden stuff. The only thing hidden will be the names of the companies, and I am depending on the good Congressmen to furnish those.

MR. BUFFINGTON: Would you mind if I got Bryce here, only because he has got more contact?

H.M.JR: No, not at this stage. I may want to kid Harold or Harold may want to kid me, and this is a strictly Treasury party. We can get him later on. Tell him to be in his office.

MR. BUFFINGTON: He is in his office.

H.M.JR: Now, on this I am going to get excited - Bell, even, may get excited.

MR. ODEGARD: I would like to see Dan excited.

H.M.JR: Will somebody take the leadership, somebody say how it should be done?

MR. BELL: Harold can tell you what has happened. Another committee has been injected into the picture, and I think he ought to go on from there and tell you what has happened.

MR. GRAVES: You recall we got out a release here announcing the establishment of the Victory Fund--

H.M.JR: Come closer; I can't hear you.



- 5 -

MR. GRAVES: We got out a release announcing the establishment of the Victory Fund Committees, and I think, naturally enough, it aroused a little curiosity on the part of the War Savings organization because there was a current conflict there. ~~So~~ I asked our people when I went to Cleveland last week to prepare a bulletin which we could send out to our people that would state the situation as it was, what the function of that Victory Fund Committee would be, and how they affected the War Bond organization.

Mr. Buffington and Mr. Bell and I agreed on the form of this statement until some people came here from the Fed in Philadelphia, as I understand it, and talked to George Buffington, and I believe George felt that we had better talk again before we issue this bulletin to my people.

I have had the idea all along that we should welcome the help of the Victory Fund Committees on F and G Bonds but that we ought not to surrender the responsibility for making these F and G Bond quotas to anybody else because they are part of our organization quota. So my thought was that we should tell our people that they have the primary responsibility for promoting the sale of F and G Bonds, but they will get help from the Victory Fund Committees. Now, I think that was not understood, and perhaps not liked--

MR. BUFFINGTON: That is right.

MR. GRAVES: ... by people in the Victory Fund Committees and in the Federal Reserve System because when we got out to Cleveland the other day I found that from Mr. Trounstone and Mr. Moore, that as to Cincinnati and Cleveland the people were saying to them, "No, we are not going to help you on this F and G thing because that is now the function of the Victory Fund Committees."

So something has got to be done to clarify this thing, either on the basis that we agreed upon or we

- 6 -

have got to change that basis and say the Victory Fund Committee will stay off F and G Bonds and that will be exclusively the job of the War Bond organization.

MR. BUFFINGTON: I don't think, Harold, that it is a question of that Victory Fund group not liking it. I think it is a question of their feeling it won't work as now set up because it is not well defined as to what both groups are to do. I don't think in a situation of this kind you can get the most out of two groups when you divide responsibility - by that I mean when you divide the responsibility for doing something on it.

I have felt for some time that the G Bond is the most salable bond that the Treasury has to offer, that the Victory Fund Committee can sell. I am personally convinced, and would stake my reputation, for whatever it is worth, on it, that the Victory Fund Committee can do an outstanding job on G Bonds. All I am interested in doing is helping the over-all cause as much as possible. I think those bonds belong with people who are the logical and normal clients of the investment and commercial banking group. Therefore, I think that those men can go out and do a better job in seeking those customers who would logically buy the bonds, with the least amount of effort, than any other group in the country.

I told Harold yesterday, however, that I agreed with him that if it were going to be a divided responsibility I personally would rather see the Victory Fund Committee called off the G Bonds entirely than to have neither group fully taking the responsibility effectively.

H.M.JR: I can settle one thing very quickly; one or the other has to have the responsibility.

MR. ODEGARD: Are these mutually exclusive? Is there any reason why the Victory Committee can't work in collaboration with the War Bond group?

MR. BELL: At the first meeting we had, you remember, this very question came up, and it was thought at that



- 7 -

time that if the F and G committee, the men in charge of the F and G program in Dick Patterson's office, as an example, were moved down to the Federal would they still be a part of Dick Patterson's organization and be liaison and be right there with the Victory Fund Committee and work in conjunction with it. We thought that would work, didn't we?

MR. GRAVES: Yes, but that was a detail, a matter of physical location. Apparently they never interpreted this thing in the field as we intended they should, judging from what has happened in Pennsylvania and Ohio.

MR. BUFFINGTON: That is right.

MR. GRAVES: The impression seems to prevail that the War Bond organization is out of this thing, and the Victory Fund Committee has taken it over.

H.M.JR: The result is that neither is doing it.

MR. BELL: You see what you get in this, Mr. Secretary, are personalities in localities. An example that was given us was, this man was a banker at the Atlantic City convention, and he told Al Williams - he said, "I know what is going to happen in my district." He said, "You have got a lawyer, a very nice fellow, very popular fellow, and he will do a good job on the Savings Bond end; but the minute he finds out I am going to work on F and G Bonds he will say, 'You take the whole thing. That will be fine, you take the E Bonds, too, and do the whole job.'"

MR. BUFFINGTON: You will get neither one taking the real responsibility.

H.M.JR: That is what I called the meeting for this morning. Dan, have you any doubts that the responsibility should be fixed on one or the other?

MR. BELL: No, I think the responsibility should be fixed on one. It is not clear in my mind which one.

- 8 -

H.M.JR: Well, I am not either, but I think it should be one.

MR. BELL: I have an idea that if the responsibility is fixed on Harold's staff you will get less help, probably, out of the Victory Fund Committees. Probably if you gave it to the Victory Fund Committees you will get more help out of Harold's staff, on the other end. I am not sure that is right.

H.M.JR: But the other thing is this, I mean, because I am chairman of both, and I have got to carry the responsibility. Go ahead; I will hold my thought until a little later.

MR. GRAVES: As to that suggestion of Dan's, there are two things to be said. In the first place, I think Dan is right as to certain places--

(Mr. Bryce entered the conference.)

H.M.JR: We are settling whose responsibility the F and G is; that is what we are going to do this morning.

MR. BRYCE: It sounds like a good topic of conversation.

MR. GRAVES: I think that is right as to certain places, right as to New York and Philadelphia and Chicago, big places; but it certainly is not right when you get down into the grass roots.

I am going to read this telegram from our administrator in Pennsylvania, Mr. Ludlow:

"It is imperative that formation of Victory Fund Subcommittees in the various counties and the definition of their duties shall not conflict with present War Savings County Committees. This is especially true in the sale of F and G Bonds. In Pennsylvania's sixty-



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seven counties we already have fifteen thousand three hundred and forty-seven committee and subcommittee members. To limit our county committee activities by taking away or substantially limiting F and G sales would seriously impair our county morale which is now splendid. Also want to express hope that unified program may speedily be adopted by Department because conflicting press notices hinder our efforts."

Now, there are sixty-seven counties in Pennsylvania, and in the most of those there won't ever be any Victory Fund Committee organization, probably.

MR. BRYCE: That isn't necessarily true. It depends on what basis it is organized on. Whatever is best for the Treasury is the best way to organize it.

MR. GRAVES: If you do what Dan said, and maybe that is right, what you would have to do would be to factor these quotas.

H.M.JR: Do what?

MR. GRAVES: Factor the quotas that have been set up.

H.M.JR: Factor them?

MR. GRAVES: Divide them. You would have to say the War Bond organization is charged with the E Bond quota, and take away from them any responsibility for the F and G quota. Patterson called you and said, "I can't make my May quota, and why is it?" His May quota was a hundred and twenty-five million dollars, roughly, almost evenly divided between E, on the one hand, and F and G on the other. He is making his E sales.

H.M.JR: Has he? I asked him, and he didn't know.

MR. GRAVES: I think it is likely that he has. I wouldn't be too positive about it. But he has fallen

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way below on his F and G sales. I say that because that is the country-wide situation. We are fifteen percent over on the quota on E sales and twenty percent under--

MR. BRYCE: Nineteen.

MR. GRAVES: Nineteen under on F and G sales; that is the Nation-wide situation. Now, if the Victory Fund Committee is to have responsibility for F and G sales, all right; the way it ought to be done would be to divide these quotas and take away from the War Savings Staff the part that is allocated to F and G sales and give that to the Victory Fund Committee. I wouldn't recommend that that be done because I don't think that they would, on the whole, everything considered, sales to labor unions, and that kind of thing - I don't think they would do the job our people would do. They would do it in some communities, but they wouldn't do it Nation-wide.

H.M.JR: Want to express yourself, Bryce?

MR. BRYCE: It is a very important thing to decide. I am sure you think so, too, because it is a thing that is worrying me all the time. I am in both sides of this thing. I want to save the Staff; I see its point of view; and, on the Victory Fund Committee, there is no question in my mind - I have said this all along, I said it two weeks ago to Ted Gamble, who was representing Mr. Graves, in a discussion in his office, that the bond men of the country - when I say that I mean the bond men in the brokerage houses or in banks or investment houses - are the best-qualified men to sell F's, G's, and anything else that you get out, in my opinion.

As far as the E Bond machinery, no one can do it any better than this War Savings Staff setup. Just where you break off, and what not - I mean the quota thing, it is a great way to get action but it has brought about prejudice, points of view, and so forth, here. I mean, you get a Victory Fund thing coming up which is working against the War Savings and War Savings is working against that, and they all ought to be working



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for the Treasury and getting the thing figured out on a sound basis.

That is the track I am on with these bond men, and yet I get mixed up because we have got them all tied in War Savings and then you get up the Victory Fund thing.

A bond man would naturally rather work for a bond man and he would do a more efficient job than working for a State administrator who isn't a bond man. You have got one in New York in Nevil Ford, and several other places. You have Heller out in Los Angeles--

MR. GRAVES: San Francisco.

MR. BRYCE: In San Francisco, and you have another one down in Los Angeles. Leave it to the bond man; he wants to work with his gang and will work more efficiently that way. But it happens that you get another setup here, and you have to be practical and make the best compromise decision on the thing.

If we get that quota thing and you find they are going to work on F and G's, whatever they do ought to go into the quota. We want to sell all the bonds we can.

MR. BELL: I can't understand, Harold, why you think we have to split the quota, have the F and G's on one side.

Can't you take the credit for the whole?

MR. GRAVES: If you say to Mr. X, who is the county chairman in Hamilton County, Ohio, "Your quota for June is two and a half million dollars," and then you say to

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Mr. X, "You needn't bother with F and G sales because somebody else is going to look after that," he is apt to miss his quota without any fault whatever on his part, because somebody else has failed to do a job, somebody not responsible to him at all.

If you are going to charge him with two and a half million dollars, which includes F and G sales as well as E sales, then you have got to say, "You have got to accept responsibility for making the drive on F and G, as well as E."

MR. BELL: Well, but you have in your setup a separation in the quotas.

MR. GRAVES: Not so far as these people in the field know. They don't know.

MR. BRYCE: You see where your quota thing gets in the way. I mean, if you don't get this thing across on a voluntary basis, then the forced savings people are going to win out.

I mean, your objective is to do it on a voluntary basis; I understand that is why you put up the quota thing. But to really get the results, you want to sell bonds, whether War Savings sells them or Victory Committees, or what not. If you get that across, then you have settled your argument about whether you are going to have forced savings. Isn't that right?

MR. BELL: If you fail, you certainly will have forced savings.

MR. BRYCE: Now, the War Savings' point of view is, they are on the spot. They have set up a quota thing, and they naturally have to break their necks to make it, because if they don't make it they are going to pick



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on them. That is the way I see it.

I visualize if you could get your skilled men working on your bigger customers, and that is what you are talking about when you get into F's and G's - I have said all along there shouldn't be any F's but you have them - if you get them working on those issues, and on their clients, and so forth, with the banks, the bond men, and what not, you are going to sell more bonds, which is going to accomplish the thing that the War Savings Staff is after, and everybody else. You have to get it so that there isn't this mix-up and this friction, and all that. I mean, we are trying to accomplish something, and who is who, and what.

MR. ODEGARD: To whom would these Victory Committees report?

MR. BRYCE: The Victory Committees are built around the Federal Reserve. Are you familiar with that?

MR. ODEGARD: Yes.

MR. BRYCE: They are built around the Federal Reserve.

MR. ODEGARD: They report to the Federal Reserve president but not the War Savings Staff.

MR. BRYCE: The Federal Reserve president is the fiscal agent of the Treasury, you know that, so that the Victory Fund Committees come right in here to headquarters.

MR. BUFFINGTON: They report to the chairmen of the Federal Reserve Banks.

MR. BRYCE: This is the spot, you see, where the War Savings Staff is a different show, reporting to Harold Graves.

MR. ODEGARD: That is the point. You see, if your F and G's are to be included in the quotas, if they are not to be factored out, if they are to be kept within the quotas, then your local War Savings Staff, your State chairmen, and so on, have no way of knowing readily what progress they are making.

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MR. BUFFINGTON: What you mean is that you are given responsibility, on the one hand, and not given the power to do what they think is necessary to attain those quotas.

MR. GRAVES: You are telling them to stay off a certain fraction of the market.

MR. BUFFINGTON: Peter, here is what interests me. I have talked with fifty people in the last two months and said, "Do you know what a G Bond is?" They do not know what it is. When I explain to them what it is they say, "Where can I buy it?" Now, I believe that every one of those men is a customer of an investment banking house, which, if they had the responsibility to go to that man, would sell him more G Bonds than any member of your War Savings Staff.

MR. ODEGARD: But, George, the thing that bothers me is why is it necessary that these committees be independent of the War Savings Staff?

(The Secretary left the conference temporarily.)

MR. BUFFINGTON: Let's take Chicago - there are Collins and Hap Young out there, one president of the Federal Reserve Bank and the other in the securities industry, who contribute to both those efforts. You could call those men out there on the phone and ask them which of the two men they would rather work with, and they say Young rather than Collins because they have worked with Hap Young. They know his methods, feel closer to him.

MR. BRYCE: There is no prejudice, just common sense.

MR. BUFFINGTON: Now, if you say to that group - most of these bond men have sold Norman Collins bonds for years, but say to those men, "Before you work on G Bonds you must go to the State administrator and check names with him, and check allocations of names," and so on, those men are not going to feel as happy and do as



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much effort as if they could go to Hap Young and say, "Let's put on a community drive, get the name of every potential purchaser there is in the area surrounding Chicago, and let's assign a man to each one of those prospects and sell the greatest amount of G Bonds possible." I think we will gain in thirty days much more volume in sales that way than if you have this divided responsibility.

MR. GRAVES: We haven't yet.

MR. BUFFINGTON: There are three reasons. First, when John Fleek came down here, I laid these things out, and I urged that attention be given to the G Bonds. You told me at that time G Bonds were the last thing you wanted to sell, that it was the E Bonds you wanted to sell and those men had all their data and everything set, as they have in Wisconsin, where they printed their own folders. They have been called off it, in their minds, as that wasn't something the Treasury wanted them to do. When those men are given the responsibility and accept the responsibility - when they accept the responsibility solely for doing that job and are organized to do it, I will stake my life on the fact they will do a better overall job than the War Savings Staff will. That is my opinion of it.

MR. ODEGARD: They are quite independent of the War Savings Staff.

MR. BUFFINGTON: Right.

MR. BRYCE: I am an outsider, just thinking what is best for the country - getting a whole lot of bonds sold, that is the objective. You ought to keep your War Savings Staff on your E Bond thing. No one can do it any better; they are well organized to do a wonderful job, and you ought to turn F and G's, and whatever else you think, over to your skilled salesmen who ought to be able to sell more than anybody else living. If they can't, I am nuts.

MR. ODEGARD: Would you turn over the limit buyers in E to the Victory Committees?

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MR. BUFFINGTON: No.

MR. ODEGARD: Aren't you going to have competition from people who are logical limit buyers of E who might--

MR. BRYCE: Everybody ought to buy E first. Any bond man certainly will push that because it is the most attractive to me - your F is unattractive, you confuse the thing - then your G's and your tap issues, or what not. But you have got six thousand bond houses and fifteen thousand banks in the country, and you ought to get that machinery clicking around this Victory Fund thing and pin it on them, and have them go to selling the bonds.

MR. BUFFINGTON: Peter, we have talked to probably a hundred of the outstanding investment banking people in the country and they tell us that, in their opinion, so long as that responsibility is divided it won't work. Now, I am willing to accept their judgment on that.

MR. BRYCE: And you still have thousands of these people working for the E Bond - hell, they are working all over the country now, out in Cleveland and Pennsylvania, and everywhere. There shouldn't be this competitive situation that you have got on the thing.

MR. BELL: It is hard for me to see why they can't - why each committee can't get together and work out a program without stepping on each other's toes.

MR. BRYCE: But, Dan, you have got two different jobs, your E Bonds, and the other stuff. It is an entirely different show.

H.M.JR: The answer is they haven't been able to do it.

MR. BELL: I suppose that is the answer, but I don't see why the Victory Fund Committees can't work on F and G's and Harold's staff can't work on F and G's, also, and the credit for the whole sales come into one place and fit into the quota.

MR. BRYCE: Well, I see what you are driving at, but it



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doesn't make sense. In Paducah they have two competing crowds working on F and G's, and you ought to swing it all one way, all F and G's to Harold, or somewhere else; you can't have them both places.

MR. GRAVES: I disagree strongly with that statement.

MR. BRYCE: I have been disagreed with all my life.

MR. GRAVES: I don't see why different organizations can't try to sell F and G Bonds. There, perhaps, is some chance that people from the War Bond organization and people also from the Victory Fund Committees will be approaching the same prospects, but what of it? It doesn't hurt anything.

MR. BRYCE: I think it would be an awful mess. It ought to be all one way or the other. Settle it now. I don't care; not that it matters what I care, but you are--

H.M.JR: I am going to settle it this morning.

MR. BRYCE: Swing them all one way or the other on the F's and G's.

H.M.JR: I am going to settle it this morning. Let me ask Bell a question. In the first place - Odegard may have never heard me on this, so he gets it from the horse's mouth - the Victory Fund Committee was set up by me in order to do what I call the regular Treasury issues. I never had it in mind that they would do the F or G. In New York State they told me they were using a lot of the people, the War Bond crowd, and they could continue to use them; that is what I was told, just a question of having an office downtown in the Wall Street section as a sub-office, branch office, of the War Bonds Committee and they could do it, but I don't know how they can.

Where I differ fundamentally with the representatives here on the Victory Fund Committee is this, I don't think the way to settle the F and G's is through a security salesman. I think it has got to be done through a bank official. Now, if I am right, that will settle the argument.

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MR. BRYCE: How do you mean, a bank official?

H.M.JR: I said this before you came in. In these banks there is a lot of this - for a better name I call it "scared" money and some people call it idle money - scared money lying there in amounts from fifty thousand dollars up, and the only man who knows how much and who has got it is the president of the bank and the owner of the money.

MR. BRYCE: That is right.

H.M.JR: Now, if the owner of the money doesn't want to do it voluntarily, and somebody has got to sell it to him, you have got to have somebody sell it to him who knows he owns that money; and the only person who knows it is the president of that bank.

MR. BRYCE: Is he going to sell everybody out of his bank deposits?

H.M.JR: No, but he may be asked by me to sit down, figuratively speaking with me, or with my bank examiner who represents me, to go over the list of people who have idle funds in his bank. The president of the bank would then be asked by my representative, "Will you please approach this man and ask him whether he wouldn't consider investing, if he has the money, up to the limit in F and G Bonds?"

I mean, with the size of the program - I mean, this isn't something that - I mean, I am talking here very much in the room, and I am trying to be practical, and my idea on this is a little bit different than anybody else's so far because I am just jumping ahead three months or six months when the time is going to come when I will have to send for the president of the First National of Podunk and say, "Look, Mr. Smith, you know what is in the bank. I have got to have all of your idle money, and you are the fellow that has got to do it for me as my agent of a national bank. I am asking you to do this. It is a question of military necessity that I get that money."

I am not fooling. I am talking about a military



necessity. I have got to pay the bills and I have got to have that money. Now, we don't want capital levy, but if we can't get it that way we are going to have to have it. I am thinking out loud. I hope nobody - I hope I am not scaring anybody too much but certainly when I get with my back to the wall I am going to get this money, because I am going to win the war.

MR. BRYCE: Sure, we are going to help you get it, too.

H.M.JR: I mean, what I am saying here is in strict confidence, but let's be a little realistic. When it gets where they want five billion dollars a month, and that is not too many months off - after all, I am Secretary of the Treasury for the United Nations. That is what it amounts to. Now, when I get pushed against the wall I am going to get this money. Now, if I am right in looking ahead, not too many months, talking very confidentially - if this got out, it would scare the people badly - it is the bank president that has got to do this job for me.

MR. BRYCE: Well, I get mixed up because I go to him and say, "Get Mrs. Jones to take five of that ten thousand and buy F and G Bonds." Next day I go to the head of the bank and say, "We expect you to do this and that on your other issues." I get a little twisted - you grab them here and on the other side.

H.M.JR: I can explain it. I am glad you made that point; that helps me clear my thinking. In the one place, Graves and I go to the fellow about his customer's money, and the next day you fellows go and talk to him about his own money. See? That is the difference.

MR. BRYCE: It is the same money.

H.M.JR: No, no, it is a different ownership.

MR. BELL: It is the same money, but of course the second transaction is creating money.

MR. BRYCE: Yes.

H.M.JR: But there are two distinctions, as Dan points out, one working against the other, but there are two distinctions. I am going to Mr. Jones, the president of

the First National Bank and sit down and say, "Let me see the list of your customers. What is the easiest way to get these people to invest in my G Bonds?" He does it. The next day you come along and say, "Now, Mr. Jones, we have got two billion dollars, long issues or medium issues. How about the bank investing?" He doesn't say, "I am mixed up," because in one day we are talking about his persuading his customers to invest the money which they control, and the next day we are talking about his doing it with the depositors' money. Aren't we getting down to brass tacks?

MR. BRYCE: Yes, but I am still mixed up.

MR. BUFFINGTON: I--

H.M.JR: Let me see if I can clear Bryce up.

MR. BRYCE: I am running a bank, fought all my life to get it built up to a hundred million or ten million deposits. You put me on the spot when you come to me and ask me to go to my savings depositors, and so forth, and try to force them to take money out of my bank. Money rates change - they are not changing now, but I have to look ahead, and there may be more of a demand for my - I get kind of mixed up in there. It is a hard thing to ask a banker to do, isn't it, Dan?

H.M.JR: Now, wait a minute, just a second. It isn't half as hard as what we have been asking them to do, and they are doing it, as the savings banks, because in their case the line isn't drawn. When they lose their money they have no commercial business in which to make up the difference, and they have no checking accounts, so forth and so on. You get the commercial banks - relax, George, relax - you have got the savings banks and they are taking away not only the bread but the butter.

MR. BELL: You see, Jerry, when you sell a bond to the individual and he draws on his bank account the banking system really doesn't lose deposits. When the Government spends the money it goes into the banking system, maybe not the same bank, but deposits haven't gone down over a period so the money is really still there. When you come along and sell the Government securities they give the Government the credit on a deposit account, you spend the money and it goes back into the banks again. So you are creating bank deposits in this whole transaction.



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MR. BUFFINGTON: There is only one place where I differ. I regard the G Bond as the most attractive security the Government has ever offered, and I don't think yet the public has been made to see the attractiveness of it. Before taking the step which the Secretary suggests, I believe you can get the main part of that money through the efforts of the people who know it is there.

H.M.JR: Excuse me, I didn't suggest it; I am just raising it. I am taking a little look into the future. I am trying to be practical, that is all. I am not suggesting it today.

MR. BUFFINGTON: I appreciate that. I would like first to use the energy that we have to go and get the money, because it is the best bond that an individual can buy.

H.M.JR: Well now, George, let's be practical. We started last February or March, or January - I don't know when it was, somewhere in February, a year ago, to organize these committees for the War Bonds.

MR. GRAVES: March.

H.M.JR: And I suppose that Harold would say that maybe in two-thirds of the States he has got a good organization.

MR. GRAVES: Something like that.

H.M.JR: And you take a man who comes in here, like Daniels, finest chap that there is, representing the field organization of OCD, and he can't organize - he hasn't gotten the authority to organize a meeting in a community to see some soldiers off. He says he can't do it. Now, the point of my thinking is, the thing isn't dry yet on these committees; and for me to sit here and say that I am going to turn over the responsibility to these committees beginning with the first of June, to do the F and G's, and tell the War Savings boys, "Your job is the E Bonds," is taking a chance on an untried horse.

MR. BUFFINGTON: That is right.

H.M.JR: Now, that is taking a chance on an untried horse, and I would rather - the way I feel now, I would rather play along with the War Savings crowd on E, F, and G for at least another month, and see what your boys can do. Neither have proven, I am sure Graves will say, to his satisfaction or mine, that we can do the job of War Bonds, but on the other hand, they haven't had a chance on the F and G, either; and then this thing comes along and upsets them. Another thing - we might as well be frank, and I am trying to tell what is in my mind - I feel that the War Bond group is closer to the people--

MR. BRYCE: No question of that.

H.M.JR: ... than the bankers' group.

MR. BUFFINGTON: That is right.

H.M.JR: And when it is all through and done, it is the masses that are going to see me through on this thing, rather than the financiers.

MR. BRYCE: I think it ought to be all one way or another, and have it all War Savings Staff, F and G.

H.M.JR: The whole business, and have no Victory Fund?

MR. BRYCE: No, F and G's all one way, not both ways.

H.M.JR: No, no, what I am going to settle here this morning is where this F and G is going, and is it Graves' responsibility or Buffington's, see.

MR. BRYCE: Yes.

H.M.JR: That is what I want to settle, and I will keep arguing with them until lunch time if necessary.

MR. ODEGARD: Mr. Secretary, there is one point in there that I think ought to be mentioned. From the time



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we began in May of last year we have been under an injunction, which has been passed on to the field organization, that the F and G Bonds were not particularly important so far as our operation was concerned.

H.M.JR: Where did you get that from?

MR. ODEGARD: And the result is - because we laid our emphasis on E Bonds, because that was the kind of money that we wanted. It is not, therefore, quite fair, and I am not suggesting that anyone has done it, to compare what the War Savings organization might do in promoting the sale of F and G's, once they are told that the sale of F and G's is just as important as the sale of E's. It would seem to me to be just - it might be wise in the long run, but at the present time it is experimental, and I would like to see what can be done with the War Savings organization as it stands under the instruction of the necessity of stepping up the sale of F and G's to meet these quotas. It would seem to me that any divided authority for responsibility now, as it has done already, might cause confusion.

MR. BRYCE: No question of that - get all jammed up.

MR. BELL: Supposing you gave the authority to the War Savings organization, as you suggest, would you also give authority to that organization to call upon the - say the chairman, or the Federal Reserve Bank presidents, for permission to use the Victory Fund Committees any place they thought they might fit into the picture, or tie into that work?

MR. ODEGARD: I should think so.

MR. BELL: Would that work?

MR. GRAVES: I think George's suggestion was that the War Savings Organization utilize those people as individuals.

MR. BUFFINGTON: Right.

MR. BELL: Not as part of the committee.

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MR. GRAVES: Not as members of the Victory Fund Committee.

MR. BUFFINGTON: You see what you get into if you do that. Harold might go to Hap Young in Chicago and say, "We would like this month some effort on the G Bonds." He gets his effort geared up, to supply that effort, and the Secretary comes along and says, "Here is a short tap issue for you to sell." We ran into that just as we were organizing the Victory Fund Committee. We were working on the E campaign and were asked to step over and do a two and a half percent bond. You are apt to run into some difficulty where you are not getting full efficiency on anything.

MR. BELL: That is an argument for not putting it in the Victory Fund Committee at all.

MR. BUFFINGTON: If they are organized in such a way that they can take part of their organization and have them working continuously on G Bonds, using part of the operation to work on something else, that is one thing. But I told Harold yesterday that I would rather see the Victory Fund Committee out of it entirely than to have divided responsibility, with which I think he agreed.

H.M.JR: I think, gentlemen, that until further notice, the responsibility for the E, F, and G should rest with War Savings.

MR. BRYCE: Of course, what you ought to do is merge them. Then you get down to business.

H.M.JR: I don't agree with you on that.

MR. BRYCE: You don't?

H.M.JR: No, sir.

MR. ODEGARD: How do you mean?

MR. BRYCE: If you could have - instead of having two things, if you had one--



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H.M.JR: I don't agree with you.

MR. BRYCE: The background I don't know about, but it is the practical thing.

H.M.JR: It is like the old International Harvester. They knew their business; they would have two show rooms in every town, one selling a heavy line, and another one a light line.

MR. BUFFINGTON: I think you are right.

H.M.JR: The old International Harvester, two sales shows--

MR. BRYCE: But you aren't dividing your light and heavy.

MR. BUFFINGTON: He is going to divide it now.

H.M.JR: I am going to divide it now.

MR. BRYCE: He is putting part of the heavy in with the light.

H.M.JR: I don't call a hundred thousand heavy.

MR. BRYCE: You don't?

H.M.JR: No.

MR. BELL: I still don't see why they can't work together, help out the other crowd.

H.M.JR: What I want Harold to do - don't you, on your War Savings Committees in every State, have a banker?

MR. GRAVES: Oh, yes, and every county.

H.M.JR: You have got a banker?

MR. GRAVES: Yes, a banker member of our county committee, city committee, State committee. In a place like New York we have too many bankers as members of our committees.

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MR. ODEGARD: At the first executive committee meeting in New York that Harold and I attended, I think there were fifteen people around the table, and I think fourteen of them were bankers.

MR. BELL: That accounts for Patterson's worry.

MR. GRAVES: You are right. We have bankers in all of our - not only bankers, but we have investment bankers, too.

H.M.JR: What I would like to do is this: Having made a decision that the E, F, and G's go to the War Savings crowd, then I want to immediately think, how can we put the heat on these things to sell them.

MR. GRAVES: How would you like to call B. M. Edwards up here, to give you his opinion as to what could be done through commercial banks. He could help us on this thing. Wouldn't that be a smart thing to do?

H.M.JR: Yes.

MR. GRAVES: I would like very much to do that. Maybe you would like to invite him up.

H.M.JR: Use my name, you have power of attorney. Are you disappointed in my decision?

MR. BRYCE: No, just so you clarify it we will work anywhere you want. Here is a gang that will work.

H.M.JR: Are you disappointed?

MR. BELL: No, no, I am not disappointed.

H.M.JR: Then what have you got to send out to these state chairmen?

MR. GRAVES: We will have to revise this bulletin, which was composed on the assumption that the primary responsibility would be on the War Savings organization,



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but that the Victory Fund Committee would also, in co-operation with the War Savings Committee---

H.M.JR: That sounds like a State Department release.

MR. GRAVES: Yes. We will do this all over again.

H.M.JR: A message to Vichy - it is a message to Vichy.

MR. BUFFINGTON: Mr. Sproul is going to be very much disappointed in this, because he is convinced the two groups can work together; but I think it is much better to have it clearly defined.

H.M.JR: What I said, about this future stuff, please--

MR. BRYCE: Oh, sure.

H.M.JR: Well now, how soon can you have something written for me?

MR. GRAVES: We would ordinarily send this out as our own field bulletin. Would you like to see it before it goes?

H.M.JR: I would like to sign this one, myself, and I want a release from the Treasury.

MR. BUFFINGTON: Don't you think a statement should also be made to the Victory Fund Committee?

H.M.JR: Yes, sir, a copy of this should go to them.

MR. GRAVES: George and I will collaborate on this.

H.M.JR: I think it ought--

MR. BUFFINGTON: In a hurry.

H.M.JR: What is that?

MR. BUFFINGTON: In a hurry.

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H.M.JR: Yes. and then let's begin to put the heat on, see what they can do.

I have got an idea which I don't want breathed outside of this room. It happens to be mine, I don't want anybody to claim it, or anything else.

MRS. KLOTZ: That doesn't sound like you.

H.M.JR: Why not?

MR. ODEGARD: Got a copyright on it?

H.M.JR: No, I am just scared to take the ball and run down the field; it is just an idea, and I am not sure of it. That is all. That is what I meant. I don't - I am not claiming it; but I am scared of it. It may be too good. After Mr. Willen was in here yesterday, and talking about his people who collect money for Community Chests, and after reading that report on our man from Canada - have you had a chance to read that?

MR. GRAVES: No.

H.M.JR: I got this idea - as I say, I want to hold it - I would like you fellows to think about it. The Community Chests are going to have a very, very difficult time raising their money. Mr. Willen says there are a million collectors of money - you wouldn't call them salesmen - solicitors. He pointed out this is all on a voluntary basis. The thought that went through my head was that we might say to the Community Chest people who are very well organized, that "We will pay you a commission, to go to the Community Chest, if you sell so-and-so much securities."

MR. BELL: These two investment bankers perk up.

MR. BRYCE: I perk up because I get it shoved at me all the time.



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H.M.JR: Nothing in that market - now, wait a minute, they don't get a penny out of it.

MR. BELL: It is the camel's nose under the tent.

H.M.JR: Well, that is why I said, why I prefaced my remarks - I just wanted you to think about it. You take - you got to figure these things, a billion dollar issue - a quarter of one percent?

MR. BELL: Two and a half million, isn't it?

MR. GRAVES: Yes.

H.M.JR: Is that right?

MR. BELL: What do they raise - they raise five hundred million dollars in the Community Chest, don't they, all of them?

H.M.JR: No, I am thinking, though - I was just thinking in terms this would be - it wouldn't be their group, it would be the people who raise the money for Community Chests. It would mean, say, two and a half million dollars, we will say, a month - just some figure - to go to the Community Chest, provided that they sold a billion dollars worth of securities for us, or F and G's. I know what I am talking about is dynamite, but I am trusting you all well enough just to think about it and just talk about it amongst this group; but it is an idea, isn't it, if we get up against the wall and the Community Chest comes around with their tongue hanging out.

MR. ODEGARD: The USO or Community Chest are fund-raising organizations, have certain agencies for the purpose of conducting their campaign, and paying these agencies a commission; are they going to pay a commission upon the commission they earn?

H.M.JR: I couldn't hear you.

MR. ODEGARD: I was raising the question as to how far the Treasury is prepared to go in controlling the costs of any such promotion. Are you just going to leave that wide open?

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H.M.JR: We will control it by the percentage of the commission.

MR. BELL: But you have got the Red Cross and the USO. They are worthy organizations, and they are also going to have some difficulty in raising their funds next year.

H.M.JR: I prefaced it in such an unusual way that Mrs. Klotz didn't recognize it, never heard me talk that way, but I am just throwing it out as, as the President would call it - not a wild idea, one of his - well, a wild idea. I am just raising it. It is a thought, I mean, for some future date.

MR. BUFFINGTON: I don't know whether this statement belongs here or not, but I believe if the Victory Fund Committees are properly organized that within any one-month period, with the right kind of a security to sell - I believe they can raise four billion dollars within a thirty-day period for the Treasury.

H.M.JR: Listen, George, take a little advice from an old hand, make your prophecies after you have accomplished the fact. It is much safer. That is what I have - I never made any prophecies since I sat on the chair, so I never had to recall any.

MR. BELL: That isn't much. I want to sell a ten-billion-dollar issue - get the money all behind us.

MR. BUFFINGTON: I only brought that up. I think they have a lot more sales ability than we think they have.

H.M.JR: All right, we are going to push you fellows. Don't worry, there will be plenty of stuff to sell. After all, this whole War Savings thing - we are talking



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about a billion dollars, and I say we are going to have to raise five billion dollars a month.

MR. BELL: In September we will have to raise three and a half, beginning in September.

H.M.JR: There is plenty of work to do, plenty of fields to be plowed. It is just a question of getting everybody so he knows which road he goes down, then let him stick with it on that highway. That is all.

MR. BELL: I have a problem, if you are finished with this other one.

H.M.JR: Go ahead, Dan.

MR. BELL: We are getting a lot of letters from conscientious objectors, asking to be permitted to invest in special issues or make some provision so that they can invest in Government securities. We have had a number of letters from Congressmen and Senators being worried about it. A gentleman by the name of Paul Comly French, who is the executive secretary of the National Service Board for Religious Objectors, has been in a couple of times talking to me about it. He says it is getting rather serious--

H.M.JR: May I see that?

(Letter handed to the Secretary.)

MR. BELL: ... because in certain places it is becoming embarrassing to these people; that out in Kansas they have painted the Mennonites' barns yellow, because they did not invest in War Savings Bonds.

H.M.JR: Already?

MR. BELL: Yes, I am getting some dope on that, because Ferdie Kuhn said he would like to write some very strong letters on that. But he wonders - before I come to that, he said he went to the administrator in

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Pennsylvania and asked him for a letter stating that what they were doing about taking up collections from their people, and then financing certain projects in these camps, would be the same as investing in War Savings Bonds or Government securities.

MR. ODEGARD: These stamps they are selling?

MR. BELL: These certificates. A man donates his money, and then they give a certificate.

MR. BRYCE: They object to buying War Bonds?

MR. ODEGARD: They do, yes. It is very strange.

MR. BELL: This man donates some funds, and they give him a certificate, and he says, "This is a contribution intended as an alternate service to war, in which my conscience does not permit me to engage." This fellow is pretty reasonable.

H.M.JR: There is somebody who is handling conscientious objectors extremely well in this war. I don't know who he is, but they have been handled beautifully. I wonder who handles them.

MR. BELL: I don't know, but they are at camp - I don't know whether OCD--

H.M.JR: No, there is somebody.

MR. GRAVES: In the Selective Service.

MR. ODEGARD: It has been handled well from the beginning. Dykstra handled that aspect very well, and Hershey has done a very good job.

H.M.JR: Could you do this for me? I have a very high - supposing I see if I can get General Hershey. I have a very high respect for him.

MR. BELL: In these letters that we have written, we told them we couldn't issue a special certificate, but we did have certificates that were not called War Bonds, and



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that there are about six million dollars of expenditures in the Government which are not war expenditures; that we had to maintain the civilian part of the Government, and they could buy those bonds, feeling that they were helping the Government on one side, that is, the civilian side. Well, that hasn't satisfied them. I have a lot of sympathy with them, and they are a minority group. I think we should do something about it. This man says they are perfectly willing to build up a fund as contributions from these members, and they will invest that fund in Government securities.

H.M.JR: There is somebody, somewhere, I don't know who it is, that is doing a beautiful job on these conscientious objectors for the Government.

MR. BELL: I will find out.

MRS. KLOTZ: That is that same thing I told you about, Paul Friend.

H.M.JR: Yes, we have had this before.

MRS. KLOTZ: You said there was nothing they could do. Then they came back again, so I turned it over to Bell.

MR. BELL: What he wants to do is ask these people to contribute to a fund and then this organization will invest this fund in Government securities other than War Bonds. He doesn't care what the rate is. As a matter of fact, he would rather have no rates, and then he wouldn't be accused of profiting out of the war. He has a letter on the back there, which he suggests that you write him. You may want to study it a little. It isn't a bad letter, as a start.

H.M.JR: I sort of run out of steam. Let me talk to you about this a little later. I want to stop here.

May 27, 1942  
12:34 p.m.

HMJr: Hello.

Operator: There you are, Mr. Mac.

HMJr: Hello.

Marvin  
McIntyre: Hello. Henry?

HMJr: Talking.

M: Irwin Steingut is down this morning. He's in my office now.

HMJr: Yeah.

M: He's been in with the boss.

HMJr: Yeah.

M: He'd like to speak to you for a minute.

HMJr: Okay.

Irwin  
Steingut: Hello.

HMJr: Hello.

S: Henry?

HMJr: How are you, Irwin?

S: I'm all right. How are you?

HMJr: Fine.

S: I was just in with the President.

HMJr: Yeah.

S: And we had a little talk about something, and I was wondering if I could drop in on you for a moment.

HMJr: When?



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S: Now.

HMJr: Yes.

S: I'm at the White House, and I'll come right over in a cab.

HMJr: Okay. I'll leave word you're coming.

S: Thank you.

HMJr: Thank you.

S: Good-bye, Henry.

May 27, 1942  
12:56 p.m.

HMJr: Hello.

Operator: Forrestal.

HMJr: Hello.

James V.  
Forrestal: Henry?

HMJr: Good afternoon.

F: I just wanted to congratulate you. I happened to see in the Beacon paper that your son went off to the wars.

HMJr: Oh. (Laughs) Well, that was.....

F: I wanted to ask you - what was your impression. Should those - do you think the lack of any sort of parade or any sort of send-off is a - is a bad thing, or.....

HMJr: Oh. Well, I feel very strongly about it, and I went to the President about it and told him what happened up there. I haven't seen the paper. I don't know what the paper said, but the - Jim, it was a cold, rainy morning.

F: Hmm.

HMJr: A quarter of seven. Nobody showed up for an hour and a half except the boys and their parents and their sweethearts. And you know, there are a lot of foreign-born there.

F: Yes.

HMJr: And these older women were crying.

F: Yeah.

HMJr: It was the most dismal, depressing sight I've ever seen. After awhile, some of the officials came around. They signed the boys up, herded them like a lot of cattle into four buses, and



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off they went in dead silence.

F: Yeah. Well, it just seems to me - I - that - I think it's bad. I know.....

HMJr: Oh, I think it's - not - the boys were all right, because they were all excited, you see.

F: Yeah.

HMJr: But they tell me that the effect on the population after they leave is God-awful. Now, I've spoken to Daniels about it.....

F: Yeah.

HMJr: .....and - who's with Landis - and they promised that they would do something.

F: Yeah.

HMJr: And on their organization they say that they can only make suggestions. Now, a couple of months ago in Beacon, the Fire Board - the men in the Fire Department told me they waited five hours in a freezing snow.....

F: It looks as if they were aiding immigrants, or something.

HMJr: .....and the men proceeded to get drunk and pretty near took Beacon apart.

F: Hmm.

HMJr: Now, that's going on all over the country; and they talk about all the home morale and all the rest of that stuff, and - well, the President was upset and he said he'd say something to somebody, but I think it's up to Jim Landis to do something about it.

F: Well, Bob Patterson's here with me now, and I talked about it several weeks ago - months ago, as a matter of fact.

HMJr: Yeah.

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F: And, you know, a lot of people think you don't need it, but I - my old man, in the last war, used to parade - he had a crowd that went to the station every time they went away.

HMJr: Well, now, they tell me at Carmel a month or so ago, the Mayor there gave the boys a nice talk, and they had a parade and everything, and they handled it beautifully at Carmel.

F: Yeah.

HMJr: But if there'd been somebody to give the boys coffee and a couple of doughnuts.....

F: Yeah, yeah.

HMJr: .....or something.

F: Yeah.

HMJr: Now, the same thing happened here last month in the District of Columbia. The husband of one of my secretaries went off, and the same thing happened exactly. Well, the girl was so upset, she couldn't come back to work for the rest of the day.

F: Yeah.

HMJr: So, if you want to know how I feel about it, I say that's the way - as far as the boys were concerned, they were all excited, they were all right.

F: Yeah.

HMJr: But as far as the people who stay home, it was lousy.

F: Well.....

HMJr: And you can quote me to anybody you feel like.

F: All right. Well, I was interested, because I saw you were there, and I just wanted to get



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one impression that was.....

HMJr: Well, that was mine. Thank you for - if you happen to have the Beacon paper - I didn't see it - I'd like to see it.

F: I'll see if I can dig it out, Henry.

HMJr: Thank you.

F: Right.

HMJr: Good-bye.

DRAFT OF SECRETARY MORGENTHAU'S STATEMENT  
TO THE JOINT COMMITTEE ON TAXATION, MAY 28th

*Draft* I.  
**148**  
*9 am*  
*5/27/42* ✓

I am glad to appear before this Joint Committee this evening because it gives me an opportunity to tell you what we are doing to check a peculiarly dangerous and vicious form of tax avoidance. This is the practice of charging unreasonable salaries, bonuses and other items against wartime profits for the purpose of reducing tax liability. (It is a subject on which the Committee, the Congress and the country demand assurance, and rightly so.)

Nothing could be more damaging to the war effort than any widespread belief among our people that an unscrupulous few were placing their own interests ahead of the country's in this way. Nothing could be a greater affront to our fighting men, our working men and the



overwhelming majority of our businessmen than to permit a few selfish persons to distribute to themselves or their associates huge sums which should be paid to the Government as taxes.

In past years the Treasury and the Bureau of Internal Revenue have always been careful to scrutinize deductions claimed in returns. We have regarded this as a matter of public policy and of public duty. Wherever such deductions were unreasonable, unnecessary or unwarranted, or wherever they conflicted with good faith or with public policy, we have disallowed them, and in many cases we have imposed penalties on those who claimed them.

In these times, the need for such scrutiny has been increased because of larger profits and higher tax rates. Many companies today are doing a volume of business

beyond their wildest dreams, largely because of the demands of our growing war machine. Many companies are receiving greater earnings than ever before, and in some cases there is bound to be a temptation to dispose of those earnings in ways calculated to reduce the amount of tax payable.

We have abundant powers today to prevent this form of tax dodging. We are using those powers, and we intend to use them to the limit. I should like to remind the Committee and the public of the existence of those powers, first, to show that offenders can be caught, and second, to caution any taxpayer who may be tempted to distort his tax returns at the expense of the country as a whole.

The powers I have mentioned can be found in the



law and regulations relating to ordinary and necessary business expenses. Under the law and regulations, the Bureau can determine income tax and excess profits tax liability so that deductions for extraordinary, unnecessary and unwarranted expenditures will be disallowed.

Not only does the Bureau help to prevent tax avoidance by performing this service, but it also helps to prevent profiteering and to keep the cost of war supplies to reasonable levels.

Frankly, I have no evidence at the moment which would show that the claiming of unreasonable deductions is a widespread practice. No one can say how widespread it is without an audit of the books of all taxpayers who derive large profits as a result of war conditions. It may be that the cases already called to our attention

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are few in relation to the total number of cases involving war profits. It may be that other flagrant cases may be called to our attention at some later date, when we examine the cases of taxpayers not directly identified with war activities. My own belief is that the vast majority of American businessmen are honorable in making their tax returns and completely patriotic in their devotion to their country.

Nevertheless, I have directed the Bureau of Internal Revenue to advance its tax investigation work as it applies to taxpayers engaged in war production. I have asked that this be done not only to keep myself informed of conditions as they arise, but also to serve immediate notice to the taxpayers concerned that they are liable for additional taxes because of the disallowance of

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improper deductions. Thus, the detection of even a few such cases will prevent the continuation of these abuses and will constitute a caution to others whose returns have not been examined.

Ordinarily our investigation of returns filed for the year 1941 would not begin until July 1, 1942, and this work would continue throughout the fiscal year ending June 30, 1943. In present circumstances I am not willing to wait so long before acting. Already we have begun examining the books and records for the year 1941 of several hundred taxpayers who derived large profits from the expansion of our war production. The development of these cases is progressing as fast as practicable. Those who are engaged in this work must think not only of the best interests of the Government but also of the need of being completely fair to the taxpayers.



I can, however, assure the Committee of this: that nothing is being left undone which will expedite such investigation. This work is being regarded as of first importance, even though it may interfere with the normal activities of the Bureau.

It may be helpful to the Committee if I now outline the principles that will be followed in these investigations.

1. Salaries and Bonuses Paid to Officers or Employees, and Rents and Royalties Paid to Shareholders.

Deductions claimed for greatly increased salaries and extraordinary bonuses paid to officers or employees will be disallowed unless the taxpayer proves that the payments are, in fact, for services actually rendered and are reasonable.

In determining whether the payments are reasonable,

will be assumed that reasonable compensation is only as much as would ordinarily be paid for like services by like enterprises under like circumstances. The factors that will be considered in determining the reasonableness of such payments are the duties performed by the recipient, the character and amount of responsibility, the time devoted to the enterprise, and the peculiar ability or special talent of the particular officer or employee. Where the payments are to relatives or to shareholders, the taxpayer must show that family considerations have not influenced the amount paid, and that the payments are not distributions of profits in disguise. Large profits attributable to causes entirely unrelated to the activities of the officers or employees, which is not unusual in these abnormal times, do not of themselves justify or warrant large salary payments.



Deductibility of rents or royalties paid to shareholders depends upon whether such charges are in fact fair and reasonable payments for the use of property and are not merely a device for distribution of profits. Any shareholder should be entitled only to a fair return on his investment in the property which he permits the corporation to use.

2. Payments to Profit Sharing or Pension Trusts.

The deductibility of payments to pension trusts is governed by section 23(p) of the Internal Revenue Code. If payments to such trusts are reasonable, their deduction will be allowed. If the payments are unreasonable in amount, or if the trust is not created for the exclusive benefit of employees, or if it is a device to distribute profits to shareholders, the deductions will be disallowed.

It is also our purpose to set up a barrier to deductions of large salaries, bonuses, or insurance premiums for officers under the guise of payments to a pension trust.

### 3. Payments for Repairs.

The deductibility for income tax purposes of costs of repairs depends upon whether the expenditure is actually for repairs, or is in fact a capital expenditure which should be added to capital investment or charged against reserve for depreciation, since the costs of repairs are deductible while capital expenditures are not. We must guard against the tendency during high profit years to make extensive improvements and to charge the cost of such improvements against profits under the caption of repairs.

It will be our policy to scrutinize carefully the items claimed as deductions for expenditures for repairs.



We shall disallow such deductions where it is not shown that the expenditures are in fact for repairs instead of for improvements or betterments which should be capitalized.

4. Expenses or Allowances Paid to Obtain Government Business, Including Fees Paid to Washington Representatives or for Other Professional Services.

Whether deductions for items of this class will be allowed depends upon whether they meet the test laid down in the Internal Revenue Code, that is, whether they are necessary and ordinary and reasonable. If such items are considered exorbitant or unreasonable, they will be disallowed as deductions. Many of the factors that apply in determining the deductibility of salaries and bonuses will apply also in determining the deductibility of items of this class. Particular attention will be given

to deductions for payments which are against public policy, and all such deductions will be disallowed.

5. Amounts Paid for Advertising.

The test of whether expenditures for advertising are deductible is whether they are ordinary and necessary and bear a reasonable relation to the business activities in which the enterprise is engaged. If they are extravagant and are not directed to continued public patronage which might reasonably be expected in the future the payments will be disallowed as deductions. Amounts paid to keep the corporate name or the trade marks or names of its products before the public, in conformity with the past practice of a corporation, will be allowed as deductions, provided the amounts expended therefor are not extraordinary and are not disproportionate to amounts so expended in the past.



Those, gentlemen, are the broad principles under which the Treasury and the Bureau are operating.

Commissioner Helvering and I should like now to give the Committee a few anonymous examples of the evil which we are determined to check and control.

5/27/42

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The Secretary was not at all satisfied with Draft #1 which was prepared by Mr. Kuhn. The Secretary dictated his own personal ideas of a new draft which is to be prepared by Mr. Sullivan and Blough, who were furnished with copies of this.



*Copies to Messrs.*  
*Sullivan & Blough*  
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DRAFT DICTATED BY SECRETARY MORGENTHAU

The point that I want to get over is this: That I as Secretary of the Treasury always have been greatly interested in the fact that nobody should profit through our being in a war. (That doesn't mean that a man can't make a fair rate on his money, but after he has done that, everything over and above that should come back to the Government.)

In the Bureau we have certain authority which has been given to us by Congress. (Then describe this authority.) I have asked Mr. Sullivan and the Commissioner that instead of following the normal procedure of peacetime of allowing a year to a year and a half to elapse before completing examination of the books of companies, now that we are at war that the books of the companies having war contracts should be immediately examined, and thereby make sure that these companies are carrying out both the spirit and the letter of the law which every citizen expects them to do during wartimes.

The reason I am here tonight, gentlemen, is that unfortunately we have found that some of the companies seem to think that a war means that they can make unreasonable

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and excessive profits out of the human sacrifice of our armed forces, and I and my associates in the Treasury are not going to leave a stone unturned until we get for the Government every dollar that we are entitled to in the form of taxes from these companies.

I want to assure the man in the armed forces and the men and women in the factories that we in the Treasury are going to do everything possible, under the existing tax laws, to make sure that business pays the full amount of tax due the Government under the existing laws.

In bringing these particular companies to your attention, I think it would be extremely wholesome if the Joint Committee on Taxation (substitute correct name) would make a public example of the management of these companies so that not only the stockholders of these companies but the 130,000,000 people in this country, who by an overwhelming majority have demonstrated that they are willing to make any sacrifice necessary to win this war, would know the facts.



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These few companies, which I sincerely hope are the exception and not the rule, through public chastisement, will be served notice that the Congress of the United States and the Treasury Department are prepared to go any lengths necessary to see that the management of these companies will not be able to break the law, and in that way keep for themselves blood money which they are not entitled to, and which I feel confident that the people of this country will demand that they not be allowed to retain.

In the half a dozen companies which we have so far examined, we have found that the management of these companies are escaping paying of taxes through the following methods (give examples). In the case of Company A, where the company filed a tax return for one hundred and some odd thousand dollars, through the disallowance of these various forms of tax evasion, we now have raised their tax to over a million dollars. In the case of Company B, where they

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filed a tax return for (?) money, and through the following methods they have attempted to evade their just and fair taxes, we have assessed them ..... In the case of Company C ..... In the case of Company D, and so forth.

Gentlemen, as the situation stands now, we in the Treasury feel that we have ample powers to cope with this matter, and from time to time I am going to ask for the privilege to come up here and report to you on the progress that we make in the examination of the tax returns for various companies for 1941. I sincerely hope that future reports will show that the majority of the companies have lived up to both the spirit and the letter of the law, and I can assure you that whatever the situation is, the policy of the Treasury is to let the chips fall where they may.

If we find that we have not got sufficient authority, or if we find the companies have discovered some new loopholes whereby to escape paying their just and fair tax on the profits made out of war contracts, we will promptly bring this matter to your attention and ask for your assistance.



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Mr. Sullivan and Commissioner Helvering are in 100 per cent accord with me on this subject, and they are here to answer questions on details of the tax law and how this thing should be done.

Draft of Secretary Morgenthau's  
Statement to the Joint Committee  
on Internal Revenue Taxation,  
May 28, 1942

2nd  
167  
Draft

presented to  
Secy at 2 pm  
5/27/42

I have asked for the privilege of appearing before you this evening because as Secretary of the Treasury I have been greatly interested in seeing that no one makes an undue profit out of this war. Certain companies, a small minority, I feel sure, are endeavoring to conceal profits under the guise of expenses and thus to avoid the taxes which Congress intends them to pay. I am here to describe to the Committee some of these practices and to indicate what the Treasury and the Bureau of Internal Revenue are doing about the problem they present.

I should like to give you some examples to indicate the methods which are used in the effort to avoid taxes by disguising profits as expenses.



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Certain companies are paying greatly increased salaries and extraordinary bonuses to officers and employees and are deducting these payments in computing the companies' income. For example, one company paid its sole stockholder over \$1,500,000 compensation as sales agent. Another company whose stock was all held by one family paid salaries of \$7,500 each to two of the children who were graduated from school in 1939 and paid the brother of the principal stockholder \$15,000 a year although he had no exceptional training or ability. In another company one salary was increased from \$5,000 to \$100,000 between 1939 and 1941.

Some companies are disguising profits as expenses by paying excessive rents and royalties to shareholders.

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In one corporation the wife of the president bought property for \$45,000 and then rented it back to the corporation at a rental of more than \$30,000 a year.

Another corporation in 1935 agreed to pay the owner of a patent a royalty of 10% of the sales price and in 1941 when production for war purposes was greatly increasing, the royalty rate was increased to 15%.

In other cases compensation to officers and stockholders has been made under the guise of payments to a pension trust. Excessive charges for repairs are being claimed in some cases. The cost of actual repairs is of course a proper deduction in computing income but additions to or replacement of plant or equipment are sometimes charged to repairs, although they are really a reinvestment of profits which are properly subject to tax.

All of the items I have mentioned have something in common. The company seeks to deduct them in arriving at its profits subject to tax, whereas they are not proper or reasonable deductions.



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The law gives the Bureau of Internal Revenue the power and responsibility to disallow items charged to expense where these are extraordinary, unnecessary, or unwarranted. We have continuously exercised this power. We have disallowed expenditures in a long list of cases, and we have been upheld by the courts.

The war calls for speedier and intensified action in examining charges to expenses. Accordingly, I have asked Assistant Secretary Sullivan and the Commissioner of Internal Revenue to short-cut the normal procedure of peacetime, under which a year or more ordinarily elapsed before an examination of the books of the company was completed. In times like these we cannot afford to wait so long. I have therefore asked that the books of companies, especially those having war

contracts, should be examined immediately wherever possible. We want to make sure without delay that these companies are carrying out both the spirit and the letter of the law which every citizen expects them to do during wartime.

Thus far, the Bureau of Internal Revenue has completed the examination for 1941 in 32 cases. Mr. Sullivan and Commissioner Helvering will discuss some of these cases in detail at your pleasure.

You may be interested to know that for these 32 companies, the auditors have recommended additional tax assessments of \$7 million. Naturally, these amounts will be reduced somewhat when the companies give further information about some of the questioned items, but from the results to date it is clear that a dangerous and vicious form of tax avoidance is being attempted, with the incidental result that the Government is threatened with the loss of a substantial amount of revenue.



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As the situation stands now, the powers conferred upon the Bureau of Internal Revenue by law appear to be adequate to cope with this problem of avoiding taxes by hiding profits under the guise of expenses. We are going to use those powers vigorously. We want to make this very clear to that minority of businessmen -- a small minority, I feel sure -- who are trying to avoid taxes made on undue profits out of our nation-wide sacrifice. I want to reassure that great majority of our industrial leaders, who are giving every effort without thought of personal profit to the winning of the war that unscrupulous and selfish competitors will not derive an advantage over them. I want to reassure the armed forces and our whole 130 million of people that their Government is awake to the problem of keeping profit out of this war and is not going to leave a stone

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unturned until we get every dollar to which the Government is entitled.

From time to time I am going to ask for the privilege of coming before you and reporting on the progress that we make in the examination of tax returns. If we find that we do not have sufficient authority or that the problem has become too big to handle under the present law and regulations, we shall promptly bring the matter to your attention and ask for your assistance.

D - D



May 27, 1942  
2:00 p.m.

TAXES

Present:

Mr. Sullivan  
Mr. Blough  
Mr. Kuhn  
Mr. Gaston  
Mrs. Klotz

H.M.JR: Here we go.

MR. BLOUGH: Mr. Kuhn has seen and revised a substantial portion of this. Mr. Sullivan has not had that privilege, but he has furnished some material.

H.M.JR: So he has the privilege to criticize, he and Mrs. Klotz. O.K.

"I have asked for the privilege of appearing before you this evening because as Secretary of the Treasury I have been greatly interested in seeing that no one makes an undue profit out of this war." I will go through it once.

MR. KUHN: That was the idea you had this morning.

H.M.JR: "Certain companies, a small minority, I feel sure, are endeavoring to conceal profits under the guise of expenses and thus to avoid the taxes which Congress intends them to pay. I am here to describe to the Committee some of these practices and to indicate what the Treasury and the Bureau of Internal Revenue are doing about the problem they present."

Since when did the Treasury and the Bureau of Internal Revenue become two separate entities?

MR. SULLIVAN: That is a good point.

MR. BLOUGH: Which, the Treasury or the Bureau?

H.M.JR: Say Treasury, that is all-inclusive. "I should like to give you some examples to indicate the methods which are used in the effort to avoid taxes by disguising profits as expenses.

"Certain companies are paying greatly increased salaries and extraordinary bonuses to officers and employees and are deducting these payments in computing the companies' income."

Ferdie, isn't there going to be any hair shirt, any beating of the breast?

MR. KUHN: That was in it this morning. The whole first and second pages were breast beating, and this gets it in at the end. It can be shifted if you want.

MR. BLOUGH: Ferdie has got a lot more on tap we can put in.

H.M.JR: "For example, one company paid its sole stockholder over \$1,500,000 compensation as sales agent. Another company whose stock was all held by one family paid salaries of \$7,500 each to two of the children who were graduated from school in 1939 and paid the brother of the principal stockholder \$15,000 a year although he had no exceptional training or ability. In another company one salary was increased from \$5,000 to \$100,000 between 1939 and 1941."

This is just cold. I mean, there is no warmth to this thing. I am talking about - well, anyway, there is no warmth to this thing.

MR. BLOUGH: Blame that on me, Mr. Secretary, I thought you didn't want any warmth.

H.M.JR: This is a warmed-over dish. I want something fresh. Where is that news ticker, for instance?

MR. SULLIVAN: Right here.

H.M.JR: What company is that?



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MR. SULLIVAN: Lincoln Electric. We sent out there to Cleveland for the returns. I telephoned out just as soon as we got this from you. It wasn't one of the five hundred.

(Mr. Gaston entered the conference.)

H.M.JR: We need some blood and iron. These boys have all gone kind of milksoppy on me. Did you have a good time up there with your religious group?

MR. GASTON: Not a bad time.

H.M.JR: They complained - they say in the morning they gave me a hair shirt and now this afternoon they give me a hairless shirt.

MR. KUHN: Here is the hair shirt that we can put the hair back on.

MRS. KLOTZ: What a man!

MR. KUHN: Let's go on with this.

H.M.JR: I am going to have to make my speech all over to Herbert Gaston so he gets this. I dictated something this morning which is available that had hair on it.

"Some companies are disguising profits as expenses by paying excessive rents and royalties to shareholders. In one corporation the wife of the president bought property for \$45,000 and then rented it back to the corporation at a rental of more than \$30,000 a year. Another corporation in 1935 agreed to pay the owner of a patent a royalty of 10% of the sales price and in 1941 when production for war purposes was greatly increasing, the royalty rate was increased to 15%.

"In other cases compensation to officers and stockholders has been made under the guise of payments to a pension trust. Excessive charges for repairs are being

claimed in some cases. The cost of actual repairs is of course a proper deduction in computing income but additions to or replacement of plant or equipment are sometimes charged to repairs, although they are really a reinvestment of profits which are properly subject to tax."

Give me any newspaper reader who wouldn't drop it here.

"All of the items I have mentioned have one thing in common. The company seeks to deduct them in arriving at its profits subject to tax, whereas they are not proper or reasonable deductions.

"The law gives the Bureau of Internal Revenue the power and responsibility to disallow items charged to expense where these are extraordinary, unnecessary, or unwarranted. We have continuously exercised this power. We have disallowed expenditures in a long list of cases, and we have been upheld by the courts.

"The war calls for speedier and intensified action in examining charges to expenses." This is where this thing should begin here. "Accordingly, I have asked Assistant Secretary Sullivan and the Commissioner of Internal Revenue to short-cut the normal procedure of peacetime, under which a year or more ordinarily elapsed before an examination of the books of the company was completed. In times like these we cannot afford to wait so long. I have therefore asked that the books of companies, especially those having war contracts, should be examined immediately wherever possible. We want to make sure without delay that these companies are carrying out both the spirit and the letter of the law which every citizen expects them to do during wartime.

"Thus far, the Bureau"-- this is where the thing should start. The war calls for speedy, intensified action.

"Thus far, the Bureau of Internal Revenue has completed the examination for 1941 in 32 cases. Mr. Sullivan and Commissioner Helvering will discuss some of these cases in detail at your pleasure.



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"You may be interested to know that for these 32 companies, the auditors have recommended additional tax assessments of \$7 million. Naturally, these amounts will be reduced somewhat when the companies give further information about some of the questioned items, but from the results to date it is clear that a dangerous and vicious form of tax avoidance is being attempted, with the incidental result that the Government is threatened with the loss of a substantial amount of revenue."

MR. KUHN: That should be two sentences there.

H.M.JR: "As the situation stands now, the powers conferred upon the Bureau of Internal Revenue by law appear to be adequate to cope with this problem of avoiding taxes by hiding profits under the guise of expenses. We are going to use those powers vigorously. We want to make this very clear to that minority of businessmen - a small minority, I feel sure - who are trying to avoid taxes made on undue profits out of our nation-wide sacrifice. I want to reassure that great majority of our industrial leaders, who are giving every effort without thought of personal profit to the winning of the war that unscrupulous and selfish competitors will not derive an advantage over them. I want to reassure the armed forces and our whole 130 million of people that their Government is awake to the problem of keeping profit out of this war and is not going to leave a stone unturned until we get every dollar to which the Government is entitled.

"From time to time I am going to ask for the privilege of coming before you and reporting on the progress that we make in the examination of tax returns. If we find that we do not have sufficient authority or that the problem has become too big to handle under the present law and regulations, we shall promptly bring the matter to your attention and ask for your assistance."

Let me have the stuff that I dictated this morning, will you? Let me read this with feeling.

MR. BLOUGH: You didn't read this with feeling.

H.M.JR: Well, there was no feeling in it. It is a warmed-over dish. I got all worked up this morning. I can't do it twice, so I will read from my notes.

MR. GASTON: This is going to be given out and made public?

MR. KUHN: A public statement preceding examinations of John and the Commissioner.

H.M.JR: This is a press story. The point that I want to get over is this. Now, this is me talking, see.

(The Secretary read his dictated speech.)

There is nothing of this in this thing.

MR. BLOUGH: Most of it is.

H.M.JR: Herbert, I told them I feel this thing deeply. I am not just going up to make a show. Everybody else in this town has been taking a stand and trying to do something. We have the power. Now, I told - I issued orders that I wanted this done, you see.

MR. GASTON: Did the President include that sentence in his message?

H.M.JR: I don't know. (The Secretary continued reading his dictated speech.) That is the way I feel. I am not going to walk up there and just give this thing. I am going to do it - I mean, I want to make it strong. These people should be publicly chastised. I mean, I can't use any language foul enough to describe them. I mean, they are making the money out of the blood of the boys who are doing the sacrificing, and why not hold them up to public scorn? Why be so milksoppy about this thing? If the Bureau wants it, to hell with the Bureau - it has only been done under the most extreme pressure, which Sullivan has put on at my request. They never would have touched this thing. It is time the Bureau turned over



and realized that we are - the examples, they are not enough, not interesting, not juicy. They are cold. You have got the examples. Why not give them? Why not talk about the sixteen thousand dollars' worth of pocketbooks, and this and that, and the other thing? That is what you told me that got me excited.

MR. SULLIVAN: I gave Roy a list of these.

H.M.JR: Let me finish this. I am very disappointed. (The Secretary continued reading his dictated speech.)

That is the way I feel.

MR. KUHN: Mr. Secretary, I think in that statement there you are confusing the newspaper reader, who won't know until he gets down to the very end what you are talking about. Are you talking about excess profits, which you are not, or are you talking about a form of cheating on tax returns by these deductions for expenses, which is what you want to talk about?

MR. GASTON: It can be stated very simply, the inflation of expenses to avoid taxation.

MR. KUHN: That is right, but that is not a matter of undue profits.

H.M.JR: Herbert, you can burn on this tax thing because I have seen you burn with righteous indignation. See?

MR. GASTON: You want me to?

H.M.JR: I want you to burn. Let me just say here - this thing comes over at ten fifty-six and we are sitting here and have to get the Roland Committee to publicly tell us what this Committee is doing, and this is going on every day.

Now, the point I am making is - I always say in Washington the ax never falls on you without your being notified. That has been going on for months, and if we are on the job we don't need any legislation. We don't need any legislation. We have the power in the Bureau, and if the Bureau is on the job they would get this stuff. Am I right or wrong?

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MR. SULLIVAN: You are right, sir. The only thing I would like to add to that, sir, is that we rely on income tax returns, and as we investigate and find these things we disallow them. They are going in under an investigation of something else and they are turning up a lot of things faster and most unreliably. Now, it is inevitable that they will find cases because we are now concentrating on these five hundred. They will find cases outside of that before we will.

H.M.JR: But, John, it would just be my good luck to have some member of the Committee who knows his tax law say, "Why isn't Morgenthau doing this? Why does the Toland Committee have to do it?" See?

Now, what I am trying to let them know - I want to let them know tomorrow night that--

MR. SULLIVAN: We are on the job.

H.M.JR: Which we want--

MR. SULLIVAN: That is right. Now, I think in the ending up of this, this public statement should be connected up with the work they are doing with the Committee; otherwise, anybody reading it will say, "Why go before the Committee with this?" And to connect it up and to demonstrate a follow-through, you then call on Helvering and me to present the details in the first class of cases and say, "I would like to have you listen to Helvering and Sullivan when they come up to present others, as those cases are developed."

MR. GASTON: Are you going to name them?

MR. SULLIVAN: No.

H.M.JR: Yes, you are.

MR. SULLIVAN: This is the executive session. This statement can be released--

H.M.JR: But you are going to name them?

MR. SULLIVAN: You bet your life I am.



H.M.JR: I mean, I understood - I thought you said Helvering didn't want you to name them.

MR. SULLIVAN: No, he didn't want to deliver them a printed copy. Here is Lansdowne Steel and Iron Company, "All stock in this company is held by three families. Excessive salaries paid to officer-stockholders. Our agent's recommendation was a disallowance of \$82,000 in salaries, and the company has already agreed to the disallowance of \$58,000."

They have already agreed that fifty-eight thousand of that was unreasonable and that they are willing to pay on that much. The rest is still in controversy.

It goes through - for instance, on Jack and Heintz, "The three principal officers took a salary of \$100,000 each. We are allowing only \$35,000 each. The inventory item is adjusted upwards by \$300,000." Then we tell what that is due to. There is one inventory item of twenty-two thousand dollars that was apparently overlooked and another item of sixty-eight thousand dollars that represented materials the company improperly claimed to be obsolete.

H.M.JR: They didn't give me any of this. The point I am trying to get over is this: I can't do it much better than what I did on this thing. All of that stuff shocked me, which I have heard two or three times before. I am trying to simply say, whatever this company is, that in order that other people - they don't want me to have these people publicly castigated. I think they should be, as a notice that the Treasury isn't going to stand for this kind of thing, and that granted, if you want to say that was done before Pearl Harbor, before we were at war - this was done before - but now that we are at war we hope that the ethics of the American businessman will rise to this occasion in a manner which it never has before. Did you hear what I said - in a manner which it never has before. In other words, the business ethics in making out and paying for this war should be on the same standard that you expect of the men who have to go out and are willing to give their lives.

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MR. GASTON: You don't want to over-argue this thing. There ought to be a few short and stinging sentences. This story is going to attract plenty of attention. If you say in just cold, hard words what you are going to do, there is going to be plenty of story. You don't have to press the case with over-argument about how bad it is, how iniquitous.

H.M.JR: Granted, but you have to have something juicy in it.

MR. GASTON: You have got to have some meat in it, half a dozen sharp instances.

H.M.JR: But the good cases are all there, and they haven't given them to me.

MR. GASTON: Do we need any more powers? Have we got all we need? We say we have, we are going to take care of it, but do we have all the power we need?

MR. SULLIVAN: Well, no - so far we believe we have, but in the course of this investigation we may find situations that are not provided for in the present law, and in that event we come back and ask for further power.

MR. KUHN: I think you have to tell what this form of cheating is, how it works, and then what powers you have to deal with it, and what you are doing about it. Otherwise, you confuse the person that doesn't know what you are driving at.

H.M.JR: Well, I have got two first-class newspapermen here, and I could spend three days and I couldn't get over as well as what I dictated this morning. I couldn't do it as well over again because I am tired now and I was fresh this morning; but the point that I am trying to get is - take this story which is on the ticker this morning. This will be in the afternoon papers. It goes to every ship at sea. It goes to the men wherever they are, to the workmen, and they come back and say, "We are doing this," and so forth and so on, "We are giving up our double time for Sunday, and we are giving up this



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and that and the other thing," whatever they are giving up, "and we are asked not to ask for a dollar an hour more - look what has happened. What is the Government doing about it?"

I want to make two points: One, we are on the job and trying to shock the decent businessmen into saying - it would be wonderful if the U. S. Chamber of Commerce would come out the next day and say, "This thing has got to stop," or the National Association of Manufacturers, but I don't believe in fairies.

Then I do think that somewhere at the end, maybe - I don't know whether we want to talk about the Treasury's proposal that is pending.

MR. BLOUGH: I doubt it. You are going to mix drinks here.

MR. SULLIVAN: No.

H.M.JR: Herbert, have you got the picture that I want?

MR. GASTON: I got the picture, yes.

H.M.JR: Are you all stirred up over it?

MR. GASTON: Oh, yes, it is just a question of what is the strong way to say it.

H.M.JR: Are you a little bit?

MR. KUHN: I was stirred up yesterday. I thought I was all stirred up, and I came in this morning and I was unhappy because you said it didn't get over, and I felt--

H.M.JR: No, it didn't get over at all.

MR. GASTON: It is going to be sensational stuff, because a lot of people just don't realize that we have any such powers, that the Treasury has any such powers.

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H.M.JR: Herbert, I don't think John is going to mind when I say that we haven't used them anything like the extent which we might. That is a fair statement, isn't it, John?

MR. SULLIVAN: I think that is an understatement, Mr. Secretary.

H.M.JR: How do you mean?

MR. SULLIVAN: I think that the extent to which we have used them in the past is an infinitesimally small percentage of the degree to which we are going to use them in the future.

H.M.JR: And if I may also say here, now that you have got the time to devote to it, they need a streamlining and an internal revolution over there.

MR. SULLIVAN: There are some things I want to talk to you about, but you are not wrong in that statement.

H.M.JR: The way to do it is for me to go out on the end of a limb, and then for you to crawl out after me and pull all these boys after you.

MR. SULLIVAN: This is a good time to do it, because we just have had a fight with the Budget, and I think we moved up in our classification yesterday.

H.M.JR: I mean, I am not worried, because, after all, you certainly burned on that thing about Electric Boat and Consolidated Aircraft. That is what attracted you to me. That is how I got to know you. It was the fight you put up on Electric Boat and Consolidated Aircraft. When they couldn't hire you, I did. So let's burn a little bit. I will be guided by what you people say. I think, as Herbert put it, one or two stinging sentences and then the cold facts. There are other things besides the Jack and Heintz thing, aren't there?

MR. SULLIVAN: There are other things worse.

H.M.JR: Now, since Herbert is the granddaddy of this crowd, how do you want to work?



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MR. GASTON: Well, I want to read this stuff here.

MR. SULLIVAN: There are seven cases we are going to present.

MR. KUHN: Give the examples to Herbert.

H.M.JR: I want to give everybody time so that I can get something which will be good next time I see you so I can use it. I have got to appear before the Silver Committee at ten o'clock. I could be here at 8:45. That would give us a full hour.

MR. SULLIVAN: He made that announcement with all the deliberation, as though he were going to call us in early, and then he says, "8:45."

MR. KUHN: John thought it was 7:30.

H.M.JR: What do you say?

MR. GASTON: This is tonight you are talking about?

H.M.JR: 8:45 tomorrow morning.

MR. SULLIVAN: I would like to make one suggestion, Mr. Secretary, that was inspired by your saying that the boys in army camps will say, "Look at these fellows getting away with murder and what is the Government doing." Now, we can show you that where a corporation has paid excessive salaries to officers who are in the high brackets, that officer pays an income tax on that amount. That amount is then disallowed to the corporation, and the sum total of the corporation taxes paid on that extra hundred thousand dollars, plus his own individual income tax on that same hundred thousand dollars exceeds a hundred percent.

MR. KUHN: That is, they pay a penalty for cheating.

MR. SULLIVAN: That is difficult to put across the way you want to, but the idea that these people are penalized and pay through the nose for having made this mistake may help along the line you want.

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MR. GASTON: Isn't that the same tax treatment as if it were a distribution of earnings?

MR. SULLIVAN: Oh, no; as if it were a distribution of earnings?

MR. GASTON: Yes, if he had received that money as a distribution of earnings - oh, no, because he wouldn't have gotten that amount.

MR. SULLIVAN: No, he would have gotten that excessive salary less corporate taxes.

MR. GASTON: That is right.

MR. SULLIVAN: Does that appeal to you at all?

H.M.JR: I would have to see it in cold print.

MR. SULLIVAN: It is going to be difficult to put simply.

MR. GASTON: Well, that is all right, they get the idea.

MR. KUHN: Crime doesn't pay, you can't win with this kind of thing.

H.M.JR: Well, can the four of you spend the rest of the day on this?

MR. GASTON: Yes.

H.M.JR: So that tomorrow morning we get something.

MR. BLOUGH: I feel this way about it; I should say it before it is everlastingly too late. I wouldn't go too all-out on what you are going to accomplish this way, because I have a suspicion you are not going to accomplish as much as you would like to.

H.M.JR: Even after seeing these thirty-two companies?



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MR. BLOUGH: You are going to get the worst cases; you are going to skim the cream, but there is going to be a lot of this that will be so much in the realm of judgment that you simply can't get it. You can't get the Board and the courts to go with you if you do.

MR. GASTON: You can go further with this statement than you can with your later policing means. You can scare them to death.

MR. SULLIVAN: If Roy means this administrative technique is not going to take the place of improved excess profits tax legislation, I am entirely with him.

MR. BLOUGH: I didn't mean that. I meant that this tax avoidance is going to go on. You will get the worst cases, but there is a lot of this that you won't get, and can never get, just in the nature of the case, because of the elements of judgment that are involved.

H.M.JR: Put in the sentence, "We can compare this to bootlegging." We will do as we did when I came in on the sunset of bootlegging. We got all the worst cases, but there will always be some that will escape.

MR. KUHN: That bootlegging was an attempt to get around the generally unpopular law. I don't think you ought to compare this to bootlegging. This is cheating.

MR. SULLIVAN: I don't know. It seems to me the Secretary has two purposes. One is to demonstrate to the country that we are catching those people who have already offended, and through demonstrating that, we are catching those fellows - warn the other fellows from making the same mistakes.

H.M.JR: You have put it absolutely the way I feel, plus the emotional side, that by demonstrating that we are on the job we will help Harold Graves more than anything that I personally can do to sell his bonds. Herbert, I want to say I am not doing this thing - John half-jokingly said this morning to me, "Well now, I know what you mean, you have got November elections in mind," and I said, "No,

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John," and he was serious, and I was serious, "It is much deeper than that." I mean, I really feel this thing very, very deeply, and I want to - as Secretary of the Treasury, I am not going to let anyone get away with an extra two cents of war profits that he is not entitled to. I think that the country has got the right to expect that from you; and I think if I do, then the people have got to work and fight for us to win this war.

We feel in the Treasury we have got the power to back us up. As I said this morning, there are a lot of bloodsuckers sitting home getting fat out of this war. I can't over-emphasize how deeply I feel on this thing. I think it is one of the most loathesome things, and nothing will undermine the democracy quicker.

MR. KUHN: It is at the root of what labor is worried about. Well, suppose Herbert reads this and then we have a huddle.

H.M.JR: All right.

(Mr. Gaston handed a newspaper clipping to the Secretary.)

MR. GASTON: The Dress Institute is carrying on a promotional campaign for people not to save.

H.M.JR: Not to save?

MR. GASTON: To counteract the feeling that arose after Pearl Harbor, that you shouldn't buy new clothes and shouldn't dress up.

MR. KUHN: Win the war by looking beautiful.

H.M.JR: I think you ought to take it up with the Advertising Council. Why don't you take it up after you get through with this? All right, Ferdie?

MR. KUHN: Yes, I have got a couple of things to clear with you, if I may, this afternoon.



May 27, 1942  
2:57 p.m.

HMJr: Hello.

Operator: Doughton.

HMJr: Hello.

Robert  
Doughton: Hello.

HMJr: Bob.

D: All right, Henry.

HMJr: How are you?

D: I'm not - pretty low down. How are you?

HMJr: Oh, I'm all right.

D: Have you seen a copy of P.M. of Wednesday, May the twenty-seventh, nineteen forty-two.

HMJr: I don't think so, no.

D: Wish you'd get it, if you can.

HMJr: What day?

D: I know you can. Today. Wednesday, May the twenty-seventh.

HMJr: Wednesday, the twenty-seventh. That's today.

D: Yes. And read very carefully - it's full of attacks on our committee and the committee work, of the most slanderous, lying kind that can be uttered.

HMJr: No, I haven't.....

D: And it's intended, of course, to discredit the Committee on Ways and Means, and there's something being fed to them from somebody that comes up here.

HMJr: Well, not only haven't I seen it, but I haven't

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talked to anybody from P.M. that I can remember.....

D: Well, I'm sure you haven't and I'm sure you wouldn't; but after you read it, I want to get your reaction to it and see whether or not you're willing to denounce it.

HMJr: I see.

D: On page two - I'll read you the last paragraph on page two.

HMJr: Yeah.

D: After it goes on there and tells them to write to their congressmen, down here it says:

"But don't take our opinion. Read the record for yourself. It is vitally important to you. Many of the men today who are writing that record are assuming that you will not be interested - or that it will all sound too complicated to you - for that is the only chance they see of getting away with it. You elected them, and they know that what they are getting away with is murder - murder of the President's program, murder of your wishes, and, if they succeed in damaging the war effort, murder of your loved ones at the front, too."

I've never read anything like it!

HMJr: No.

D: It's full of it; it's full of it! I've never read anything like it!

HMJr: No, that's terrible.

D: As much as to say that if we don't just take everything that the Treasury recommends - God knows we'd like to.....

HMJr: Yeah.

D: .....that we're just a set of robbers; that we're just trying to make the rich richer and the poor poorer. I've never read anything like it, Henry.



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HMJr: No.

D: And it's understood - it's understood to be a paper, an organ of the New Deal.

HMJr: Yeah.

D: And if it is, why I'd like to know it, because I wouldn't see any chance in the world - if you people down there approved of stuff like that.....

HMJr: Yeah.

D: .....I wouldn't see any chance in the world for us to ever work together any more in any harmony and successfully. I've never seen anything like it. I just want you to get it and then.....

HMJr: Well, Bob.....

D: .....take time on it.

HMJr: I can assure you in the first place that I haven't seen it, and in the second place, I've got no more to do with it than the King of.....

D: I'm sure of that, but it's the duty of somebody down there to sit in silence - they believe that it reflects, or expresses the wish of the Treasury and the Administration. If it does, why I want to know it.

HMJr: Yeah.

D: If I'm murdering the President's program, why I want to know that.

HMJr: Yeah.

D: If I'm guilty of murder in any way, why I want to know it. I've never seen anything like this now.

HMJr: Yeah.

D: I never have, and I want you to call me back after

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you see - after you read it. Will you?

HMJr: Yeah. Are you in session now?

D: I will be now in a few minutes, but you can get me down at the Ways and Means Committee here.

HMJr: I see.

D: You look through this thing. Why, it's full of it, from one end to the other.

HMJr: All right, I'll.....

D: I understand that this same group of folks that's running this paper, run the paper at a big loss to get off this kind of stuff; and then they use the loss as a deduction to keep from paying the Government their taxes.....

HMJr: Yeah. Well.....

D: .....and that kind of stuff, you know, that kind of propaganda trying to discredit men here who are working day and night, conscientiously striving to do everything in the world they can to help the Government and cooperate in every way they can according to their conscience and best judgment; and just because they can't okay everything a hundred per cent and won't be a synthetic rubber stamp, to just try to destroy them that way - it's awful to me.

HMJr: Yeah. Well.....

D: It looks like it'll disturb our relations down here if there ain't something done. Somebody's going - that's up here now - going back down there and feeding it to them, giving them the basis of this kind of stuff. There's somebody sitting in on our committee doing it.

HMJr: Yeah.

D: That's my honest opinion.



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HMJr: Well, give me a chance to look at it.

D: Yes, I will. I can always talk to you in the right way. I always get a frank answer, and I want you to read that stuff and then call me back.

HMJr: I'll do that.

D: Thank you, Henry.

HMJr: Thank you.

Conference in Secretary Morgenthau's Office  
Wednesday, May 27, 1942  
3:45 P.M.

Present: Secretary Morgenthau  
Mr. Litvinoff  
Mr. White

Mr. Litvinoff, the Russian Ambassador, requested to see Secretary Morgenthau. He called at 3:45.

Mr. Litvinoff stated he had just received word that the British Cruiser, Edinburgh, had been torpedoed (probably the early part of this month) and that 5-1/2 tons of Russian gold were on it. He stated that the payment on the advance made in January was due July 3 and he wanted to know whether the Secretary preferred that they pay in dollars or wait for another shipment of gold.

Secretary Morgenthau replied that the Russian Government could handle it which ever way they preferred, that he would be glad to postpone the final day 60 days or more, or as much as is necessary. Mr. Litvinoff thanked the Secretary and said they would probably make the payment in dollars but did not say definitely.

The Secretary then asked Mr. Litvinoff how things were going and the Ambassador said things were going just as he had forecast.

H. D. W.



May 27, 1942  
3:39 p.m.

HMJr: Hello. Hello. Hello.

Stephen  
Early: Yes, Henry. Steve.

HMJr: Steve.

E: Yes, sir.

HMJr: Congressman Robert Doughton - you may have heard of him.....

E: I have.

HMJr: .....he just called me up half - foaming at the mouth, half hysterical.....

E: Yeah.

HMJr: Honestly - over an article in P.M., signed by Ralph Ingersoll, on page two.....

E: Yeah.

HMJr: .....in which he called them a murderer of the President's program and murderer of your loved ones at the front, because they haven't passed the Treasury tax bill. And either the President or I have got to deny and call down the P.M. Hello.

E: Well, why have either the President or you got to do it?

HMJr: Well, that's why I'm calling you up for advice. I don't know.

E: Well, I - damned if I know why we've got to do it. Ingersoll's got a right to write what he pleases and publish same.

HMJr: Yeah.

E: And if he's written a thing that Doughton objects to, let Doughton tell him.

- 2 -

HMJr: Yeah. Well, I'm calling up for advice, because I don't - as a matter of fact, everything he's written about the Ways and Means Committee happens to be true.

E: Yeah. Well.....

HMJr: But he's put it in kind of tough language, that's all.

E: Well, that's the way he writes.

HMJr: Yeah.

E: We don't scream to people when they write things about us that are tough.

HMJr: Well, Mr. Doughton never denies anything that they call me.

E: No. No, I'd let him hold his water.

HMJr: (Laughs)

E: If his kidneys are good and.....

HMJr: (Laughs) In other words, sit tight.

E: Sure, I would; certainly, I would.

HMJr: All right.

E: You didn't inspire the article, did you?

HMJr: Well, as far as I'm personally concerned, I don't know that anybody in the Treasury had anything to do with it.

E: Well, I'm certain that no one here had anything to do with it.

HMJr: Yeah.

E: And my conscience being clear, I've got no reason to hold any brief for him, and we don't do it.



- 3 -

HMJr: My conscience for once is also clear.  
E: (Laughs) Oh, I'd let him rave.  
HMJr: Okay.  
E: Yeah.  
HMJr: You may hear about it, but.....  
E: Okay.  
HMJr: .....I'll sit tight.  
E: So what?  
HMJr: Thank you.  
E: Righto.  
HMJr: Okay.  
E: Good-bye.

May 27, 1942  
3:52 p.m.

HMJr: Ferdie.

Ferdinand  
Kuhn: Yes, sir.

HMJr: What is your opinion, in answer to Doughton,  
that I do something to throw down this story  
in P.M. today?

K: Well, I don't think that you need to throw  
down any of the material in P.M., except that  
line in the editorial which is signed by Ralph  
Ingersoll, and it was his personal opinion.

HMJr: Well, do you think it's up to me to throw it  
down?

K: I do not. I definitely don't.

HMJr: What?

K: I don't. I think that the only line that Doughton  
can really object to is the line about murder,  
which is signed by Ralph Ingersoll.

HMJr: Yeah, but why is it up to me to censor P.M.?

K: I can't understand, and I don't think you should.

HMJr: What?

K: I don't think you should. I think.....

HMJr: It's up to me to censor P.M.?

K: Not any more than it's up to you to censor all  
the other stuff that's been appearing on taxes.  
I wouldn't do it.

HMJr: Well, I asked Steve Early. He agrees with you.

K: Well, I wouldn't touch it, and I think it's some-  
thing between Doughton and Ingersoll, if he wants  
it.



- 2 -

HMJr: Well, he's - Ingersoll - Doughton's demanded that I call him back. I don't know what I'll do.

K: No. I don't see that anything in P.M.'s material is untrue. I think that it's all the honest-to-God's truth. The only thing that is a little too strong is that last line of Ingersoll's editorial, and people have a right to write editorials.

HMJr: Well, it isn't up to me to censor the press. I had nothing to do with it.

K: No, sir. No.

HMJr: Yeah.

K: I'm glad it's getting under their skin, aren't you?

HMJr: Yeah.

May 27, 1942  
4:07 p.m.

HMJr: Houghteling.

J. L.  
Houghteling: Yes.

HMJr: I'm going to put you on my loudspeaker here, see.

H: Yeah.

HMJr: Anderson is here from the General Motors.

H: Oh, yes.

HMJr: And he brought in a statement - you see, they appeared before the War Labor Board yesterday - and Walter Reuther made a statement that we in the Treasury were dissatisfied, or that I was dissatisfied, with the way General Motors was conducting their War Bond campaign. And I said that since the day we were on the Hill, I had had absolutely no communication with Walter Reuther.

H: Yes.

HMJr: Now, have you over there in the labor section had anything to do?

H: With Walter Reuther?

HMJr: Yes. Since then, I mean, have you or anyone said anything to him that we were dissatisfied with General Motors?

H: No, I haven't had any contact with Walter Reuther. I've been trying to get hold of him today to find out how things were going.

HMJr: Yes.

H: I have heard that the unions have felt that they have not been made a partner in the thing, as we understood they were to be.



- 2 -

HMJr: But you haven't expressed yourself, have you?

H: I have not expressed myself, no, sir.

HMJr: Well, that's all I wanted to know.

H: Yeah. All right, sir.

HMJr: Because I've told them as far as I'm concerned, I'm more than pleased. I say the way the thing is going in General Motors.

H: Yes. Well, I have heard rumors of discontent among the United Automobile Workers that they weren't more taken in.

HMJr: Well, you haven't communicated that to me.

H: No, sir, I haven't. I say it was just rumors. I don't deal in rumors.....

HMJr: No.

H: .....except to.....

HMJr: Well, the main point, I wanted to tell General Motors that as far as I'm concerned, I not only have made no statement, but I'm well pleased.

H: Yes.

HMJr: I wanted to satisfy myself whether you, who contacts labor for me, had made any statements.

H: I have made no statement whatsoever.

HMJr: All right.

H: Thank you, Mr. Morgenthau.

May 27, 1942  
4:20 p.m.

J. L.  
Houghteling: Since you spoke to me, Mr. Morgenthau, I have been trying to get hold of Walter Reuther, because I understand that he made a statement before the War Labor Board.....

HMJr: Yeah, that's right.

H: .....about not being entire - the men not being - the union not being entirely satisfied with the General Motors plan.

HMJr: No, what he said was that I wasn't satisfied. That's the thing. No, he said I wasn't satisfied.

H: Reuther did?

HMJr: Yeah, either I or the Treasury. Just let me ask Peter Odegard, he's here.

(Talks aside) What did Reuther say? You read that. Did he say that I was or the..... Oh.

What Reuther said was - before the committee - was that people at the Treasury considered that the way General Motors handled the plan was disgraceful. That's what he said. And what this man from General Motors wanted to know was, was he - was Reuther speaking for me.

H: Yes.

HMJr: And I said, no, he was not, because I hadn't been in communication with him.

H: Yeah. Well, Reuther said - I understand that Reuther - that Mr. Anderson said that we were - the Treasury were completely satisfied with the General Motors plan, the way it was going.

HMJr: Well, aren't we?

H: If the unions are disgruntled about it, which they seem to be, I wouldn't be completely



- 2 -

satisfied.

- HMJr: Yeah, but up to this minute, nobody has told me that the unions aren't satisfied; so the only answer I've got is, "Yes, I am satisfied."
- H: Yes. Well, I'm going to meet Walter Reuther himself at six-fifteen tonight. I want to find out, because I've heard these rumors that the General Motors management has not lived up to the undertaking which they made in your office to you and Walter Reuther that they would take labor in as a partner in this thing, and that they would recognize that the money was coming out of the members of the union and they were to make it a joint effort. I have heard that they feel that they - General Motors has not lived up to that.
- HMJr: Yeah, but Walter Reuther can say any damn thing he wants, but he can't say that we of the Treasury think it's disgraceful.
- H: No.
- HMJr: And he - they had a man taking it down, and he should not have said that.
- H: Yes. Well, I'll talk to him about that, too, because I agree with you he had no license to say that. Nobody in the Treasury that is authorized to speak has made any such statement.
- HMJr: Okay.
- H: All right. I'll let you know tomorrow what I get from Walter Reuther.
- HMJr: If you would, please.
- H: Thanks.

May 27, 1942  
4:42 p.m.

HMJr: Hello.

Operator: Judge Rosenman.

HMJr: Thank you. Hello. Hello.

Judge Rosenman: Yes.

HMJr: Henry talking.

R: Hello, Henry.

HMJr: Say, I took a great liking to Mr. Willen.

R: Oh, yeah. I think he's quite a fellow.

HMJr: Yes. We had a - two talks.

R: Yes.

HMJr: And he went out for lunch with some of the boys.

R: Uh huh.

HMJr: Blow had somebody sick in his family, so he didn't come down.

R: Yes. He'd like to come down some other time.

HMJr: Well, that's all right. And Willen's going to come down one day a week from now on.

R: Is he?

HMJr: Yeah.

R: Well, that's very good.

HMJr: Yeah. He's going to give us a day a week. I think he'll be very helpful.

R: Yes.

HMJr: And I appreciate your putting us in touch with him.



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R: All right, fine. Thanks. Now, I have in the next room a Mr. Markham, of the Alien Property Custodian.....

HMJr: Oh, yeah.

R: .....who came up here to talk to me, because I don't think I'm coming down this week.

HMJr: Oh, that's too bad. That's what I wanted to find out.

R: Well, he's up here, and Crowley - I want to see Crowley, but he's out of town this weekend.....

HMJr: Oh.

R: .....and what I figure on doing is, I've got to see Byrnes, too. He was in this at one time.

HMJr: Yeah.

R: As you know. So not coming down, Crowley sent Markham up here and I'm going - he's got a bunch of briefs to hand me, too. Then I think - then I want to see Crowley himself, and then I think I'm ready to get the gang together.

HMJr: Okay.

R: What are your plans, Henry?

HMJr: Well, I think that I'll leave here Saturday morning, and maybe go up to the farm for Saturday and Sunday.

R: All right.

HMJr: And then I'll be back here again.

R: You'll be back for next week.

HMJr: For next week, yeah.

R: Well, I'll be down next week.

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HMJr: Well, if we could get together - whatever the first day is that you come down.

R: Yes.

HMJr: I mean, if you could.

R: I'll be down Thursday, Friday, and Saturday, and try to get this cleaned up.

HMJr: Well, we - you want us - have supper without any business, say, Thursday night?

R: All right, I'll put it down for Thursday.

HMJr: And we'll just be social.

R: Yeah. Well, I can discuss this with you.

HMJr: Oh, sure, if you want to.

R: I'll probably see Crowley that day.

HMJr: All right. Then we'll put you down Thursday for supper. We'll have pig knuckles and sauerkraut.

R: That's wonderful. Have her make it the way she made it for the President.

HMJr: Why not?

R: Fried, you know.

HMJr: Tell me something.....

R: I'll bring a lot of bicarbonate of soda.

HMJr: We'll supply that, too.

R: Okay.

HMJr: How does it look to you, as far as you've gone?

R: Well, it looks very complicated.



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HMJr: (Laughs) Yeah.

R: But I think I'm beginning to understand it.

HMJr: Yeah.

R: And I think ~~we~~ we can work something out.

HMJr: Well, you can see why I wouldn't want to work under that present Executive Order.

R: Yeah, it's very bad.

HMJr: What?

R: It's very bad.

HMJr: You can see that.

R: Yeah.

HMJr: Then why - I think the Treasury should - authority should flow from the President of the United States and not from somebody else.

R: Yeah.

HMJr: Doesn't that seem reasonable?

R: Right.

HMJr: What?

R: Yes.

HMJr: All right, Sam.

R: Okay. I'll see you next week.

HMJr: Thank you.

R: Now, you don't want Biow at any particular time, do you?

HMJr: No. Whenever he feels like it, I'll be very glad to see him.

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R: All right. I'll have him call Mrs. Klotz.

HMJr: Right. Whenever he's ready, I'd like to see him.

R: Okay.

HMJr: Thank you.

R: Thank you. Good-bye.



TO: Mrs. Klotz  
FROM: Joseph Gaer

DATE: May 27, 1942

Here is a copy of the article about Secretary Morgenthau for the Universal Jewish Encyclopedia, as revised by Mr. Gaston.

I am asking for galley-proof in the event we should wish to incorporate further changes.

MORGENTHAU, HENRY JR., farmer, publisher, financier, 50th Secretary of the United States Treasury; b. New York City, 1891. Educated in private schools, at the Phillips Exeter Academy, and Cornell University.

With a background of experience as a farmer and farm paper publisher who had advocated more business-like methods of farm management, enlargement of cooperative enterprise and improved community organization, as an adviser to the Governor and legislature of his own State on the reform of laws affecting agriculture, as a public administrator dealing with problems of conservation of natural resources, public recreational facilities and state-wide relief, and finally as the director of a vast program of refinancing the nation's farm debt at a time when the effects of a general depression were creating widespread havoc in the nation's primary industry, Henry Morgenthau, Jr. became the chief fiscal officer of the United States in a most critical period in the nation's financial history at the age of 42, one of the youngest men ever to hold the second-ranking place in the Cabinet of the President of the United States. Faced with the necessity of raising unprecedented sums, first to finance a recovery program, then to improve the nation's defenses in a world at war, and finally to defray the great costs of the war effort, he has by prudent and far-sighted management kept the national credit unimpaired, the currency sound and stable and over a period of eight



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years steadily reduced the average interest cost on the public debt. Tax revenues have been multiplied with the minimum of disturbing effects on the national economy and at the time when world-wide war disorganized all international dealings the United States, under Morgenthau's leadership, was recognized as the leader in a significant and promising effort to stabilize the principal currencies of the world.

Besides administrative ability of high quality and financial expertness, Morgenthau as Secretary of the Treasury has displayed profound interest in projects for the relief of distress and improvement of the conditions of the underprivileged, a factor in his character reflecting in part, no doubt, early experience as a voluntary social worker.

His training in finance shows a logical progression. Concerned first with farm production, he devoted increasing attention to farm management, then to the broader fiscal and organizational problems of the farmer and their place in the general economy, then to public finance and monetary problems on a national and finally an international scale.

Upon leaving Cornell University, where he studied agriculture, in 1913, Morgenthau made a careful study of farming opportunities in the United States. The outcome was his purchase of adjoining farms in Dutchess County that have been expanded into the 1500-acre diversified farm he now operates. Here in 1916 he took his bride,

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Elinor Fatman of New York, and here they not only worked together to build a successful modern farm on a pattern suitable to the productive capacities of the region, but joined with their neighbors in projects to improve community life and living conditions. He had gained insight into social problems prior to his college days as a resident and volunteer worker at the Henry Street Settlement in New York and as one of the supporters and directors of the Surprise Lake Camp for boys from the streets of New York, and his experience had been enriched through knowledge of international affairs gained by serving for a time as secretary to his father, who was Ambassador to Turkey from 1913 to 1916.

When the United States entered World War I, Morgenthau, working under the Food Administration, inaugurated a system of cooperative activities in Dutchess County to increase home-produced food. Then he conceived the idea of a tractor regiment for France which would increase France's food production at home and, what was at the time even more important, release United States food-carrying ships. Upon the request of the Food Administration to carry the idea into practice, Morgenthau organized the tractor regiment and sailed to France to put it into operation. When he returned home early in 1918 he enlisted and was assigned to Naval Overseas Transport Service as Lieutenant (j.g.). At the end of the war he returned to the farm and devoted considerable time and



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energy with groups urging America's entry into the League of Nations as a measure to prevent future wars.

In the elections of 1920, his friend and Dutchess County neighbor, Franklin Delano Roosevelt, was the Democratic candidate for the Vice-presidency but was defeated as the nation turned in reaction against Wilson's idealism and the League of Nations. Though industrial America seemed to rise on a spiral of prosperity, the farmers were in a precarious condition. Farm income was declining and farm mortgage indebtedness had risen from three billion dollars in 1910 to nearly eleven billion dollars in 1923. In 1922 Morgenthau acquired the American Agriculturalist, which he used as an outlet to plead the case of the American farmer, and he became actively interested in national farm problems as director of the Jewish Agricultural Society.

Morgenthau's opportunity to carry out some of his ideas came when Governor-elect Roosevelt appointed him Chairman of an Agricultural Advisory Commission, which was to study agricultural problems in New York State. Within three months the Commission, including leaders of farm organizations and legislators, brought in recommendations ranging from methods for improving farm-to-market roads to an adjustment in taxation for the benefit of agricultural cooperatives, which were written into law substantially as submitted. They have been generally regarded as the most constructive legislation for farmers ever to be put on the statute books of New York State.

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In December of 1930 Morgenthau was appointed Conservation Commissioner of the State of New York and took office on January 1, 1931, at the beginning of Governor Roosevelt's second term. By that time the state, as well as the nation, was rapidly sliding into the trough of depression. Commissioner Morgenthau reorganized his department completely, brought in efficient and well trained men, established each division on a business-like basis, and eliminated political patronage. During his administration a vast reforestation and soil conservation program was inaugurated in New York State. Long before any relief funds became available in the state Morgenthau worked out a number of work projects, organized county by county on a non-partisan basis, to employ needy heads of families. As soon as the Temporary Emergency Relief Administration was established his projects were ready to absorb many unemployed people in useful work, designed to increase and improve all State Park and public recreation facilities. These projects later served as a pattern on a national scale both for the Civilian Conservation Corps and the Works Progress Administration.

Morgenthau resigned as Commissioner of Conservation when Roosevelt became President and went to Washington as Chairman of the Federal Farm Board but charged by the President with the responsibility of consolidating farm credit agencies to save debt-burdened farmers from bankruptcy. When the Farm Credit Administration was established in May of 1933 the President



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appointed him its first Governor. The reorganization of cooperatives bankrupted by speculation induced by prior Federal Farm Board policies and the liquidation of vast stocks of farm products held by them were among his responsibilities. Washington soon began to know him as a skillful and aggressive administrator with a broad knowledge of farm finance and the problems of cooperatives.

Due to the grave illness of Secretary Woodin, who died in 1934, the Treasury Department lacked vigorous direction and in November of 1933 the President appointed Morgenthau Under Secretary of the Treasury to be Acting Secretary during Secretary Woodin's illness. Finding that the state of his health would not permit him to return to active duty, Secretary Woodin resigned and Morgenthau became Secretary of the Treasury on January 1, 1934.

The provision of funds to operate the government in the face of a disorganized market and great timidity on the part of investors was an immediate and urgent concern. Morgenthau called in experts in the Government bond market, economists of high rank, the executives of the Federal Reserve system and leading bankers. He received their advice but made his own decisions. The market received with approval the price and terms of his first issue and it was a success. To avoid market disturbance a quarterly program of financing was adopted and the same careful procedure of analysis and preparation was followed with succeeding issues. Confidence in Government securities was restored to the same degree if less dramatically

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than confidence in the banking system had earlier been restored by the Roosevelt Administration. Competition intensified in bidding for later issues to the degree that many were oversubscribed ten to fourteen times and the interest rates steadily sank.

Outstanding issues of Liberty loans remaining from the World War of 1917-18 were called for redemption along with other higher-rate bonds and refunded at sharply lower rates. To provide a safe repository for savings in relatively small amounts and to stimulate popular interest in Government finance, Secretary Morgenthau in 1935 obtained authority from Congress to sell directly to the public United States Savings Bonds, which later as War Savings Bonds became an important auxiliary means of financing expenditures in World War II.

In 1933 the markets of the world were practically closed to American products because of monetary disparities. Morgenthau, then Governor of the Farm Credit Administration, was called on to assist the President in administering a program of gold purchases to counteract these disparities, with resultant benefit both to American agriculture and to American industry. Through the provisions of the Gold Reserve Act in 1934 the dollar was stabilized and the creation of the Stabilization fund, managed by the Secretary of the Treasury, together with other provisions of the Gold Reserve Act, put the dollar in a dominant position with respect to all internal and external needs and gave it unquestioned



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standing as the soundest currency in the world. The effectiveness of the fund was demonstrated through the operations of the Tripartite Monetary Pact, negotiated by Morgenthau with Great Britain and France in 1936 and adhered to by the Netherlands, Belgium and Switzerland. Other monetary measures initiated by Secretary Morgenthau included the retirement of National Bank notes and the making of all United States currency legal tender.

Changes in tax laws coupled with business recovery increased Federal revenues from 2 billion dollars in fiscal year 1933 to 7,600 million in 1941, with further great increases to result from changes in the law already made or in prospect. In recommending tax law changes Morgenthau has been a consistent advocate of taxation according to ability to pay and has sought to lighten rather than to increase the burden on low income groups. He has fought relentlessly for closing loopholes in the law that favor privileged classes and has prosecuted tax evaders vigorously irrespective of their influence or position.

As a result of Morgenthau's aggressive action under the leadership of President Roosevelt in the securities, monetary and tax fields it has become a common saying that "the financial capital has been moved from Wall Street to Washington."

The Treasury is not alone a financial institution, but a great business and law enforcement organization. As the head of it Morgenthau brought about a coordination of half a dozen Treasury police agencies, greatly adding to their efficiency.

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Bootlegging and rum-running gangs were smashed after the repeal of prohibition, narcotics smuggling practically wiped out, counterfeiting reduced to the vanishing point. Systems of Federal purchasing were reorganized and through competition among architects under the direction of an advisory board new freshness, simplicity and vigor of design were introduced into public buildings.

His keen interest in projects of social value found expression in his close attention to the work and the financing of all relief projects and agencies. Studies independently made by his direction were a guide and a check on expenditures. The Public Health Service, then a part of the Treasury, made under his direction a survey of nutrition in low-income groups out of which grew in cooperation with the Department of Agriculture the food stamp plan for supplementing the diets of low-paid workers and persons on relief.

The United States Coast Guard, a maritime police, safety and rescue agency under military organization, which operates under the Treasury in times of peace and under the Navy in war, was brought to a high state of preparedness through additions to its fleet and equipment and improvement of its training methods.

Foreseeing the probability of United States involvement in world war, Morgenthau exerted his influence for better preparation. Acting in a liaison capacity for the President he assisted representatives of the British and French governments in placing orders for American airplanes and other military equipment both before and after the outbreak of the war, a work



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which he continued until the Lease-Lend organization was set up as a separate government agency. In this capacity he brought expert advisers from important industries to Washington and induced manufacturers to add to their stocks of materials and to make great extensions to their plants.

A special organization organized under his close personal supervision in May 1941 for defense financing has become the War Savings Staff, which, devoted primarily to the sale of War Savings Bonds and Stamps, conducts through an organization in every state a campaign for self-denial and whole-hearted participation in the war effort.

Henry Morgenthau, Jr. is a member of the Foreign Service Buildings Commission; member of the Board of Trustees of the Smithsonian Institution; chairman of the Board of Trustees, Endowment Fund, American Red Cross; member of the Board of Trustees, Postal Service System; member of the National Archives Council; member of the National Park Trust Fund Board; chairman, Library of Congress Trust Fund Board; member, Board of Trustees of the National Gallery of Art; member, Foreign-Trade Zones Board; member, National Munitions Control Board; trustee, Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund; member, Jewish Welfare Board. He was formerly a director of Mt. Sinai Hospital. His fraternal affiliations include

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membership in the Masons, Obed Lodge #984, Poughkeepsie, New York, and B'Nai B'Rith, Jordan Lodge #15, New York City.

Secretary Morgenthau received an honorary degree of Doctor of Laws from Temple University in 1938 and the honorary degree of Doctor of Laws from Amherst in 1942.

Mr. and Mrs. Morgenthau have three children, Henry III, who in the spring of 1942 enlisted as a private in the U. S. Army; Robert Morris, an ensign of the U. S. Naval Reserve assigned early in 1942 to active duty at sea, and Joan Elizabeth.



MAY 27 1942

My dear Mr. McKeough:

It has been called to my attention that you have under consideration a plan to leave Washington in the near future to return to Illinois in order to conduct your campaign for Senator from that State.

I am writing this letter to urge that you postpone any such plans until the tax bill is passed. The tax bill is one of the most important pieces of legislation before the Congress. Your help in connection with the bill has been most valuable, and it would be a definite loss if the Committee should be deprived of your services at this time.

I hope, therefore, that you will reconsider this problem in the light of your usefulness in Washington, and that you will remain here as long as possible.

Sincerely yours,

(Signed) H. Morgenthau, Jr. /

Secretary of the Treasury

Honorable Raymond S. McKeough,

House of Representatives.

Envelope addressed:

Honorable Raymond S. McKeough,  
7732 Bennett Avenue  
Chicago, Illinois.

Via Air mail

REP:ec

*Copies to Thompson*

May 27, 1942

The Present Situation in the Penney Case

1. The Comptroller of the Currency, through the Receiver of the City National Bank in Miami, has a judgment for \$2,424,301.99 (with interest thereon at 6% from January 29, 1942, until paid) against James C. Penney, Chairman of the Board of Directors of the bank.
2. The payment of the judgment is secured by supersedeas bond of Penney, with collateral of \$3,291,000 (a margin of approximately \$790,000 over the face of the judgment). The collateral consists of (1) \$500,000 Federal Reserve Bank of New York draft; (2) 30,000 shares of J. C. Penney Co. common stock; (3) certain receiver's certificates. Additional collateral may be required from time to time upon court order.
3. The case is now on appeal by Penney.

The Background for the suit.

4. J. C. Penney was a director, and chairman of the board of the City National Bank in Miami from February, 1928 to December, 1930 (when it suspended operations).
5. The Penney-Gwinn Corporation (of which Penney owned ten-elevenths) owned a majority of the stock of the bank.
6. Nine to twelve of the directors of the bank were "dummies" for Penney, not even owning the few shares registered in their names to "qualify" them as directors.
7. Penney attended only three out of 26 meetings of the board of directors (even though he was chairman all of the time).
8. Penney dominated and controlled the bank through his dummies for whose acts he is responsible (as well as for his own gross negligence).



- 2 -

9. The judgment against Penney is predicated upon:

- A. Gross negligence in (1) failing to supervise the activities of the loan and discount committee and the officers and employees of the bank; (2) failing to investigate the affairs of the bank; (3) failing to heed the admonitions of the national bank examiners; (4) failing to attend meetings of the board of directors; (5) failing to see that an examining committee made reports to the directors concerning the assets of the bank and their value; (6) failing to keep himself informed as to large and important loans and the collateral behind them; (7) failing to give vigorous attention to the statutory bad debts criticised by the national bank examiners; (8) permitting the funds of the bank to be wasted in improvident, worthless and illegal loans and securities; (9) failing to prevent preferential withdrawals by Penney and Penney-Gwinn Corporation; (10) permitting loans to be made during period of reserve deficiency in violation of law; (11) permitting the affairs of the bank to be managed by "dummy" directors who had not complied with the legal qualifications of directors and who otherwise proved themselves to be wholly incompetent and improvident in managing the affairs of the bank, resulting in wholesale dissipation of its assets.
- B. The inducement and encouragement of members of the public to deal with the bank in reliance upon unqualified representations in public letters that Penney guaranteed the safety of their money and that they were to have the benefit of the experience and judgment that had made him the head of a chain of 1500 successful stores.

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There is attached hereto a schedule enumerating and summarizing the specific acts of the officers and directors of the bank by way of improvident loans and other transactions, and of violations of the national banking laws, indicating as to each item the exact principal amount of loss found by the court to have been sustained by the bank.

Upm *[Signature]*

Items of Loss1. CITY NATIONAL BUILDING, INC.

Purchase of preferred stock of City National Building, Inc. in net amount of \$225,679.70 incident to settlement and reorganization of predecessor of Building Company which was heavily indebted to bank. (Improvident and speculative and in addition violation of Sections 24, 72, and 73, Title 12, U.S.C.).....\$225,679.70

2. CITY NATIONAL BUILDING, INC.

Payment of rental for banking quarters in excess of amount provided by new lease contemplated incident to foregoing settlement and reorganization, said payment being contrary to terms theretofore approved by Comptroller.....\$ 88,004.04

3. CORAL GABLES, INC.

Expenditure of \$150,000.00 for purchase of Class A bonds of New Coral Gables, Inc. incident to reorganization of predecessor Coral Gables, Inc., which predecessor had been heavily indebted to bank and had been total failure as an enterprise. (Improvident and speculative and violation of Sections 24, 72 and 73, Title 12, U.S.C.).....\$139,092.62

4. FRED H. RAND, JR.

Further cash loans and advancements to, and purchase of speculative securities on behalf of, Fred H. Rand, Jr. and associates, when debtor was already heavily and hopelessly indebted to bank. (Improvident and speculative in violation of Sections 24, 72, 73, and 84, Title 12, U.S.C.)...\$89,300.39



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5. INTEREST PAID ON EXCESSIVE BORROWINGS

Interest paid on illegal excessive borrowings of bank contrary to Sections 72, 73, and 82 of Title 12, U.S.C.....\$141,246.45

6. LOANS MADE DURING RESERVE DEFICIENCY

Uncollected loans made during period of reserve deficiencies contrary to Section 464, Title 12, U.S.C.....\$ 28,545.65 ✓

7. Disallowed by Court8-9. TARRIER CORPORATION

Improvident and negligent inclusion of certain sound and collectible assets incident to sale of large quantity of depreciated and supposedly worthless assets and contrary to provisions of plan providing for rehabilitation of capital structure. (Improvident and negligent and in violation of duties prescribed by Sections 72, 73 of Title 12, U.S.C.).....\$110,795.64

10. L. D. LLEWELLYN, INC.

Further cash loan (secured by real estate second mortgage) to debtor already heavily indebted to bank. (Improvident and also violation of Sections 72, 73, 371, and 464 of Title 12, U.S.C.).....\$ 8,609.14

11. CENTRAL MIAMI CORPORATION

Further cash loan to debtor already heavily indebted to bank on real estate collateral which investigation would have disclosed to have been worthless. (Improvident and also violation of Sections 72, 73, 371 and 464 of Title 12, U.S.C.).....\$ 4,402.38

- 3 -

12. J. E. ROSE AND COMPANY

Loan to financially irresponsible debtor upon collateral which investigation would have disclosed to have been purely speculative and incapable of cash liquidation. (Improvident and also violation of Sections 72, 73 and 371).....\$ 2,294.91

13 - 15. Disallowed by Court.

16. NORTON APARTMENTS

Bank surrendered a sound first mortgage of \$12,500.00 and accepted in lieu thereof \$2,000.00 cash plus a first mortgage on unimproved subdivision lots of uncertain and doubtful value. (Improvident and speculative and also violation of Sections 72, 73, and 371 of Title 12, U.S.C.).....\$ 10,693.12

17 - 18. Disallowed by Court.

19. PREFERENTIAL PAYMENTS

Preferential withdrawals by Penney and Penney-Gwinn Corporation while bank was insolvent....\$566,101.26



TREASURY DEPARTMENT

228

INTER OFFICE COMMUNICATION

DATE May 27, 1942

TO Secretary Morgenthau  
FROM H. D. White

At the last meeting of the Lend-Lease-In-Reverse group held in your office on March 17 and attended by representatives of State, Army, Navy, Lend-Lease and Treasury, Mr. Acheson reported on the opinion of the State Department with reference to the question raised at the previous meeting; namely, whether the negotiations should be with the United Kingdom as representing the British Empire or with the United Kingdom and the Dominions. Mr. Acheson submitted a report of the views of the State Department and said that if the plan of approach suggested in the report met with the approval of this Committee, that they (the State Department) would then take up the matter with the British and Dominion representatives to obtain their approval of the general approach.

After some general discussion on the report, you asked Mr. Acheson the following question:

"Would you assume the responsibility for negotiating with these various countries where the Army and Navy are located to find out whether they will furnish the civilians to do the work which is necessary and pay for them, and furnish us with food which is necessary to feed our troops?"

Mr. Acheson answered: "Yes, I will be glad to."

(You will note that the assignment was that he "was to find out" and presumably report back to the Committee.)

The meeting for Thursday is called for the purpose of hearing Mr. Acheson's report on that matter and also to reexamine the British Treasury dollar position.

# TREASURY DEPARTMENT

229

## INTER OFFICE COMMUNICATION

DATE May 27, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Summary of reciprocal aid proposals

### Category

|                                                                                   | Proposal contained in<br>British memorandum of<br>April 24                                                                                                                                                                                                                                 | Proposal contained in<br>State Department's<br>draft of May 26 for a<br>reciprocal aid agreement                                                                            |
|-----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Commercial and raw<br>material exports from<br>U.K. and the Colonial<br>Empire | U.S. pay dollars, ex-<br>cept for minor amounts<br>that can be more<br>conveniently handled as<br>military or naval items.                                                                                                                                                                 | Not mentioned.                                                                                                                                                              |
| 2. Military and naval<br>materials                                                |                                                                                                                                                                                                                                                                                            |                                                                                                                                                                             |
| a. From depots in<br>U.K. or the<br>Colonial Empire                               | Reciprocal aid.                                                                                                                                                                                                                                                                            | Reciprocal aid.                                                                                                                                                             |
| b. Made in U.S. on<br>British contracts                                           | U.S. pay dollars, ex-<br>cept when materials<br>cannot be distinguished<br>from Lend-Lease or<br>sterling materials.                                                                                                                                                                       | Reciprocal aid, with<br>understanding that U.S.<br>pay balance due on all<br>remaining contracts as<br>of June 1, 1942.                                                     |
| 3. Expenditures on<br>account of U.S. troops<br>in U.K. or the Colonial<br>Empire |                                                                                                                                                                                                                                                                                            |                                                                                                                                                                             |
| a. Pay and<br>allowances                                                          | U.S. purchase local<br>currency with dollars.                                                                                                                                                                                                                                              | U.S. purchase local<br>currency with dollars.                                                                                                                               |
| b. Supplies                                                                       | Reciprocal aid, except<br>that U.S. would purchase<br>currency for "local cash<br>disbursements" and would<br>import supplies when<br>shipping and supply<br>situation warrants. U.K.<br>would make refunds for<br>any U.S. purchases of<br>items previously<br>imported under Lend-Lease. | Reciprocal aid, except<br>for local purchases<br>made other than through<br>official establishments,<br>and except for materials<br>more conveniently<br>supplied from U.S. |
| (1) Oil                                                                           | Special case. Recipro-<br>cal aid unless U.K. had<br>paid dollars for the oil.                                                                                                                                                                                                             | Not mentioned.                                                                                                                                                              |



Division of Monetary  
Research

- 2 -

| <u>Category</u>                                                                    | <u>Proposal contained in<br/>British memorandum of<br/>April 24</u>                                                                                                                  | <u>Proposal contained in<br/>State Department's<br/>draft of May 26 for a<br/>reciprocal aid agreement</u>                                                                                     |
|------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| c. Construction and maintenance of bases                                           | Reciprocal aid for supplies and services, but U.S. to meet all dollar costs.                                                                                                         | Reciprocal aid, except for wages and salaries of U.S. citizens. Earlier draft excluded the leased bases from the area in which the U.K. would provide supplies and materials for construction. |
| 4. Expenditures on account of U.S. troops outside U.S. or U.K. and Colonial Empire |                                                                                                                                                                                      |                                                                                                                                                                                                |
| a. Supplies                                                                        | Not mentioned.                                                                                                                                                                       | Reciprocal aid if U.K. or Colonial Empire is most convenient source of supply.                                                                                                                 |
| b. Construction and maintenance of bases                                           | Except where it is convenient for another government to provide supplies and services the Government making a base should bear all costs, with no apportionment on the basis of use. | Reciprocal aid when U.K. or the Colonial Empire is a more practical source of supply than U.S. or another of the United Nations.                                                               |
| 5. Shipping                                                                        | Arrangement depends upon final arrangements for direct Lend-Lease shipping.                                                                                                          | Not mentioned.                                                                                                                                                                                 |

FEDERAL RESERVE BANK  
OF NEW YORK

May 27, 1942

CONFIDENTIAL

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

I am enclosing our compilation for the week ended May 20, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

(Signed) L. W. Knoke,  
Vice President.

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

Enclosure



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

Week Ended May 20, 1942

**BANK OF ENGLAND (BRITISH GOVERNMENT)**

**BANK OF FRANCE**

| PERIOD                                    | UNITED KINGDOM OF ENGLAND (BRITISH GOVERNMENT) |                        |              |               |                           |                           |                   |                                       | UNITED STATES OF AMERICA |                        |              | FRANCE        |                        |               |                                       |  |
|-------------------------------------------|------------------------------------------------|------------------------|--------------|---------------|---------------------------|---------------------------|-------------------|---------------------------------------|--------------------------|------------------------|--------------|---------------|------------------------|---------------|---------------------------------------|--|
|                                           | DEBITS                                         |                        |              | CREDITS       |                           |                           |                   |                                       | DEBITS                   |                        |              | CREDITS       |                        |               |                                       |  |
|                                           | Total Debits                                   | Gov't Expenditures (a) | Other Debits | Total Credits | Proceeds of Sales of Gold | Securities (Official) (b) | Other Credits (c) | Net Incr. (+) or Decr. (-) in Balance | Total Debits             | Gov't Expenditures (d) | Other Debits | Total Credits | Proceeds of Gold Sales | Other Credits | Net Incr. (+) or Decr. (-) in Balance |  |
| First year of war<br>(8/29/39-8/28/40)*   | 1,793.2                                        | 605.6                  | 1,187.6      | 1,828.2       | 1,356.1                   | 52.0                      | 420.1             | + 35.0                                | 866.3(a)                 | 416.6(a)               | 449.7        | 1,095.3(a)    | 900.2                  | 195.1(e)      | +229.0                                |  |
| War period through<br>December, 1940      | 2,792.3                                        | 1,425.6                | 1,356.7      | 2,793.1       | 2,109.5                   | 106.0                     | 575.6             | + 10.8                                | 878.3                    | 421.4                  | 456.9        | 1,098.4       | 900.2                  | 198.2         | +220.1                                |  |
| Second year of war<br>(1/29/41-8/27/41)** | 2,203.0                                        | 1,792.2                | 410.8        | 2,189.8       | 1,193.7                   | 274.0                     | 722.1             | - 13.2                                | 38.9                     | 4.8                    | 34.1         | 8.8           | -                      | 8.8           | - 30.1                                |  |
| 1941                                      |                                                |                        |              |               |                           |                           |                   |                                       |                          |                        |              |               |                        |               |                                       |  |
| Aug. 28 - Oct. 1                          | 140.9                                          | 105.9                  | 35.0         | 176.2         | 20.1                      | 2.0                       | 154.1             | + 35.3                                | 0.3                      | -                      | 0.3          | 0.5           | -                      | 0.5           | + 0.2                                 |  |
| Oct. 2 - Oct. 29                          | 109.0                                          | 77.3                   | 31.7         | 150.9         | 0.8                       | -                         | 150.1             | + 41.9                                | 0.3                      | -                      | 0.3          | 0.3           | -                      | 0.3           | -                                     |  |
| Oct. 30 - Dec. 3                          | 156.1                                          | 111.6                  | 44.5         | 134.6         | -                         | 1.0                       | 133.6             | - 21.5                                | 16.1                     | -                      | 16.1         | 0.4           | -                      | 0.4           | - 15.7                                |  |
| Dec. 4 - Dec. 31                          | 88.6                                           | 69.6                   | 18.8         | 51.5          | -                         | -                         | 51.5              | - 36.9                                | 0.8                      | -                      | 0.8          | 0.4           | -                      | 0.4           | - 0.4                                 |  |
| 1942                                      |                                                |                        |              |               |                           |                           |                   |                                       |                          |                        |              |               |                        |               |                                       |  |
| Jan. 1 - Jan. 28                          | 102.3                                          | 73.2                   | 29.1         | 69.3          | -                         | 0.5                       | 68.8              | - 33.0                                | 0.2                      | -                      | 0.2          | 0.4           | -                      | 0.4           | + 0.2                                 |  |
| Jan. 29 - Feb. 25                         | 87.2                                           | 63.8                   | 23.4         | 57.2          | -                         | 1.0                       | 56.2              | - 30.0                                | -                        | -                      | -            | 0.3           | -                      | 0.3           | + 0.3                                 |  |
| Feb. 26 - Apr. 1                          | 121.4                                          | 86.4                   | 35.0         | 171.4         | -                         | -                         | 171.4             | + 30.0                                | 0.1                      | -                      | 0.1          | 0.4           | -                      | 0.4           | + 0.3                                 |  |
| Apr. 2 - Apr. 29                          | 98.1                                           | 64.2                   | 33.9         | 70.6          | -                         | 0.5                       | 70.1              | - 27.5                                | 0.2                      | -                      | 0.2          | 0.4           | -                      | 0.4           | + 0.2                                 |  |
| WEEK ENDED:                               |                                                |                        |              |               |                           |                           |                   |                                       |                          |                        |              |               |                        |               |                                       |  |
| Apr. 29                                   | 18.4                                           | 14.7                   | 3.7          | 13.4          | -                         | -                         | 13.4              | - 5.0                                 | 0.1                      | -                      | 0.1          | 0.1           | -                      | 0.1           | -                                     |  |
| May 6                                     | 31.0                                           | 23.9                   | 7.1          | 78.2          | -                         | -                         | 78.2              | + 47.2                                | -                        | -                      | -            | 0.1           | -                      | 0.1           | + 0.1                                 |  |
| 13                                        | 19.8                                           | 15.9                   | 3.9          | 14.6          | -                         | -                         | 14.6              | - 5.2                                 | -                        | -                      | -            | -             | -                      | -             | -                                     |  |
| 20                                        | 16.4                                           | 13.0                   | 3.4          | 26.1          | -                         | -                         | 26.1(f)           | + 9.7                                 | -                        | -                      | -            | 0.1           | -                      | 0.1           | + 0.1                                 |  |

**Average Weekly Expenditures Since Outbreak of War**

France (through June 19, 1940) \$19.6 million

England (through June 19, 1940) 27.6 million

England (since June 19, 1940) 38.0 million

\*For monthly breakdown see tabulations prior to April 23, 1941.  
\*\*For monthly breakdown see tabulations prior to October 8, 1941.  
(See attached sheet for other footnotes)

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

Week ended May 20, 1942

Cumulation from July 6, 1940

\$ -  
\$ 162.7

million  
million

- (a) Includes payments for account of British Purchasing Commission, British Air Commission, British Supply Commission, Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (f) Includes \$15 million transferred from accounts of British authorized banks and about \$3.3 million representing the proceeds of wool sales.



Week Ending May 20, 1942 Strickland

Week Ending May 20, 1942

**Elizabeth**

Weekly Average of Total Debits Since Outbreak of War

|                      |        |         |
|----------------------|--------|---------|
| Through May 20, 1942 | \$ 7.9 | million |
|----------------------|--------|---------|

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

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

(a) Represents largely payments to Canadian chartered banks.

(b) Received primarily from Canadian chartered banks.

(c) \$10 million for credit of U. S. Army.

NAVY DEPARTMENT  
433 OFFICE OF THE UNDER SECRETARY 235

Date..... 12/7/1942

From: The Under Secretary.

To:

The Secretary of the Navy.....  
The Under Secretary of War.....  
The Assistant Secretary of the Navy.....  
The Assistant Secretary of the Navy for Air.....  
The Assistant Secretary of War for Air.....  
Belcher, Mr. D. ....  
Blandy, W.H.P., Rear Admiral.....  
Detmar, Mr. C.F. ....  
Eberstadt, Mr. F. ....  
Fisher, C.W., Rear Admiral.....  
Folsom, Mr. F. ....  
Gingrich, J.E., Comdr. ....  
Hensel, Mr. H.S. ....  
Jacobs, R., Rear Admiral.....  
Jones, C.A., Rear Admiral.....  
King, E.J., Admiral .....  
Moreell, B., Rear Admiral.....  
Overfelt, Mr. F.D. ....  
Powell, Mr. J.W. ....  
Robinson, S.W., Vice Admiral.....  
Stark, H.R., Admiral.....  
Spear, R., Rear Admiral.....  
Towers, J., Rear Admiral.....  
Van Keuren, A.H., Rear Admiral.....  
Wilkinson, T.S., Rear Admiral.....  
Woodson, W.B., Rear Admiral.....

*The Secretary of the Navy*

For information.....  
For comment or recommendation.....  
For preparation of reply.....  
For appropriate action.....  
Please send me data for reply.....  
Please see me in regard to this.....  
Please consult with.....  
Please return.....

41307

Submit copy of reply to Room 2354



## ONE THOUSAND WARSHIPS

## THE TARGETS OF A SUCCESSFUL CAMPAIGN

UNDER SECRETARY HAS SEEN

## A 24 WEEKS' ACHIEVEMENT

From a Correspondent

The Warship Weeks campaign was launched by the National Savings Committee on October 18 last year, only four months after the end of the War Weapons Weeks campaign, which in 40 weeks had brought in a total of £1,285,000,000. Shorter in duration, being spread over 24 weeks instead of 40, it was even more intense than its predecessor, and fully as successful. Indeed, while the average of weekly savings during the currency of War Weapons Weeks amounted to £32,000,000, the corresponding average for the Warships Weeks period exceeded £39,800,000. That is to say, in the period October 18, 1941--March 28, 1942, no less than £955,611,589 flowed in as loans to the Exchequer.

Of this amount "small savings" accounted for nearly one-third--namely, £314,713,007. These were made up as follows: National Savings Certificates, £127,586,591; Three per Cent. Defence Bonds, £89,927,145; increases in Post Office and Trustee Savings Banks deposits, £97,199,271. The "large savings" of £640,898,582 comprised £317,177,516 invested in Two-and-a-Half per Cent. War Bonds, £314,051,119 in Three per Cent. Savings Bonds, and £9,669,947 in loans free of interest.

Of the total of nearly £1,000,000,000 rather more than half (£525,880,000, or £530,000,000, which is likely to be the final figure when all the results from Scotland are in) was collected from the 1,273 districts in the United Kingdom which held Warships Weeks, and represents the aggregate contributions of those weeks alone. Undoubtedly a proportion of this would have come in anyhow, for the National Savings campaign is unceasing. The stimulus of a special week certainly causes a temporary concentration or telescoping of saving in any area; but there can be no question that the sum recorded includes a

- 2 -

large volume of new saving which otherwise would not have been made at all; and this in turn engenders a habit of personal saving that continues, as is shown by the fresh savings groups formed during and after Warships Weeks. No fewer than 31,232 such groups were affiliated within the period.

#### VESSELS "ADOPTED"

The setting of a definite target, symbolized by the formal "adoption" of a specific vessel, both touched the popular imagination and aroused local patriotism. In practically every case the target figure was quickly passed by a substantial margin. Thus in England and Wales alone, with an aggregate of £366,500,000 as target figures, the money realized was £477,766,000; which means that for every £100 expected £130 was actually subscribed. By arrangement with the Admiralty each district, having set itself a target and selected the date of its Warship Week, was allotted a named vessel, whose cost the <sup>local</sup> savings committee (a voluntary body) then set itself to raise. Civic pride and community spirit prevented target figures being made unduly low; and the overpassing of most targets testifies not only to the patriotism and enthusiasm of the people but to the efforts put forth by armies of unpaid workers.

Well over a thousand complete vessels, from capital ships to motor-launches, were included in the targets chosen. Each of eight communities, for example, aimed at and reached the cost of a battleship, while in the list also are four aircraft-carriers, 49 cruisers, 301 destroyers, 25 submarines, 288 minesweepers, 164 corvettes, with a host of other craft. And each district is to be furnished by the Admiralty with a commemorative plaque bearing the arms and name (or other designation) of the adopted ship. The districts, in turn, are providing their ships with a similar memorial. This reciprocal linking of the people with the Navy will keep the recollection of Warships Weeks alive, and, it is hoped, foster a permanent interest between those at home and the



companies afloat.

Apart from the feeling of gratitude to the Royal Navy that is universal in the country, a special feature of Warship Weeks lay in the tangibility of the objective. "Ten Million pounds" is to most minds merely an abstraction, as difficult to comprehend as the distances of the stars. But "H.M.S. Battleship, a vessel costing \$10,000,000 to build," conveys its own meaning; it can be visualized as a concrete reality, the result of work and effort.

#### THE HUMAN APPEAL

Certain criticisms levelled at Warship Weeks have tended to ignore the fact that the appeal to save is enormously strengthened if one can place in the forefront of public consciousness the kind of thing upon which all our available resources must be spent. The interweaving of economic doctrine and human appeal brings results in the savings campaign, particularly when there is an unmistakable goal to strive for. Warship Weeks enabled the argument for releasing shipping and other services to be driven home from thousands of platforms. Nor should the cooperative spirit be forgotten. A year or 18 months ago people of all classes and places worked together in mutual defence as the bombs came raining down. With attack rather than defence as the watchword now, they have worked together in the savings campaign.

Equally in evidence has been the element of leadership, national, local, industrial, and financial. Cabinet Ministers and service chiefs, lords-lieutenant and trade union officials addressed innumerable meetings and gave active help. Each local week was no isolated occasion, but an integral phase of a great nation-wide movement in which the tiny hamlet combining with its neighbours had as much a part to play as town or city. And the pouring of small private savings into the same common fund as the six-figure investments of big commercial institutions, such as banks and insurance companies, was not simply a piece of window-dressing. The individual is inclined sometimes to wonder whether his small personal savings

can be worth while; it was one of the chief merits of Warships Weeks to impress upon him how very much worth while even the smallest contributions are.

Nothing but genuine and unselfish public spirit could impel so many hundreds of thousands of voluntary workers to serve on savings committees or, as group secretaries, to devote their scanty leisure to collecting, week by week, the savings of their neighbours in factories, offices and streets. The debt the country owes to these willing workers is hardly yet appreciated; without their incessant labours the National Savings movement could not do what it does. In essence it depends for its progress upon the energy and zeal of the unpaid volunteer; and the legions of such volunteers are constantly growing. With personal goods and services in shorter supply, the habit of saving is more than a channel for the useful absorption of money that cannot profitably be spent. For the community it provides a check upon rising prices, and for the individual a safeguard against the feeling of frustration.

\*\*\*\*\*

RECEIVED 24 FEB 1941

1045 WVA 58 WVA 11 14

RECEIVED 24 FEB 1941  
WVA 11 14



May 27, 1942

Dear Henry:

I am delighted to have your letter of May 22nd. It will be of the greatest possible value to us to be able to ask local commanding officers for the participation of troops in War Bond rallies and parades without cost to the Treasury.

You have been of tremendous help to us in this matter, and all of us appreciate what you have done.

Sincerely,

(Signed) Henry

The Honorable,  
The Secretary of War,  
Washington, D. C.

FK/cgk

File in Diary

MAY 26 1942

341

WAR DEPARTMENT  
WASHINGTON

MAY 22 1942

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

Dear Henry:

I have your letter of May 11, in which you state that the position of the War Department in declining to provide color guards or troops for parades in connection with public rallies for the sale of War Bonds, unless the cost of transporting, quartering, and feeding such troops are paid by War Bonds Committees, which are private, voluntary, groups, is a rather serious obstacle to this method of selling bonds.

The War Department is most anxious, whenever it is practicable, to lend cordial and enthusiastic support to activities which stimulate the war spirit and which promote the sale of War Bonds. There has been a great increase in the number of requests made by civic and patriotic organizations for troops to participate in various types of public ceremonies. Few of these requests can be honored.

The furnishing of troops in connection with public rallies for the sale of bonds, or for other important patriotic occasions, involves two basic considerations. The first is the time lost from training by troops participating in such activities. The amount of time available to train troops for combat is very limited. Their participation in a parade may constitute a serious disruption of training programs. The second consideration is the one mentioned in your letter, namely, the cost of their participation. Army regulations require that the participation of troops in patriotic demonstrations will be with the understanding that no expense to the Government is involved.

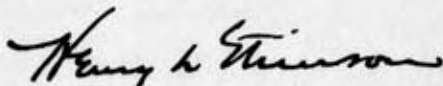
The War Department recognizes that public rallies for the sales of War Bonds is an activity which merits special consideration. Accordingly, it is notifying commanding officers of War Department installations that it is the view of the War Department that the cost of troop participation in such activity may be charged against appropriated funds, and, when training will not be interfered with, that the War Department has no objection to participation of troops in rallies and parades for the sale of War Bonds. Local commanding officers, to whom requests for such participation should be directed,



- 2 -

shall determine whether troops and equipment are available and to what extent their troops shall participate.

Sincerely yours,

A handwritten signature in cursive script, reading "Henry L. Stimson". The signature is written in dark ink and is positioned above the typed name.

Secretary of War.

May 27, 1942

Dear Mr. Murray:

I am sending you these few lines to use as credentials in case you need them in your present work on the Coast.

As producer of the Treasury Star Parade programs, you are, of course, representing the Treasury Department in obtaining talent or in any other activity in connection with these transcribed recordings.

I feel sure that your work in California will come up to the wonderfully high standards you have set in your previous work for our Radio Division, beginning with the first of the Treasury Hour series last summer and continuing through the outstanding series of fifteen-minute recordings this year.

With best regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. William B. Murray,  
c/o William Morris Agency Inc.,  
202 North Canon Drive,  
Beverly Hills, California.

FK/cgk

*Air mail*  
*Photo file n.m.c.*  
*File to Thompson*



STANDARD FORM NO. 14-A  
APPROVED BY THE PRESIDENT  
MARCH 10, 1925

# TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

Mr. William B. Murray,  
c/o Wm. Morris Agency Inc.,  
202 North Canon Drive  
Beverly Hills, California

May 22, 1942

SECRETARY AWAY UNTIL MONDAY BUT SHALL GET YOU THAT LETTER AS EARLY AS POSSIBLE.  
BEST REGARDS.

Ferdinand Kuhn, Jr.

FK/egk

## TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

War Savings - Expenses of Loans

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-16317

# Check of Service

This is a full-rate telegram or Cable-union its de-charge is in-cluded by a suitable symbol above or pre-eding the address.

# WESTERN UNION

(07)

## SYMBOLS

DL = Day Letter  
NT = Overnight Telegram  
LC = Deferred Cable  
NLT = Cable Night Letter  
Ship Radiogram

A. N. WILLIAMS  
PRESIDENT

NEWCOMB CARLTON  
CHAIRMAN OF THE BOARD

J. C. WILLEVER  
FIRST VICE-PRESIDENT

Time shown in the date line on telegrams and day letters is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination

DU302 TWS PAID 3-NEWYORK NY 22 1236P

FERDINAND KUHM JR=

TREASURY DEPT 709 12 ST NORTHWEST WASHDC=

BELIEVE IT WOULD BE VALUABLE TO OUR RADIO OPERATION IF THE SECRETARY WOULD SEND ME A LETTER ADDRESSED TO WHOM IT MAY CONCERN STATING MY POSITION WITH THE TREASURY DEPARTMENT WHICH LETTER I MIGHT USE IN CONNECTION WITH VARIOUS WAR INDUSTRIES ON THE COAST IF THE SECRETARY COULD WRITE SUCH A LETTER PLEASE ADDRESS IT TO ME CARE WILLIAM MORRIS AGENCY INC 202 N CANON DRIVE BEVERLY HILLS CALIFORNIA BEST REGARDS=

WILLIAM B MURRAY.

202 N.

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE



OFFICE OF  
THE SECRETARY OF THE TREASURY

246

May 27, 1942

From: Secretary Morgenthau

To: Mr. D. W. Bell  
Mr. Blough  
Mr. Buffington  
Mr. Foley  
Mr. Gaston  
Mr. Graves  
Mr. Haas  
Mr. Kuhn  
Mr. Paul  
Mr. Schwarz  
Mr. Sullivan  
Mr. Thompson  
Dr. White  
Mrs. Klotz

\* Mr. Gamble  
\* Mr. Sloan  
\* Mr. Gaston  
\* Mr. Graves  
\* Prof. Odegard  
\* Mr. Callahan  
\* Mr. Powell

- \* Received copies of "Effective Appeals In The Buying of War Bonds: Preliminary Data From Baltimore" - Confidential report by Office of Facts and Figures, Bureau of Intelligence, dated May 14," prior to May 27.

## OFFICE OF FACTS AND FIGURES

Bureau of Intelligence

EFFECTIVE APPEALS IN THE BUYING OF WAR BONDS;  
PRELIMINARY DATA FROM BALTIMORE

For Administrative Use Only

CONFIDENTIALDivision of Surveys  
Special Report Number 3  
May 14, 1942



## EFFECTIVE APPEALS IN THE BUYING OF WAR BONDS:

## PRELIMINARY DATA FROM BALTIMORE

Summary

Three interviewers talked with workers in various industries in Baltimore, and with representatives of management, to get reactions to questions such as these: Why do people buy War bonds? What excuses do some of them find for buying less than is expected of them? What do they think of payroll deduction plans? How would they react to a compulsory savings plan?

To help the Government was the most commonly assigned reason for buying War bonds. Eighty-five per cent of those who had reasons to give said they bought to help the Government. The desire for a good investment was mentioned by 61% of those who gave reasons. The anti-inflationary aspect of bond buying was mentioned by only 5 people of the 69 interviewed.

Lack of money above the needs of daily life was the reason 82% used for buying less than is expected of them. Eighteen per cent were concerned lest bonds ultimately might not be redeemed.

Voluntary payroll deduction plans are generally approved by workers; some hesitation is expressed by managerial representatives.

While there is some opposition to compulsory savings plans, many have not thought seriously about it. Others are ready for compulsory savings if the fiscal situation demands it.

## EFFECTIVE APPEALS IN THE BUYING OF WAR BONDS;

## PRELIMINARY DATA FROM BALTIMORE

Introduction

Why do people buy War bonds? What excuses do some of them find for buying less than is expected of them? What do they think of payroll deduction plans? How would they react to a compulsory savings plan?

In order to get answers to questions such as these, three interviewers visited Baltimore and talked with workers in various industries and with representatives of the office force and management in these industries. Some of the plants had payroll deduction plans; others did not. This report is based on the first 69 such interviews, held April 28 to May 6.\* Of these, 43 were conversations with industrial workers - skilled and unskilled; 15 were with white-collar clerical workers; and 11 were with managerial officers.

I. Reasons for Buying War Bonds

- A. To help the Government in its furthering of the war effort is the most commonly assigned reason for buying War Bonds. It is used by 85% of those interviewed who had reasons to give (Table 1\*\*).

1. The largest proportion in this group mentioned the Government without specifying particular persons or particular programs.

An official of an A.F. of L. union says: "It's a matter of patriotism, nothing more, that makes the workers buy Bonds and Stamps. They realize they're getting the opportunity to earn, so they must support the Government."

\* A subsequent report will deal with interviews in other cities.

\*\*The tables are in the Appendix to this report.



2. Some, however, pictured their money as going directly into war materials for the purchase of specific things like rifles, tanks and ships.

"I'm buying a propeller" said one worker as he stepped up to the cashier's window. (He worked in a propeller factory.)

A shipbuilding union determined to purchase enough bonds to buy a whole ship. (The plan included christening it "Philip Murray".)

3. Others were motivated in their buying by the thought of helping relatives in the armed services.
- B. The desire for a good investment ranks next to desire to help the Government as an expressed reason for buying bonds. Of those stating reasons, 61% mentioned the investment aspect of bond-buying.
1. The bonds are thought of as a good place to put extra earnings, in line with ordinary teachings about thrift and providence. They are not uncommonly compared favorably with savings accounts as a place to keep money.

This favorable comparison with savings accounts has the effect of withdrawing some money from savings accounts to be put into bonds - a practice neutralizing to some extent the reduction in purchasing power through bond-buying.

2. The bonds are thought of also as an insurance against post-war depression.

"After the war there will be a slump and people will want money and they would have it if they bought bonds now."

"A lot buy because they know they are making more now because of war production and they realize that four years ago everything was in hock. Now they are looking forward to another rainy day."

- C. The anti-inflationary aspect of bond purchasing is appreciated by a very small minority of the population - chiefly among the managerial group of those interviewed. Of the 5 people

-3-

who mentioned this (Table 1), only one was a manual worker.

One plant superintendent says: "Of course you can't explain it to the men as it really is. They won't be able to see it as a stopper for inflation."

The executive of a deposit company states: "Washington feels that they want to keep the money out of circulation - the inflation idea - but the little fellow really hates to have his money taken away."

A shipyard worker, the exception among the laboring men to speak of the control of inflation through bond-buying, believed that his fellow workers did not now understand it, but might if it was explained to them carefully.

- D. In summary, the reasons for buying bonds are chiefly two: (1) the desire to contribute to the Government for the prosecution of the war, and (2) the desire to invest one's money soundly - because of general prudence, and more specifically as a sort of insurance against the expected post-war depression. The appeal in terms of anti-inflation through draining off excess purchasing power does not appear very real to the individual buyer.

The emphasis in sales campaigns to date upon specific contributions to the war effort appears to be a good one; e.g., the purchase of military equipment and the aiding of the men in the armed services.

The investment aspect may well be played up along the two lines spontaneously suggested by those interviewed: investment as a normally thrifty practice, and as a way of holding in readiness purchasing power for the post-war period.

## II. Obstacles to the Buying of Bonds

- A. Lack of enough money above the needs of daily life is the reason assigned by four-fifths (82%) of those who offer apologies for buying less than is expected of them, or who have explanations to offer as to why others are not buying (Table 2).

"I have nothing against the plan - I just have expenses. There's nothing holding me back - I've got a boy in the army." This statement was made by a shop worker, who



looks forward to buying according to plan as soon as he is able.

An insurance company executive remarks: "An organization like ours doesn't pay salaries commensurate with what they get in war plants. Our people have little more than the money that enables them to live. This is particularly true since the rise in prices."

It is a commonplace observation that the increase in purchasing power is not distributed uniformly among the population. Many white collar workers in offices, teachers and others have already suffered reduction in purchasing power. They naturally do not take as readily to payroll deduction plans as do those who realize they are earning more because of the war. Few have the notion of "buying until it hurts".

- B. The relationship of bonds to savings accounts as a source of liquid funds is not understood. Some people feel that they are better off with some cash at hand to meet emergencies.

"There have been a number of emergencies in my family - last year my wife needed an operation - and I feel better to keep a little cash on hand."

- C. Nearly one in five (18%) of those who express reasons for hesitation to buy bonds raise some doubts about the ultimate redemption of the bonds.

The personnel manager of a company participating well in a payroll deduction plan says: "The Government is spending so much now, where will it get the money to pay off after the war? The average man would rather fritter his money away now, if he thinks his savings wouldn't be any good after the war."

A shipping clerk says: "Some are holding on to their cash because they are afraid that the stamps won't be any good when the time comes to redeem them."

- D. The relationship of bond-buying to wage policies is a cause of concern to a few employees and to an occasional employer.

1. Some employees express the fear that the employer will grant no wage increases if he sees that employees can

afford to purchase bonds.

A worker in a shipping industry states: "Some people say that if you buy a lot of stamps and bonds people will know you have too much money and if you need a raise they will say you don't need it since you have so much invested in stamps and bonds."

2. An employer, on the other side, expressed the fear that excessive pressure upon employees to buy bonds would result in their asking for more wages.

"If I were to go to people and say we have a voluntary plan but the Government thinks we should buy as much as possible, some would buy the bonds and then in a very few days I would get a request for more salary."

It is apparent that the larger program of reduced consumption does not enter into the outlook of those who think in terms of "painless saving" - hoping to maintain normal living standards - buying bonds only with the excess above normal income.

- E. In summary, the obstacles to bond buying are: (1) lack of money, (2) fear that the bonds will not be redeemed, and (3) lack of clarity about the relationship of bond purchases to income policy and living standards.

Policies may be designed to meet these obstacles. The first can be met by some sort of "exemption" from pressure of those with marginal incomes. The second calls for reassurance about the nation's assets. The third requires gradual enlightenment on the interrelationships of scarcity, prices, wages, purchasing power, savings.\*

### III. Shall Bond Buying be Voluntary or Compulsory?

People's minds have not been made up on the issue of voluntary or compulsory buying. While there is a general preference for the voluntary plan, if it works, confidence in the Government

\* Widespread economic illiteracy on these matters was pointed out in the report on Price Control, Shortages and Rationing, Report Number 11, April 14, 1942.



is great enough that those who state they prefer a voluntary plan will be ready to accept compulsion if it should prove necessary.

A. Voluntary payroll deduction plans are generally approved by workers; some hesitation is expressed by managerial representatives. No industrial worker or white collar worker interviewed offered any serious objection to such a plan, while 5 of 11 managerial representatives interviewed had some objections.

1. Worker approval is based on the regular saving habit which the plan provides, and upon its painlessness, since the money is invested before it comes to hand.

A shipyard worker says: "A good idea, because if you sign up for the bonds you get them every week, and if you didn't you wouldn't buy."

A young woman working in a factory: "They take our books of stamps to the bank and get bonds for us. I think the plan is grand - I don't miss what comes out of my salary."

Another worker: "The plan they have here - they give us stamps. We don't miss it and when the book is full we get a bond. ... My overtime goes into it."

2. Management objection, where it exists, is based largely - though not wholly - on the inconvenience it causes.

"You see, most employers don't want the payroll trouble it involves. That's why big corporations are easier to approach on the plan than the small firms - because the larger firms have the machinery."

3. Management support often depends on the personnel policies of the plant in question. The following quotations illustrate employer attitudes toward employees as well as to the payroll deduction plan.

"The payroll plan is all right if it comes from the men. If the men voted on it, O.K. After all, it's the men's money."

"We have a pretty good grade of men. They know the plan is voluntary and what it's all about. That's why I

wouldn't go so far as to put pressure on even one man. We've got a good record without it; that's the way we've always done things."

- B. Compulsory savings plans, while looked upon as desirable only if necessary, are commented on favorably by as many people among those interviewed as express strong disapproval.

1. Among the industrial workers interviewed, the views of 22 were expressed clearly enough to be classifiable. Of these, 6 were favorable to compulsory saving without reservation; 8 found the idea acceptable if necessary; while 8 voiced strong objections.

"If they can't get enough voluntarily it should be compulsory. But if a person can't buy because his family is big it wouldn't be right to force him."

"If they don't meet the quota at the end of May it should be compulsory."

"It should be compulsory - especially in defense industries... They have the benefit of priorities - tires, gas - and they could do that much for the Government and themselves. The Government is not taking, but borrowing and giving good interest."

"People just naturally tend to resent compulsion. Of course, it depends on how you 'coat' the compulsion."

"People will grumble at anything compulsory - even if it is the best thing in the world for them."

2. White collar workers supported and objected to compulsion in about the same proportion as the industrial workers - 6 favoring with qualifications; 4 opposing.

"As to compulsory buying, I am not sure. There are several angles. I'd say people should be compelled to buy in proportion as they can afford. But some people have more standardized obligations than others."

"I'm against the Government saying you must buy them. It would be like Germany. This is a free country!"



"I'm against compulsion - but people should be made to feel obliged. But when force is used, it's dictatorship."

3. Few managerial officials expressed themselves on the compulsory savings issue. Of the four who mentioned it specifically, three approved and one disapproved.

"Tell the people what is happening over there - how much they need the money - if the Government fails, all will. It would be a good idea to take 10% off the salary."

- C. The widespread acceptance of voluntary payroll deduction plans by workers (both manual and white-collar) shows that the policy can well be extended. While some are clearly opposed to compulsion, many have not thought seriously about it. Others are ready to accept compulsory savings if the fiscal situation demands it.

The frequent suggestion that, if a compulsory plan is adopted, adjustment should be made on the basis of ability to pay, leads to the conjecture that an arrangement paralleling income tax procedures would be welcomed.

## APPENDIX A.

Table 1. Reasons for Buying Bonds

Table 2. Obstacles to the Buying of Bonds



Table 1. Research for finding results  
Table 2. Comparison to the finding of results

Table 1. Reasons for Buying Bonds

|                                                                |          | Number<br>Giving<br>the Reason | Percent<br>Giving<br>the Reason |
|----------------------------------------------------------------|----------|--------------------------------|---------------------------------|
| "To help the country"                                          |          | 51                             | 85                              |
| General support of the war -                                   | 37 (62%) |                                |                                 |
| For purchase of guns, tanks -                                  | 9 (15%)  |                                |                                 |
| Help relatives in service -                                    | 5 (8%)   |                                |                                 |
| "A good investment"                                            |          | 37                             | 66                              |
| A place to save extra earnings -                               | 25 (38%) |                                |                                 |
| Insurance for an uncertain future -                            | 14 (25%) |                                |                                 |
| "To prevent inflation through using<br>up excess buying power" |          | 5                              | 8                               |
| "If we don't buy bonds, taxes will<br>have to be higher"       |          | 2                              | 3*                              |
| Total Number                                                   |          | 60                             |                                 |

\*The percent column adds to more than 100 because more than one reason per person was possible.

Table 2. Obstacles to the Buying of Bonds

|                                                                                                                                 | Number<br>Giving<br>the Reason | Percent<br>Giving<br>the Reason |
|---------------------------------------------------------------------------------------------------------------------------------|--------------------------------|---------------------------------|
| "Haven't money enough"                                                                                                          | 31                             | 82                              |
| "Bonds may never be redeemed"                                                                                                   | 7                              | 18                              |
| "Need to keep cash for emergencies"<br>(This includes two people who showed<br>ignorance of the convertibility of<br>the bonds) | 5                              | 13                              |
| Fear by workers of no wage increases<br>if employer sees that workers can<br>afford bonds                                       | 3                              | 8                               |
| Fear by employer that wage increases<br>will be demanded if employees are<br>forced to buy bonds                                | 1                              | 3*                              |
| Total Number                                                                                                                    | 38                             |                                 |

\*The percent column adds to more than 100 because more than one reason per person was possible.



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## APPENDIX B

How Bond-Selling Works in Specific  
Industrial Plants and Business Firms

(Based on summaries by interviewers)





paper. (Registration blank.) After that, it's just a matter of bookkeeping."

New employees are given the same treatment, by the personnel manager, and usually cooperate.

"I wrote to Morgenthau, and got a swell letter back - that pepped us up. We knew we'd get some sort of recognition. I wish they'd send us the banner and insignia they promised. It would do a lot of good. We've done our part - they ought to also."



B. SMALL STEEL PLANT WHERE THERE IS NO PAYROLL DEDUCTION PLAN

This plant has 200 workers. The management obviously is "willing to do our share" - but "our share" for the most part is being just a little busier than before.

Evidence in this steel plant leads to the belief that the workers need little more than the leadership and initiative of management to become regular bond and stamp subscribers. But, as the head engineer admitted, small plants are reluctant to undertake administration of a deduction plan because of the cost and effort involved. A large plant can handle the details with existing machinery.

It is true of both management and labor that they do not feel the sale of bonds and stamps is really vitally connected with the war effort. Given an opportunity to show what it can do in something that has a more direct appeal - Blood Donations - this plant has made a notable effort. It leads the city of Baltimore in the percentage of blood donors.

The cashier has bonds and stamps and workers can purchase them from her. The head engineer didn't know how it was going. (Interviewer could find no one who knew how much was being sold).

A worker stated that initiative for a deduction plan

"Should come from the Boss. They should give lectures on it, talks. All people need rousing up or they'll plod along indifferently."

Another employee in this plant concurred in that

"The Paymaster should talk it up - should tell the men to go to the window." (The cashier's window where stamps could be bought).

The interviewer in this plant thought that "one would never know here a war is going on. Everyone is very easy-going."

C. SHIPBUILDING PLANT WHERE THE UNION TOOK OVER BOND SUBSCRIPTION

At this large dry dock, the management started a drive in a haphazard way - they didn't push it. (Not pushing seems an important point in many companies where the plan is in effect but not drawing much.) The company posted signs but really did nothing except to make deductions from pay for those who had pledged.

So the Union went to work - CIO. In one day they pledged \$100,000. The shop steward went to each man and asked him how he would like to have a ship named the Philip Murray.<sup>\*</sup> Another question he often asked the men was this: "What are you doing to win the War besides drawing big pay?" The idea picked up.

In the words of a union member: "This made the company jealous. They would not cooperate with the union and would not tell how many bonds had been sold. But the men are going after it - selling bonds. They feel that if the company put the same zest into it and cooperated with the men, more could be sold. The men are determined that the ship will be named the Philip Murray."

Workers here seemed to feel that "the company could have approached the sale of bonds with the same enthusiasm as the union. But they were haphazard and the men did not respond."

"We are trying to get a million and a half dollars to buy a ship."

<sup>\*</sup> Interviewer confirmed this in an interview with Port Director of IUMSWA.



D. DEFENSE PLANT WITH PAYROLL DEDUCTION PLAN WHICH IS NOT WORKING VERY WELL

This plant has a voluntary payroll deduction plan, but not a successful one. The general picture is that of a plant where no special effort has been put forth to push sales. Both workers and employers agreed on this.

Management ascribes lack of sales to turnover in personnel, but employees never mentioned that as a reason. Both management and employees, however, mentioned failure to take the War seriously as reason for not buying.

It is striking that none of the people interviewed expressed personal dislike of the plan.

E. A BAKERY WHICH TURNED DOWN PAYROLL DEDUCTION PLAN

One of the two owners of this bakery said it was the firm's conviction that the working man figures he has only what he takes home in his pay envelope. As for the higher salaried men - like the salesman - their pay checks are already subjected to so many deductions (Social Security, group insurance, loans made by company for emergencies) that there just isn't any more room for further deductions.

Bonds and stamps could be purchased at the window where workers received their pay checks, but the owner did not know how much they sold that way.

Beneath and beyond the protestations of the owner that "we want to do everything to win the war", were deep anti-administration prejudices which seemed even to insulate him against the war's real meaning.

P. THE DILEMMA OF A SMALL MANUFACTURER

The relatively young and intelligent employer of 33 persons in this paper box plant said, when approached by the interviewer:

"I recently saw a movie plug for the plan, and said to my wife I'd like to do something about it. But I haven't."

Owner himself has purchased no War bonds. Explains by saying he has many business debts to clear up. Perhaps the chief reasons why he has done nothing about organizing for payroll deduction are: (1) inertia, and (2) the record-keeping involved. His office force has enough work as it is.

The average pay of the workers (mainly women) is \$16. They felt it would be difficult for them to give up almost anything, regularly. Their realization that we are at war seemed limited. If they worked in a high-fenced, guarded defense plant, there would be constant reminder that we are at war.

The workers found it difficult to get the idea of themselves, insignificant individuals, loaning money to the powerful government which has so many financial resources.

The owner had received only 1 small leaflet on the payroll deduction plan, which he read superficially and put aside. He was "so busy, I never got around to it". He might have done something had some person from the Treasury Department come to him. "Why don't they make it easy for us fellows to do it?"



G. A NON-DEFENSE PLANT WITH 100% PARTICIPATION IN PAYROLL DEDUCTION PLAN

This company publishes a booklet - Personnel Policies - in which it says: "Wages paid by leading industries are checked periodically so as to keep our wage scale above the average standard in this area for the same type of work." They have (1) periodic distributions of company profits to employees, (2) group insurance, (3) employees' benefit association, 40-hour week with time and a half for overtime, (4) 2 ten-minute rest periods each day, and (5) turkeys to all employees at Thanksgiving. Employee morale runs high.

Employees say:

"Our employers are very nice to us and I don't see why we shouldn't buy stamps."

Several workers reported that they do not notice the small sum taken out of their salary. Interestingly enough, there is no direct relation between the size of salary and size of stamp pledge.





## APPENDIX C

Labor's Views on Voluntary Buying as Expressed  
in the Labor Press





## LABOR'S VIEWS ON VOLUNTARY BUYING

A survey of the Labor Press in recent weeks shows that organized labor is giving enthusiastic support to the voluntary war savings bond drives. The labor press attitude is positively in favor of the voluntary system. It refrains from mentioning the possibility that payroll deductions for war savings bonds might become compulsory. The nearest approach to a definite stand against a compulsory savings bond system is expressed, by implication, in C.I.O. President Philip Murray's statement that "we feel that the voluntary nature of the present program is best designed to build the enthusiastic support for both the war savings program and the war effort as a whole".

This statement was made in a radio broadcast on April 23 during which Murray appeared with A.F. of L. President William Green and with Secretary of the Treasury Henry Morgenthau. The story of this nation-wide broadcast was told in the April 27 issue of the CIO NEWS under the headline, "U.S. Labor Unites on Billion-A-Month War Bond Drive". The article asserted that the leaders of all organized labor pledged the Treasury Department that their members would do all within their power to achieve and better the ten per cent of payroll quota set for the nation in the billion dollar a month war savings bond campaign.

The labor papers constantly publish stories of local and national union participation in bond drives, and pride is expressed in the totals which have been collected. Moreover, they announce that a voluntary system of payroll deductions for bond purchases is being arranged in an increasing number of plants. The inference is that this system is already very widespread. Under this system the workers voluntarily allow deductions for bond purchases, and the bonds go to the individual purchaser.

Typical voluntary union participation in the war savings bond campaign is evidenced by a CIO NEWS story during the week of April 26, that Secretary Morgenthau had congratulated the United Auto Workers for completion of a \$50,000,000 bond purchase and that the UAW had pledged a second drive for the same amount.\*

\* This analysis of the views as expressed in the Labor Press was prepared May 4, 1942 by the Division of Information Channels of the Bureau of Intelligence.

Sales of United States Savings Bonds  
From May 1 through May 26, 1942  
Compared with Sales Quota for Same Period  
(At issue price in millions of dollars)

| Date | Series E     |         |         |         | Series F and G |        |         |         | Total        |         |         |         |
|------|--------------|---------|---------|---------|----------------|--------|---------|---------|--------------|---------|---------|---------|
|      | Actual Sales |         | Quota,  | Sales   | Actual Sales   |        | Quota,  | Sales   | Actual Sales |         | Quota,  | Sales   |
|      | May 1        |         | May 1   | to Date | May 1          |        | May 1   | to Date | May 1        |         | May 1   | to Date |
|      | Daily        | to      | to      | as % of | Daily          | to     | to      | as % of | Daily        | to      | to      | as % of |
|      |              | Date    | Date    | Quota   |                | Date   | Date*   | Quota   |              | Date    | Date    | Quota   |
| 1    | \$ 12.7      | \$ 12.7 | \$ 14.0 | 90.7%   | \$ 7.3         | \$ 7.3 | \$ 12.0 | 60.8%   | \$ 20.0      | \$ 20.0 | \$ 25.0 | 76.9%   |
| 2    | 11.6         | 24.3    | 25.7    | 94.6    | 7.9            | 15.2   | 21.4    | 71.0    | 19.4         | 39.4    | 47.1    | 83.7    |
| 4    | 22.3         | 46.5    | 47.8    | 97.3    | 10.3           | 25.5   | 39.4    | 64.7    | 32.6         | 72.0    | 87.2    | 82.6    |
| 5    | 8.9          | 55.5    | 57.8    | 96.0    | 7.6            | 33.1   | 49.3    | 67.1    | 16.6         | 88.6    | 107.1   | 82.7    |
| 6    | 18.4         | 73.8    | 70.5    | 104.7   | 15.6           | 48.8   | 64.9    | 75.2    | 34.0         | 122.6   | 135.4   | 90.5    |
| 7    | 25.2         | 97.0    | 84.0    | 115.5   | 12.1           | 60.8   | 76.9    | 79.1    | 35.3         | 157.9   | 160.9   | 98.1    |
| 8    | 17.2         | 114.2   | 98.0    | 116.5   | 6.4            | 67.2   | 86.1    | 78.0    | 23.6         | 181.4   | 184.1   | 98.5    |
| 9    | 14.5         | 128.7   | 109.7   | 117.3   | 5.6            | 72.8   | 92.6    | 78.6    | 20.0         | 201.5   | 202.3   | 99.6    |
| 11   | 23.3         | 152.0   | 131.8   | 115.3   | 8.1            | 80.8   | 104.2   | 77.5    | 31.3         | 232.8   | 236.0   | 98.6    |
| 12   | 9.4          | 161.3   | 141.8   | 113.8   | 4.6            | 85.4   | 110.6   | 77.2    | 14.0         | 246.8   | 252.4   | 97.8    |
| 13   | 15.8         | 177.1   | 154.5   | 114.6   | 9.0            | 94.4   | 120.8   | 78.1    | 24.8         | 271.5   | 275.3   | 98.6    |
| 14   | 16.9         | 194.0   | 168.0   | 115.5   | 7.7            | 102.1  | 129.3   | 79.0    | 24.6         | 296.2   | 297.3   | 99.6    |
| 15   | 14.9         | 208.9   | 182.0   | 114.8   | 6.8            | 108.9  | 136.5   | 79.8    | 21.7         | 317.9   | 318.5   | 99.8    |
| 16   | 14.3         | 223.2   | 193.7   | 115.2   | 5.2            | 114.1  | 142.1   | 80.3    | 19.5         | 337.4   | 335.8   | 100.5   |
| 18   | 24.3         | 247.5   | 215.8   | 114.7   | 9.4            | 123.5  | 153.0   | 80.7    | 33.7         | 371.1   | 368.8   | 100.6   |
| 19   | 9.8          | 257.4   | 225.8   | 114.0   | 4.2            | 127.7  | 159.2   | 80.2    | 14.0         | 385.1   | 385.0   | 100.0   |
| 20   | 13.7         | 271.1   | 238.5   | 113.7   | 11.2           | 138.9  | 169.6   | 81.9    | 24.9         | 410.0   | 408.1   | 100.5   |
| 21   | 19.4         | 290.5   | 252.0   | 115.3   | 10.6           | 149.5  | 178.4   | 83.8    | 30.0         | 440.0   | 430.4   | 102.2   |
| 22   | 19.1         | 309.6   | 266.0   | 116.4   | 7.1            | 156.6  | 186.1   | 84.1    | 26.2         | 466.2   | 452.1   | 103.1   |
| 23   | 14.1         | 323.7   | 277.7   | 116.6   | 4.8            | 161.4  | 192.3   | 83.9    | 18.9         | 485.1   | 470.0   | 103.2   |
| 25   | 23.8         | 347.5   | 299.8   | 115.9   | 9.9            | 171.3  | 204.9   | 83.6    | 33.7         | 518.8   | 504.7   | 102.8   |
| 26   | 13.1         | 360.6   | 309.8   | 116.4   | 7.9            | 179.2  | 212.5   | 84.3    | 20.9         | 539.8   | 522.3   | 103.4   |
| 27   |              |         | 322.5   |         |                |        | 226.2   |         |              |         | 548.7   |         |
| 28   |              |         | 336.0   |         |                |        | 238.7   |         |              |         | 574.7   |         |
| 29   |              |         | 350.0   |         |                |        | 250.0   |         |              |         | 600.0   |         |

May 27, 1942.

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

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

\* Takes into account both the daily trend during the week and the monthly trend during the month.



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Sales of United States Savings Bonds  
From May 1 through May 26, 1942  
Compared with Sales Quota for Same Period  
(At issue price in millions of dollars)

CONFIDENTIAL

| Date | Series E     |         |         |         | Series F and G |        |        |         | Total        |         |         |         |
|------|--------------|---------|---------|---------|----------------|--------|--------|---------|--------------|---------|---------|---------|
|      | Actual Sales |         | Quota,  | Sales   | Actual Sales   |        | Quota, | Sales   | Actual Sales |         | Quota,  | Sales   |
|      | May 1        |         | May 1   | to Date | May 1          |        | May 1  | to Date | May 1        |         | May 1   | to Date |
|      | Daily        | to      | to      | as % of | Daily          | to     | to     | as % of | Daily        | to      | to      | as % of |
|      | Date         | Date    | Date    | Quota   | Date           | Date   | Date   | Quota   | Date         | Date    | Date    | Quota   |
| 1    | \$ 12.7      | \$ 12.7 | \$ 14.0 | 90.7%   | \$ 7.3         | \$ 7.3 | \$ 9.0 | 81.1%   | \$ 20.0      | \$ 20.0 | \$ 23.0 | 87.0%   |
| 2    | 11.6         | 24.3    | 25.7    | 94.6    | 7.9            | 15.2   | 16.0   | 95.0    | 19.4         | 39.4    | 41.7    | 94.5    |
| 4    | 22.3         | 46.5    | 47.8    | 97.3    | 10.3           | 25.5   | 29.5   | 86.4    | 32.6         | 72.0    | 77.3    | 93.1    |
| 5    | 8.9          | 55.5    | 57.8    | 96.0    | 7.6            | 33.1   | 37.1   | 89.2    | 16.6         | 88.6    | 94.9    | 93.4    |
| 6    | 18.4         | 73.8    | 70.5    | 104.7   | 15.6           | 48.8   | 49.8   | 98.0    | 34.0         | 122.6   | 120.3   | 101.9   |
| 7    | 23.2         | 97.0    | 84.0    | 115.5   | 12.1           | 60.8   | 60.3   | 100.8   | 35.3         | 157.9   | 144.3   | 109.4   |
| 8    | 17.2         | 114.2   | 98.0    | 116.5   | 6.4            | 67.2   | 69.3   | 97.0    | 23.6         | 181.4   | 167.3   | 108.4   |
| 9    | 14.5         | 128.7   | 109.7   | 117.3   | 5.6            | 72.8   | 76.3   | 95.4    | 20.0         | 201.5   | 186.0   | 108.3   |
| 11   | 23.3         | 152.0   | 131.8   | 115.3   | 8.1            | 80.8   | 89.8   | 90.0    | 31.3         | 232.8   | 221.6   | 105.1   |
| 12   | 9.4          | 161.3   | 141.8   | 113.8   | 4.6            | 85.4   | 97.4   | 87.7    | 14.0         | 246.8   | 239.2   | 103.2   |
| 13   | 15.8         | 177.1   | 154.5   | 114.6   | 9.0            | 94.4   | 110.1  | 85.7    | 24.8         | 271.5   | 264.6   | 102.6   |
| 14   | 16.9         | 194.0   | 168.0   | 115.5   | 7.7            | 102.1  | 120.6  | 84.7    | 24.6         | 296.2   | 288.6   | 102.6   |
| 15   | 14.9         | 208.9   | 182.0   | 114.8   | 6.8            | 108.9  | 129.6  | 84.0    | 21.7         | 317.9   | 311.6   | 102.0   |
| 16   | 14.3         | 223.2   | 193.7   | 115.2   | 5.2            | 114.1  | 136.6  | 83.5    | 19.5         | 337.4   | 330.3   | 102.1   |
| 18   | 24.3         | 247.5   | 215.8   | 114.7   | 9.4            | 123.5  | 150.1  | 82.3    | 33.7         | 371.1   | 365.9   | 101.4   |
| 19   | 9.8          | 257.4   | 225.8   | 114.0   | 4.2            | 127.7  | 157.7  | 81.0    | 14.0         | 385.1   | 383.5   | 100.4   |
| 20   | 13.7         | 271.1   | 238.5   | 113.7   | 11.2           | 138.9  | 170.3  | 81.6    | 24.9         | 410.0   | 408.8   | 100.3   |
| 21   | 19.4         | 290.5   | 252.0   | 115.3   | 10.6           | 149.5  | 180.8  | 82.7    | 30.0         | 440.0   | 432.8   | 101.7   |
| 22   | 19.1         | 309.6   | 266.0   | 116.4   | 7.1            | 156.6  | 189.8  | 82.5    | 26.2         | 466.2   | 455.8   | 102.3   |
| 23   | 14.1         | 323.7   | 277.7   | 116.6   | 4.8            | 161.4  | 196.8  | 82.0    | 18.9         | 485.1   | 474.5   | 102.2   |
| 25   | 23.8         | 347.5   | 299.8   | 115.9   | 9.9            | 171.3  | 210.3  | 81.5    | 33.7         | 518.8   | 510.1   | 101.7   |
| 26   | 13.1         | 360.6   | 309.8   | 116.4   | 7.9            | 179.2  | 217.9  | 82.2    | 20.9         | 539.8   | 527.7   | 102.3   |
| 27   |              |         | 322.5   |         |                |        | 230.5  |         |              |         | 553.0   |         |
| 28   |              |         | 336.0   |         |                |        | 241.0  |         |              |         | 577.0   |         |
| 29   |              |         | 350.0   |         |                |        | 250.0  |         |              |         | 600.0   |         |

May 27, 1942.

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

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

\* Takes into account daily trend within the week, but does not take into account the trend by weeks during the month.

# TREASURY DEPARTMENT

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## INTER OFFICE COMMUNICATION

DATE May 27, 1942

TO Secretary Morgenthau  
FROM Mr. Haas

Attached to this memorandum are four tables presenting the most recent data on corporations qualifying as issuing agents for war savings bonds. A summary of the data incorporated in the tables follows;

1. During the week ended May 23, there were 129 new corporations qualified as issuing agents (Table 1), bringing the total number to date to 1,753 companies. In the aggregate, these companies employed nearly 5.1 million workers, or one-fourth the total number of employees in all companies having payroll savings plans (Table 2).

2. The aggregate number of employees of all the companies and offices qualifying last week was only about 166,000. This compares with 516,000 employees in the companies qualifying in the preceding week (Table 3) and 467,000 employees in companies qualifying the week before that.

3. With respect to the larger corporations, the number with 500 or more employees which had qualified as issuing agents was 1,147 at the end of last week, or nearly one-fourth the total number of companies of this size with payroll savings plans. The Federal Reserve Banks of Richmond and Minneapolis are still behind the other banks in qualifying larger corporations as issuing agents. As of May 23 the Richmond Bank had qualified only 11 percent of the larger corporations in its district and the Minneapolis Bank had qualified only 12 percent. (Table 4)



Table 1.

Corporations with Payroll Plans Appointed as Issuing Agents  
April 25, 1942 to date

| Federal Reserve District | : April<br>: 25 | : May<br>: 2 | : May<br>: 9 | : May<br>: 16 | : May<br>: 23 |
|--------------------------|-----------------|--------------|--------------|---------------|---------------|
| Boston.....              | 3               | 11           | 4            | 11            | 5             |
| New York.....            | 65              | 35           | 41           | 26            | 26            |
| Philadelphia.....        | 8               | 8            | 3            | 9             | 7             |
| Cleveland.....           | 11              | 11           | 16           | 18            | 11            |
| Richmond.....            | 2               | 6            | 11           | 6             | 3             |
| Atlanta.....             | -               | 7            | 21           | 25            | 8             |
| Chicago.....             | 11              | 8            | 24           | 16            | 23            |
| St. Louis.....           | 3               | 2            | 7            | 14            | 20            |
| Minneapolis.....         | 3               | 1            | 3            | 2             | 2             |
| Kansas City.....         | 3               | 10           | 4            | 4             | 2             |
| Dallas.....              | -               | 1            | 3            | 2             | 1             |
| San Francisco.....       | <u>4</u>        | <u>8</u>     | <u>7</u>     | <u>16</u>     | <u>21</u>     |
| Total.....               | <u>113</u>      | <u>108</u>   | <u>144</u>   | <u>149</u>    | <u>129</u>    |

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

May 26, 1942.

Table 2.

Corporations Acting as Issuing Agents for Savings Bonds  
Purchased by Their Employees Under Payroll Savings Plans  
January 31, 1942 to date

| Date          | Number of<br>corpora-<br>tions act-<br>ing as<br>issuing<br>agents | Number of<br>employees<br>in corpora-<br>tions act-<br>ing as<br>issuing<br>agents | Number of<br>employees<br>in all<br>corpora-<br>tions with<br>payroll<br>plans in<br>the country | Percent of<br>employees<br>in corpora-<br>tions act-<br>ing as<br>issuing<br>agents |
|---------------|--------------------------------------------------------------------|------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| January 31... | 351                                                                | *                                                                                  | 15,000,000                                                                                       | *                                                                                   |
| February 28.. | 686                                                                | *                                                                                  | 17,000,000                                                                                       | *                                                                                   |
| March 28..... | 931                                                                | *                                                                                  | 19,000,000                                                                                       | *                                                                                   |
| April 18..... | 1,110                                                              | 3,179,349                                                                          | 19,500,000                                                                                       | 16.3                                                                                |
| April 25..... | 1,223                                                              | 3,449,927                                                                          | 19,700,000                                                                                       | 17.5                                                                                |
| May 2.....    | 1,331                                                              | 3,934,448                                                                          | 19,900,000                                                                                       | 19.8                                                                                |
| May 9.....    | 1,475                                                              | 4,401,738                                                                          | 20,000,000                                                                                       | 22.0                                                                                |
| May 16.....   | 1,624                                                              | 4,917,904                                                                          | 20,000,000                                                                                       | 24.6                                                                                |
| May 23.....   | 1,753                                                              | 5,083,890                                                                          | 20,000,000                                                                                       | 25.4                                                                                |

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

May 26, 1942.

\* Not available.



Table 3.

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Progress of the Federal Reserve Banks in Appointing Corporations  
With 500 or More Employees as Issuing Agents

| Federal<br>Reserve District | Number of<br>corporations<br>with 500 or<br>more employees<br>in the Federal<br>Reserve District | Number of corpo-<br>rations with 500<br>or more employees<br>appointed as<br>issuing agents |              | Percent<br>appointed<br>as issuing<br>agents |           |
|-----------------------------|--------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|--------------|----------------------------------------------|-----------|
|                             |                                                                                                  | Week Ended                                                                                  |              | Week Ended                                   |           |
|                             |                                                                                                  | May 16                                                                                      | May 23       | May 16                                       | May 23    |
| Boston.....                 | 475                                                                                              | 87                                                                                          | 91           | 18                                           | 19        |
| New York.....               | 902                                                                                              | 214                                                                                         | 231          | 24                                           | 26        |
| Philadelphia.....           | 427                                                                                              | 153                                                                                         | 157          | 36                                           | 37        |
| Cleveland.....              | 592                                                                                              | 96                                                                                          | 104          | 16                                           | 18        |
| Richmond.....               | 446                                                                                              | 48                                                                                          | 50           | 11                                           | 11        |
| Atlanta.....                | 228                                                                                              | 49                                                                                          | 54           | 21                                           | 24        |
| Chicago.....                | 868                                                                                              | 265                                                                                         | 282          | 31                                           | 32        |
| St. Louis.....              | 152                                                                                              | 44                                                                                          | 54           | 29                                           | 36        |
| Minneapolis.....            | 101                                                                                              | 11                                                                                          | 12           | 11                                           | 12        |
| Kansas City.....            | 147                                                                                              | 26                                                                                          | 28           | 18                                           | 19        |
| Dallas.....                 | 72                                                                                               | 19                                                                                          | 19           | 26                                           | 26        |
| San Francisco.....          | <u>368</u>                                                                                       | <u>52</u>                                                                                   | <u>65</u>    | <u>14</u>                                    | <u>18</u> |
| Total.....                  | <u>4,778</u>                                                                                     | <u>1,064</u>                                                                                | <u>1,147</u> | <u>22</u>                                    | <u>24</u> |

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

May 26, 1942.

Table 4.  
Companies Qualifying as Issuing Agents  
May 16 and May 23, 1942

| Week ended May 16                                             |                     | : | Week ended May 23                                            |                     |
|---------------------------------------------------------------|---------------------|---|--------------------------------------------------------------|---------------------|
| Company                                                       | Number of Employees | : | Company                                                      | Number of Employees |
| 1. Companies with 5,000 or more employees:                    |                     |   | 1. Companies with 5,000 or more employees:                   |                     |
| Pennsylvania Railroad Co.,<br>Philadelphia, Pa.....           | 155,556             |   | Boston and Maine Railroad,<br>Boston, Mass.....              | 14,920              |
| Chrysler Corp., Detroit, Mich.....                            | 51,004              |   | The Great Atlantic and Pacific Tea Co.,<br>Chicago, Ill..... | 10,000              |
| New England Power Service Co.,<br>Boston, Mass.....           | 20,319              |   | General Refractories Co.,<br>Philadelphia, Pa.....           | 6,447               |
| Continental Can Co., Inc., New York,<br>New York.....         | 15,562              |   | Alexander Smith and Sons Carpet Co.,<br>Yonkers, N. Y.....   | 6,193               |
| Koppers United Co., Pittsburgh, Pa....                        | 13,624              |   | R.K.O. Radio Pictures, Inc.,<br>New York, N. Y.....          | 5,994               |
| John Hancock Mutual Life Insurance Co.,<br>Boston, Mass.....  | 11,555              |   | Stix, Baer and Fuller Dry Goods Co.,<br>St. Louis, Mo.....   | 5,569               |
| Edward G. Budd Mfg. Co., Philadelphia,<br>Pennsylvania.....   | 11,314              |   | Richfield Oil Corporation,<br>Los Angeles, Calif.....        | 5,000               |
| Libby, McNeill & Libby, Chicago, Ill..                        | 10,080              |   | Subtotal Companies with 5,000<br>or more employees.....      | 54,123              |
| Seattle-Tacoma Shipbuilding Corp.,<br>Seattle, Wash.....      | 9,702               |   | 2. All other companies.....                                  | 111,863             |
| Magnolia Petroleum Co., Dallas, Tex...                        | 9,440               |   | 3. Total all companies qualifying.....                       | 165,986             |
| The Murray Corporation of America,<br>Detroit, Mich.....      | 9,325               |   |                                                              |                     |
| Loose Wiles Biscuit Co., Kansas City,<br>Missouri.....        | 7,805               |   |                                                              |                     |
| Philadelphia Electric Co.,<br>Philadelphia, Pa.....           | 7,200               |   |                                                              |                     |
| Avondale Mills, Sylacauga, Ala.....                           | 6,556               |   |                                                              |                     |
| Norton Co., Worcester, Mass.....                              | 6,010               |   |                                                              |                     |
| Lever Bros. Co., Cambridge, Mass.....                         | 5,952               |   |                                                              |                     |
| Hearst Publications, Inc.,<br>San Francisco, Calif.....       | 5,579               |   |                                                              |                     |
| Curtiss-Wright Corp., (Propeller Div.)<br>Caldwell, N. J..... | 5,000               |   |                                                              |                     |
| Southern California Gas Co.,<br>Los Angeles, Calif.....       | 5,000               |   |                                                              |                     |
| Union Electric Company of Missouri,<br>St. Louis, Mo.....     | 5,000               |   |                                                              |                     |
| Subtotal Companies with 5,000<br>or more employees.....       | 371,583             |   |                                                              |                     |
| 2. All other companies.....                                   | 144,583             |   |                                                              |                     |
| 3. Total all companies qualifying.....                        | 516,166             |   |                                                              |                     |



## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 27, 1942.

TO Secretary Morgenthau  
FROM Harold Graves *HG*

Regarding your request that we send copies of the second issue of our Minute Man News Letter to Members of Congress, etc., I find that the supply of this book is almost exhausted.

The third issue, however, will be available in a few days, and we can make the distribution on the basis of that issue.

May 27, 1942.

Harold Graves

Secretary Morgenthau

I was reading this report on Canadian War Bonds, and one of the items which seemed to be of particular interest was the item on how they use the school children on radio programs two nights in each week for half an hour. I wish you would have Vincent Callahan look into this at once, and report to me directly on this. This is something, which as far as I know, we are not doing. It seems to me worthwhile looking into. I would like a report on this from Callahan just as soon as possible.

I take it that you circulate this report we are making on Canadian War Bonds among the members of your staff.

*See Callahan's  
memo of 5/27 -*



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE May 27, 1942

TO Secretary Morgenthau  
FROM Vincent F. Callahan

Several weeks ago, at Mr. Graves' suggestion, we began the planning of special radio programs in which school children will take part.

This plan, which becomes effective with the beginning of school next September, calls for weekly half hour broadcasts over local radio stations by school children engaged in War work of one kind or another. We will furnish sample scripts to the Departments of Education in the various states and they in turn will distribute them to schools. Eventually we hope that in every principal American city eight or ten school children will be broadcasting each week. As we are nearing the end of the school season we do not feel that it is practical to start this plan in operation now.

Meanwhile, we are checking with Canada about the details of their radio shows and if we find that their ideas are practical we will duplicate them in the United States.

Vincent F. Callahan

May 27, 1942.

Harry White

Secretary Morgenthau

The report that Mr. Hoflich made on the Canadian War Bond situation is very helpful. Has he returned, or is it simply his first report? Please let me know. Please also let me know as soon as possible, do they or do they not, have compulsory savings in Canada?

*See White's**memo of 5/27/42-*



Treasury Department  
Division of Monetary Research

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Date May 27, 1942

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To: Secretary Morgenthau

From: Mr. White

Appended are four reports which Mr. Hoflich had prepared and sent. He has just returned and is writing his last report, and is, of course, available any time you wish to see him.

In answer to your question with respect to compulsory savings in Canada, Mr. Hoflich reports that they do not have compulsory savings in Canada and they hope to be able to obtain the necessary funds through voluntary contribution but are not certain that they will be able to do so.

H.D.W.

Houghton

Callahan  
Gamble



THE FOREIGN SERVICE  
OF THE  
UNITED STATES OF AMERICA

DEPARTMENT OF STATE

AMERICAN CONSULATE GENERAL

Toronto, Canada, May 19, 1942.

Dear Mr. Secretary:

The enclosed reports on the War Savings and Victory Loan Campaigns in London, Ontario, and the Victory Loan Campaign in West Middlesex are based upon personal interviews with members of the local committees.

Respectfully yours,

*Harold J. Hofflich*  
Harold J. Hofflich

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D.C.





THE WAR SAVINGS AND VICTORY LOAN CAMPAIGNS IN LONDON, ONTARIO

London is located about 100 miles north-east of Windsor. It is not primarily industrial in nature, although it has some diversified industry, and about 16,000 out of a population of over 77,000 are industrial workers. Manufactures include stoves, kitchen ware, textiles, hosiery and shoes. The city is surrounded by a prosperous diversified agricultural area. There is much retired wealth here, and London ranks third from the top among Canadian cities in income tax receipts, although it is eleventh in population.

The War Savings Campaign.

During 1940 the War Savings campaign in London was spasmodic in nature, with a relatively small volume of stamp and certificate sales. The usual committees were set up, headed by a prominent semi-retired banker. Some effort was made to sell stamps in schools, and the aid of local insurance underwriters was enlisted, on a voluntary basis, to install the payroll deduction plan for the purchase of certificates. Committees were organized among lawyers, physicians, et cetera, to push certificate and stamp sales among the people in their professions. But during the first year the campaign went on in a "hit and miss" fashion, with apparently little enthusiasm.

During February, 1941, coinciding with a nation-wide drive, the local War Savings Committee staged an intensive campaign to boost certificate sales, especially on the payroll deduction plan. The goal of 16,000 pledges, about one per family, was reached.

The

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The larger employers supported the campaign and organized small canvassing committees among their employees. But it was found difficult to enlist the support of the small employer. He has no staff to take the work over, commonly has no adequate book-keeping, and often is reluctant to approach his employees because he pays minimum wages.

Arrangements had been made previously with the banks to make regular deductions from accounts, for certificate purchases, on the request of customers. There are two kinds of purchases, cash and pledge. The pledges are either "honor" pledges, whereby the individual agrees to purchase a certain amount of stamps or certificates each month over the counter, or bank pledges in the form of a request to his bank to deduct regularly a given amount from his account to take care of his purchases. The banks remit to Ottawa and deliver the certificates.

The chairman is not enthusiastic about the school program, since he feels that most parents can be reached more effectively through the employee and bank plans. But he believes that it should be continued since small amounts of adult savings are tapped through the children's stamp purchases. But he does not feel that it is worth the expenditure of much effort.

In connection with the employee plan, the chairman said that many employers exert pressure on new employees by telling them that the payroll deduction system is in operation and that they must participate if they want the job. The chairman saw nothing objectionable in the use of such tactics, apparently on the theory that the end justifies the means. Pressure is also exerted in another way. Employers commonly advise the committee if a foreman or other workman

is



- 3 -

is talking against or complaining about the plan. In such cases the committee sends a man to talk with the worker, in an effort to discover the nature of his objections, and attempt to obtain his cooperation.

Few spectacular publicity stunts have been used in London. In the words of the chairman, "London is a very conservative city and Londoners don't go in for ballyhoo. During our intensive drive, we simply told the people we had to have 16,000 pledges, about one per family, and we got them".

This does not mean that there were no promotional activities to create interest in the intensive drive. A few band parades were held. Four or five airplanes flew over the city one day and dropped thousands of leaflets. About fifty of these bore numbers making them redeemable in stamps or certificates. A couple of streamers were strung across the main street. A few speeches were given, in churches and at meetings of service clubs and other organizations. A few sponsored newspaper advertisements appeared in local papers. No allotment was received from Ottawa or Toronto for publicity or operating expenses, but the city council voted \$200.00 for the use of the committee.

A house-to-house canvass was made. This is considered to have been a waste of time because, it is stated, most of the people were reached through the employee, bank, and school plans. "Of course", said the chairman, "we got a few retired people and spinsters. But these people were already saving and buying bonds".

The

The Victory Loan Campaign

In London, as in most of the other units, the Victory Loan chairman was asked to serve by the Canadian Minister of Finance, on the recommendation of the bond people who began and carried through most of the organizational work.

The attached chart shows the organization in London for the second Victory Loan Drive of February, 1942. The chairman is president of the Superbest Petroleum Company of London. The vice-chairmen are partners of local bond houses. The other members are prominent business men.

The Honorary Citizens Advisory Committee was composed of 104 men widely representative of all groups in the city - industrialists, other business men, labor leaders, all churches, service clubs, professional groups, et cetera. This committee was largely "window dressing" and was not active. It sponsored one dinner for all committee members at the opening of the drive.

Either the vice-chairmen or one of the joint chairmen of all sub-committees are bond men, giving to this group the actual direction of the campaign. During the three-weeks' campaign all London bond houses closed and devoted all their energies to the Victory Loan. The members of the firms served without pay, but the firms were paid commissions on the total sales in the general house-to-house canvass. Their remuneration was calculated on the basis of a formula worked out in Dominion headquarters.

The bond firm members solicited without pay the Special Homes list. They directed the Employees plan (in all concerns with fifty or more employees) for which the actual canvassing was done by members of workers' voluntary committees. They were completely in

charge



- 5 -

charge of the general house-to-house canvass and "B Names" (those solicited for \$3,000 to \$25,000 purchases), for which the actual canvassing was carried on by paid commission salesmen.

The senior vice-chairman of the Executive Committee, D. B. Weldon, believes that the voluntary workers' committees should be used in the larger firms, as they were in both campaigns, to keep the workers' program largely on a voluntary unpaid basis. Still he states that in the smaller plants where commission salesmen were sent, the results were 100% better. The ideal plan, he believes, is to include the workers' homes in the house-to-house canvass in an attempt to sell the workers additional bonds. In the other communities I have visited, if a paid salesman finds himself in the home of a worker who has subscribed at his place of employment, he simply leaves. Weldon believes this to be a mistake. He believes that often workers will not buy up to their full ability from fellow workers because they do not want to reveal the extent of their savings to other workers and to their employers, perhaps fearing discrimination in case of overtime or layoffs. Such workmen, Weldon believes, can be successfully approached at home by salesmen, for purchases up to their full ability to buy bonds. He thinks further that members of voluntary workers committees are too prone to be satisfied with selling a \$50 bond when they could make a larger sale with a little additional effort. He does not agree that workers react unfavorably to regular salesmen. The other side of this argument was stated by the Ford workers quoted in my last report. Two of the other local committee members agreed with Weldon on this point, one did not agree, and another was non-committal.

Mr.

- 6 -

Mr. C. E. Isard, the senior vice-chairman of the Employees Committee, stated that the Second Victory Loan campaign was more successful than the first because the professional organizers spent more time with employers and with employees' committees. In the first drive, many employers failed to use sufficient time and care in selecting and organizing workers voluntary committees.

Mr. Weldon stresses that house-to-house canvassers should be carefully instructed not to miss anyone in the household. Both the husband and wife should be approached, and also sons and daughters who may be working. Furthermore, contact should be made with domestic servants at their place of employment.

In the last campaign, the industrial canvass reports, copies of which are attached, were found extremely useful. When the campaign was well along the interim report was sent out to all firms included in the employees campaign (firms with 50 or more employees). These reports showed, for each firm, the number of employees, the number of applications, the total subscriptions, and the average subscription per employee. In Mr. Thompson's words, these figures showing relative standings served to "turn the heat" on those firms that were not doing well, and in this way produced most favorable results.

On the day before the end of the campaign, business reply post cards were sent out to every address in the city. These served to bring in a considerable number of people who for some reason had been missed up to that time. One of these cards is attached to this report.

The Provincial Committee allotted \$1,500 to the London Committee for operating and publicity expenses during the second Victory Loan campaign. This was from funds allotted to the Province by the Dominion Committee.

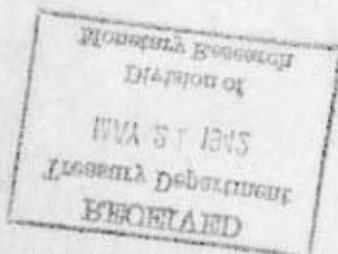
The



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The London quota of \$800,000 was oversubscribed about 25%  
in the second drive of February, 1942.

May 18, 1942.



THE VICTORY LOAN CAMPAIGN IN WEST MIDDLESEX, ONTARIO

The West Middlesex Unit, lying immediately to the west of London, Ontario, embraces about half of Middlesex County. This is a diversified agricultural area, with a number of small towns and villages, and has a population of about 20,000. The principal town is Strathroy, about 25 miles west of London, with a population of about 2,700.

A professional bond man was sent out from London to organize the campaign in this territory. At the organizer's request, a prominent Strathroy citizen had been asked by the Minister of Finance to serve as general chairman. An office was set up in Strathroy to serve as unit headquarters. Then the chairman and the organizer (who acted as vice-chairman and actually directed the campaign) together appointed an executive committee and the usual sub-committees for a general house-to-house canvass.

The unit was divided into 13 canvassing districts - nine townships, Strathroy, and three villages. A local resident was selected as chairman in each district. Then the local chairmen assisted in the selection of the commission salesman.

In the completely rural districts practically all of the salesman hired, and the best ones (according to Mr. Kennedy, the organizer) were farmers. One was a clergyman. A number were insurance agents, county clerks, road supervisors, and the like. Mr. Kennedy declares that the farmers showed no resentment over the fact that some of their neighbors were being paid to do the canvassing. He says they preferred to buy from someone they knew and respected, someone in their own circle. Furthermore he says there was general realization that "there was not much in it" for a farmer-salesman after he had driven his car almost continuously

for



- 2 -

for three or four weeks. In the towns and villages however there was an undercurrent of resentment because commissions were being paid.

The canvassers usually made their calls singly rather than in pairs. In each district, total commissions were pooled and divided equally.

The canvassers were given very little in the way of instruction. A mass conference was held just before the beginning of the campaign, and the afternoon was spent discussing the prospectus, forms and procedure. An instructional moving picture sent from Ottawa was shown for their benefit. A banquet followed, with a speaker to enthuse the canvassers. After that, group sales meetings were held twice each week, for continual "popping up" and the discussion of problems which had arisen.

The voters' list had been consulted, and each canvasser was given a card for each voter in his territory. The canvassers were required to turn in a report on every card received.

The most effective publicity was conducted through the medium of the schools, which arranged concerts and other programs to serve as the background for speakers. Speakers were sent to 47 different schools. Along with the speakers were sent films (from the Dominion office) on Canada's war effort and other war pictures. The movies, plus the children's performances, proved to be excellent drawing cards.

Highly successful publicity was also carried on through the churches. On Victory Loan Sunday, the combined choirs of all the Strathroy churches presented a sacred concert, after the evening services. A Victory Loan speaker, a high school teacher, was sent out from London for this meeting. During the June campaign the

churches

- 3 -

churches supplied the program for a service in the Strathroy public park, preceded by a military parade which ended in the park. This drew an unusually large crowd "for these people don't often see soldiers marching".

Mr. Kennedy expressed the opinion that schools and churches are "natural" for publicity purposes in a rural area, and that there is little point in doing anything else if these are developed properly.

There is one London paper which is widely circulated in Middlesex County. During every day of the campaign this paper carried news about West Middlesex, with a "standing sheet" for each of the 13 districts showing the percentage of objective attained to date. This created great interest among the populace and keen competition among the canvassers.

Throughout the Dominion the banks had agreed to extend 3% loans for the purchase of bonds. On such deals, the banks deliver the bonds when the loan is repaid, in accordance with the terms agreed upon between purchaser and bank. Most of the farmers in West Middlesex, Mr. Kennedy stated, are Scotch, and they usually preferred, on credit purchases, to make arrangements with their banks because they could get terms more favorable than those offered by the government on installment purchases.

At the end of the second week of the campaign last February, less than 50% of the objective had been attained, due largely to road conditions. On Friday night of the third and last week, an emergency meeting was held for all canvassers and committee members. The speaker impressed on those present that the community had never fallen down before on any project, and that the community's honor



- 4 -

was at stake. They were still short of their objective by 15%. On Saturday, many of the canvassers worked far into the night, but the goal was reached.

May 18, 1942.



London, Ontario

May 18, 1942

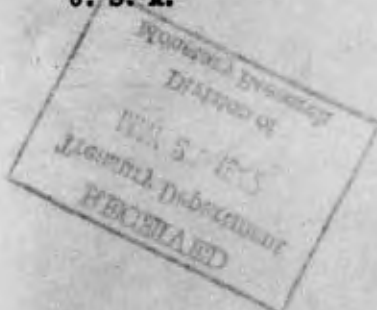
Dear Mr. Secretary:

The enclosed report on the War Savings and Victory Loan Campaigns in Kitchener and Waterloo, Ontario, is based upon personal interviews with members of the local committees.

Respectfully yours

*Harold J. Hofflich*  
Harold J. Hofflich

The Honorable  
Henry Morgenthau, Jr.  
Secretary of the Treasury  
WASHINGTON, D.C.  
U. S. A.





The War Savings and Victory Loan Campaigns  
in Kitchener and Waterloo, Ontario

The towns of Kitchener and Waterloo have grown together and, for all practical purposes, are now one community, with a combined population of 45,000. They lie about 80 miles east and slightly south of Toronto. With the head offices of three large life insurance companies (Mutual, Dominion and Equitable) and three fire insurance companies, this community is often called "The Hartford of Canada". It is also a diversified industrial area, with three large rubber factories (including Canadian Goodrich with about 1000 employees), several of the largest furniture manufacturing concerns in Canada, Seagram's distillery, and other miscellaneous industries. About 50 per cent of the population is industrial. Around these towns is a diversified agricultural area.

The War Savings Campaign

For War Savings purposes the towns of Kitchener and Waterloo form one unit, together with the rural routes of the local post offices. This is part of a five county district made up of 47 local units. The Kitchener-Waterloo joint chairmen, two local business men, were selected by Mr. P. V. Wilson (Managing Director of the Waterloo Trust and Savings Company), District Chairman. Other members of the committee are the two mayors and another prominent local resident who is a former member of the Canadian Parliament. There are seven sub-committees - Employer-Employee, Stamp Outlet, Speakers, Publicity, Professional, Youth Committee and the War Stamp Ladies Auxiliary.

The Employer-Employee Committee is in charge of the important payroll deduction plan in industrial and business establishments. Contacts are made exclusively with employers, who in a number of cases have organized employees' committees to do the canvassing

among

- 2 -

among fellow-employees. The goal set was 5 per cent of payrolls, which has nearly been reached. Some firms have reached 7 per cent of their payrolls in regular purchases of War Savings Certificates.

This unit has staged two 30-day intensive drives. Attached are two memoranda issued to War Savings workers - all voluntary - just before the last drive began, which will throw some light on the organization and nature of the campaign. The objective was stated in terms of one fighter plane, one machine gun, two aerial bombs, and one machine gun, representing a total cost of \$61,000. The enclosed sheets for District No. 3 will indicate similar objectives for other units in the District.

Promotional stunts during the last 30-day drive included military parades "with plenty of bands", speeches at meetings of local organizations, local radio programs and sponsored newspaper advertisements.

Some intermittent house-to-house canvassing is carried on in the continuous campaign, and this was speeded up during the intensive drives. It is the opinion of Mr. Wilson, District Chairman, that two canvassers together are usually preferable to one, since "it is harder to dismiss two people than one".

It is believed, and admitted by the local Victory Loan vice-chairman, that certificate and stamp sales drop off during and immediately after a Victory Loan Drive. However, the general War Savings level is slightly higher after a Victory Loan Drive than before, at least among employees.

The surrounding rural territory offers a few special problems. Canvassing is extremely difficult during the winter months when heavy snows are apt to make country roads well nigh impassible. In a few of the small villages attached to this unit, small rural neighborhood sub-committees have been organized for soliciting purposes. This has not been too successful. Mr. Wilson, and also another committee member, stated it as their belief that the



- 3 -

average farmer works with other citizens in town more successfully than with other farmers. There are apt to be petty jealousies among farmers. Furthermore, the average farmer likes to feel that he is included in a sphere of activities wider than his own neighborhood. A number of prominent farmers served on Kitchener-Waterloo sub-committees for the entire unit.

There are many Mennonite farmers in this area, which at first caused some difficulties, as the people of this faith are opposed to war. A fairly successful solution to this problem was found by stamping certificates sold to Mennonites, indicating that the funds received would be used for non-military purposes. This is discussed in greater detail below in connection with the Victory Loan campaign.

A perusal of the sheets attached to the enclosed War Savings organizational outline will indicate the nature of the continuous campaign carried on between the intensive drive periods.

#### The Victory Loan Campaign

The local Victory Loan unit, comprising more than half of Waterloo County, is headed by the Waterloo North Committee, of which the Chairman is Mr. Ford S. Kumpf, President of the Dominion Life Assurance Company. The pattern is the same as that followed throughout the Dominion, described in my Hamilton report. This unit also had a General Citizens Committee, the members of which met twice and "were told that they were important". This brought many prominent citizens to support the campaign.

Eight professional bond people from Toronto organized and virtually directed the campaign. These men were not prominently mentioned, but were behind the scenes guiding the drive.

In addition to the Special Names list, described in my report on Hamilton, this unit originated a "B Names List". This list was made of up firms and individuals, not on the Special Names list, who it is felt could subscribe between \$3000 and \$5000. Then two

of the best salesmen called on these, often accompanied by the lay chairman, vice-chairman, or another local committee member.

The paid canvassers were all local insurance agents and other salesmen whose services were requisitioned for about a month. There were two pre-campaign meetings, where instructions were given, and for some of them some post-campaign "clean-up" work. Total commissions were pooled and divided equally, plus bonuses in a few cases. It proved difficult to get canvassers to go into the rural area, because the roads were bad in February (some used horses and cutters), farmers are hard to sell and live far apart. Each rural salesman was furnished with a list of farmers to call on, and a road map showing the name and location of each farmer.

Commissions were based, as in all of Canada, on the figure of  $\frac{3}{8}$  of 1 per cent on the  $2\frac{1}{2}$  per cent bonds maturing in 1948, and  $\frac{5}{8}$  of 1 per cent on the 3 per cent bonds due in 1954. Some local criticism of the commission feature was admitted. But those interviewed firmly believed that, for the general canvas (outside the larger industrial plants) it is impossible to get good salesmen without paying them, also that you have no control over salesmen unless they are being paid.

The patriotic appeal met with the greatest success on the rank and file of purchasers. But a good canvasser will fit the appeal to the prospect.

As to publicity stunts, it is strongly believed here that the best device is "lots of parades, bands and soldiers", obviously for the emotional appeal. Mechanized equipment, such as tanks, is also a good drawing card. Demonstration platoons, with 40 or 50 soldiers, were taken out to small rural towns, accompanied by bands.

In Kitchener a gun was fired each noon, twice if the day's objective had been met, once if it had not. A Victory Loan Sunday

was



was featured in every church, with a short talk by the minister or a member of the congregation, and a prayer offered for the success of the loan.

It was found difficult to get crowds to attend mass meetings. The only successful mass-meeting held here was during last June, in the park, featured by a military display.

Crowds seem to be easier to draw in rural districts. Rallies were arranged and well attended this year at a school house in each school district, with a speaker from town and a special Victory Loan film sent out from Ottawa.

The attached publicity calendar contains brief descriptions of other promotional events and features.

The rural Mennonites also posed a problem for the Victory Loan Committee. However, it was solved in an apparently satisfactory manner. The Vice-Chairman met with a group of the church leaders, and persuaded them to allow the committee to send out letters to church members, signed by two Mennonite leaders, and endorsing the campaign. A copy of the letter is attached. Mennonites signing for bonds might request a "sticker bond", having attached to it a sticker with the words "The proceeds received from the sale of this bond will be used by the Government of Canada to finance expenditures to alleviate distress or human suffering due to War". Three copies of the sticker are attached to the letter.

One of the salesman's cards, attached to this report, was left by a canvasser who failed to find his prospect at home. A house-to-house canvass was conducted during the Victory Loan here as in other Canadian communities.

May 16, 1942.



London, Ontario

May 18, 1942

Dear Mr. Secretary:

The enclosed report on the War Savings and Victory Loan Campaigns in Windsor, Ontario is based upon personal interviews with members of the Windsor committee and a number of officials and employees of the Ford Motor Company of Canada.

Respectfully yours

*Harold J. Hoflich*  
Harold J. Hoflich

The Honorable  
Henry Morgenthau, Jr.  
Secretary of the Treasury  
WASHINGTON, D. C.  
U. S. A.





### THE WAR SAVINGS AND VICTORY LOAN CAMPAIGNS IN WINDSOR, ONTARIO

Windsor is the well-known industrial city across the river from Detroit. Its population, which was estimated at 103,644 in 1939, has grown considerably since the beginning of the war. Its industrial life is dominated by the three large automobile plants - Ford, Chrysler and General Motors - of which Ford is by far the largest, with nearly 15,000 employees (6,000 before the war). The 339 industrial establishments employing ten or more persons have nearly 37,000 employees.

#### I. The War Savings Campaign

The General Committee in Windsor is composed of 15 men representing industry, other businesses, and the professions. There are no labor representatives. It was explained that when the Committee was set up in 1940 the C.I.O. had no standing in the community, the automobile plants were not organized, and the A.F. of L. was not active in such matters. The Chairman is Mr. W. D. McGregor, a retired business man, President of the Chamber of Commerce, and active in community affairs. The General Committee is not active and rarely holds meetings. But, as stated by Mr. McGregor, "it is useful if you get into trouble", being widely representative of business and the professions.

The Executive Committee, which is very active, is composed of the Chairman of the General Committee and the Chairmen of the six sub-committees for employees, retail merchants, speakers, publicity, banks and schools. The set-up and functioning of these sub-committees are the same as in Hamilton, described in my last report.

The Employee Committee is the one which has produced outstanding results in Windsor. In nearly all of the large plants 95 to

100%

- 2 -

100% of the employees are signed up for War Savings Certificates on the payroll deduction plan. New employees come into the scheme almost automatically, since signing up for certificates is practically made a condition of employment in most plants. I gather that many Windsor employers exert heavy pressure (when necessary) on new employees to sign a payroll deduction card unless there are extenuating circumstances such as family illness or debt. It was stated by Mr. McGregor and by several Ford officials and employees that there are practically no objections on the part of labor to the use of such tactics, and that nearly all employees sign up voluntarily with no pressure being exerted.

The Employee Committee makes its contacts with employers, who then use their own organization and tactics in selling certificates to employees and officials, on both the payroll deduction and cash basis. Some companies, such as Ford of Canada, have organized employees' committees to do the canvassing. This type of scheme has been most successful. Some employers have merely "passed the hat", and there are various intermediary schemes. The Ford set-up will not be described here, because of its close similarity to the Ford Victory Loan organization which is discussed below in some detail.

The War Savings Committees have concentrated their efforts on two three weeks' drives, the last of which was held in November, 1941. During these campaigns, house-to-house canvasses were not resorted to, as it was felt that virtually everyone would be reached by the campaign among industrial employees, retail stores, professional groups, and the bank arrangements. There has been no great emphasis here on the selling of stamps to school children, the feeling being that savings can be more effectively tapped through the other programs.

Arrangements

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- 3 -

Arrangements were made with local banks to make regular monthly deductions from customers' accounts. The committee made its contact with the clearing house. Circulars and pledge cards were sent out with bank statements. The objective of 20,000 pledges was soon raised to 30,000, and 38,000 depositors signed up.

Before the opening of the campaign letters were sent out to 60 or 70 retail store managers, explaining the plan for retail stores, and inviting the managers to an 8:30 breakfast. In the meantime the retail areas were divided into 60 or 70 districts. At the breakfast each man present was given one district to cover, and was handed a record card for each store in his area, as well as pledge cards for the stores' officials and employees. The pledge cards provided for either payroll deductions or regular stamp purchases. Then the canvassers were told that the job had to be finished that day and a report submitted by each one that evening. It is considered that this one-day drive was successful.

Similar groups covered the city's lawyers, physicians, dentists and other professional people. In order to reach the school teachers, a meeting was held of representatives of each school. These representatives then organized the teachers in their respective schools to get payroll deduction pledges for certificate purchases. This campaign was only "reasonably" successful. It seems fairly obvious that the committee of business men did not understand the teachers' psychology.

At the opening of each campaign a local commercial airplane was hired to bombard the city with leaflets. In the last campaign, a few of these leaflets were marked with a value in terms of a certificate or a certain number of stamps. Since this had been announced in advance, it created a good deal of interest, and an incentive to pick up the leaflets and read them. About 40 were turned in in exchange for stamps and certificates.

The

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- 4 -

The publicity committee also sponsored newspaper advertisements paid for by business firms, arranged radio speeches by members of the Executive Committee and labor leaders, and sent speakers to all meetings of service clubs, women's organizations, etc. One night parade was staged, featuring bands, mechanized military equipment (a great volume of which is manufactured in Windsor) and soldiers.

In the last campaign the city's goal was stated in terms of three bombers, costing \$300,000, but the chairman states that this idea failed to arouse interest.

## II. The Victory Loan Campaign

Mr. McGregor was Chairman also of both Victory Loan drives. The organization of committees and canvassers is highly uniform throughout the Dominion, and the Hamilton pattern, described in my last report, may be considered a typical example. A prominent local man was asked by the Provincial Chairman to call a meeting of seven or eight public spirited citizens. These in turn chose the General Committee and its Chairman.

The professional bond men who in effect organized and directed the Victory Loan campaigns, were sent from Toronto and London, Ontario, by the Provincial Committee.

The commission salesmen were mostly local residents. About 80% were insurance salesmen. In most cases an insurance company or agency would turn over its entire sales force for the three-week period. It is believed by the local committee members interviewed that the commission plan, using paid salesmen, is far superior to the use of voluntary workers for the general canvass (the canvassing is done on a voluntary basis in establishments having 50 or more employees), because (1) "you can't expect people to work full-time for nothing" and (2) "you've got to pay them so you can give them hell or fire them if they don't do the job right".

It



- 5 -

It is admitted that there was an undercurrent of feeling that the work should have been done without compensation. But it is believed by committee members that this feeling was not widespread.

The city was given a quota, stated in dollars, by the Provincial Committee. In turn, each large industrial establishment was given a quota by the Ottawa formula which takes into consideration size of payroll and average wage.

In order to gain the cooperation of labor in the last campaign, the local chairman and the professional bond organisers had a conference with two C.I.O. and two A.F. of L. leaders. As a result, the unions supported the plan, had speakers at all public meetings, and prepared their own speeches (subject to the approval of the General Committee) for radio broadcasting.

The publicity and promotional stunts were less spectacular than in some other communities. It was felt that the success of the campaign depended largely on gaining the support and cooperation of employers and employees, and that this could be accomplished without the use of a great deal of "ballyhoo".

During the last campaign, a military equipment train was sent out from Ottawa. When it reached Windsor, it was unloaded, and the equipment - tanks, guns, searchlights, etc. - placed in one block of the main street, which was blocked off, from 5:00 to 10:00 p.m. one day.

Several parades were held, featuring bands and troops. Also used were movie speakers and trailers, and radio speeches and "spot" announcements. During the first campaign large footprints, with the words "Buy Victory Bonds", leading to the banks, were painted on the sidewalks.

Mr. McGregor

- 6 -

Mr. McGregor expressed himself as being fearful of the continuous volume of War Savings radio publicity in the United States. He fears that the psychological reaction on the part of the public may be indifference or irritation. He feels that continuous publicity may lose its effect, that it is more effective if concentrated from time to time as in the Victory Loan drives in Canada.

III. The Victory Loan Campaign in the Windsor Plant  
of the Ford Motor Company of Canada.

Since I was told that the best example of a successful Victory Loan drive carried on largely by employees was to be found in the Ford Company in Windsor, I visited that company in an attempt to gain an impression from the standpoint of both management and labor. This part of my report is based on separate personal interviews with Mr. G. T. Eyton, manager of the Bus Division and Chairman of the Ford Victory Loan Committee, the Sales Manager, a member of the Personnel Department, the supervisor of the machine shop, a machinist, and a laborer in the heat treat department. The last two mentioned, who were team captains in the last campaign, were interviewed together.

During a ten-day drive in February, 1942, the employees of the four Ford plants in Windsor purchased and subscribed for approximately \$1,146,000 of Victory Bonds, or an average of about \$84 per employee. There were 14,265 employees on the last day of the drive. 96.8% of the employees purchased bonds by cash or payroll deduction pledge or both. \$40,000 in currency was collected from men who had no bank accounts. In addition to Victory bonds, Ford employees purchase \$110,000 of War Savings Certificates each month on the payroll deduction plan.

The Ford Victory Loan Committee was composed of Mr. Eyton, Chairman, and the five team captains whose function was to assume responsibility for complete coverage of the plants by 85 "key men". The captains and key men were selected by Mr. Eyton after advising with the supervisors and foremen. The key men were mostly clerks



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(not officers workers, but stock clerks, etc., in the plant). It was believed by all those interviewed that clerks make the best key men because (1) they are acquainted with most of the men in their departments, (2) they have centrally located desks, and (3) they are accustomed to keeping records. It is planned to have the captains choose their own key men during the next drive, in November.

The five team captains in the last drive were a laborer in the heat treat department, a machinist, a stock clerk, a clerk in the stock shipping department, and an assistant foreman.

Everyone agreed that the success of the Ford drive was due largely to (1) thorough organization and effective publicity before the beginning of the campaign, (2) enlisting the complete cooperation of supervisors and foremen, (3) the conviction of the workers, engendered by the fact of employee participation, that it was "their campaign" and was being "run" by them, and (4) the fact that the entire campaign was carried on during working hours, on company time.

The key men were given instructions in three one-hour meetings during each shift on three days immediately preceding the start of the campaign. At the last meeting kits were handed out containing the pledge cards, record forms, and maple leaf buttons for each subscriber. These meetings were held on company time. In signing the pledge cards, employees authorized the company to make certain regular deductions from their wages to pay for bonds purchased.

Before the beginning of the campaign a letter was sent to each employee, signed by Mr. W. R. Campbell, president of the company, asking their support in the campaign. The appeal was along patriotic lines, asking them to put their money to work to achieve victory, to provide money to produce planes, tanks, ships and shells, to give "all-out" support to the armed forces of Canada. Attached to each letter was a brief, simple description of the bonds and how to buy them.

At the same time Mr. Campbell addressed a letter to all department supervisors and foremen, requesting them to attend a meeting during

- 8 -

working hours, to discuss the Victory Loan as it applied to Ford employees. This was to explain the plan of the campaign and to enlist their cooperation.

On the opening day of the campaign, a parade of bands and soldiers from nearby barracks was arranged for the noon hour in two of the Ford plants. Large thermometers were set up in each plant, showing the dollar volume of sales to date, and others showing the percentage of employees who had subscribed. Only those showing dollar volume aroused interest. Daily summaries showing departmental standings were tacked on the clock boards in each department. These were believed, especially by the team captains interviewed, to be especially effective in arousing interest, and a spirit of keen competition between departments. The team captains suggested that in the next campaign brief appeals enclosed with time-clock cards or pay checks would be useful. They suggested also that instead of the parade to open the drive a new idea should be worked out each time.

It required ten days to cover the employees in the plants. The coverage was blocked out in advance on the basis of 10% per day in each department. This averaged 23 calls per key man per day. The canvassing required from four to five hours per day for the average key man. The key men were instructed to work closely with supervisors and foremen, and Eyton believes this to be the chief element in the success of the drive.

It should be stressed that the drive was conducted without any decrease in production, even though it was carried on entirely during working hours. This statement, made by Eyton, was verified by the supervisor who said he watched the production figures in his department very closely during the campaign. The sales manager thought that there must have been some production loss, but that it was too small to be measurable.

The machine shop supervisor, who seemed to be very well informed with



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with respect to production problems, attributed the fact of no production loss to several factors. First of all, he said, the campaign was so thoroughly organized, down to the last detail, and the men so well informed before the campaign, that the signing of pledges and keeping of records required the minimum possible time. The men had been pretty well "sold" beforehand, and had had time to think it over and decide how much they could subscribe. So not very much time was lost in sales talks and arguments. He has found, he said, that there is always an average 20% time loss throughout his department, and that if a man loses a few minutes in one way he will make it up by taking off less time for other things, or will work a little faster. Along the assembly line, a relief man would move down the line, relieving one at a time each man who wanted to go to the key man's desk and sign a pledge card. In other departments the foreman and assistant foreman would assist the key men in getting the workers to sign up one at a time, so that there was no time lost through standing in line to sign pledges. Some degree of pressure by foremen and fellow workers will be seen in the last two techniques mentioned.

It was pointed out also that the key men were clerks for the most part, with work which either had to be or could be done intermittently, and that they could accomplish their regular work in less time, under the stress of the drive, by "pushing the pencil a little faster". One of the team captains expressed the belief that any worker could work faster for a limited time, and that the interest and enthusiasm of the key workers led them to do so during the drive.

The sales manager stated that the cost to the company of payroll deduction was negligible, because the system was already set up for social security and withholding tax deductions.

The team captains told me that the appeals used were a combination of the patriotic appeal and pointing out the advantages of regular saving. One of them said "We've got a lot of fellows educated in

saving

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saving  
/ during these drives". The other captain, in talking to a hard prospect, said something to this effect: "Sure you haven't got any money to buy bonds. Why not? Your wife goes out and buys new clothes after every pay day, doesn't she? Let the company take some money out of every pay check, and your wife can't get it. And in a few months you'll have a \$100 bond. Before long you'll have some real savings. You won't be worried all the time about money matters, about losing your job, about one of your kids getting sick."

"Well, I sold him a bond, and next time more bonds, and today he's a changed man. He's got self-respect. He holds his chin up. He wears good clothes. I did it."

One of the team captains said: "Tell your people in Washington that if they want to sell bonds to workers, other workers have got to do the job. If you send a salesman in to see them they'll say 'Why should I buy a bond from this guy? He's got a soft job, getting a fat salary, to take money from us. Why should I stint myself for him?' And don't send clerks from the office out into the plant to sell bonds. They can't talk the same language. And there is always a certain amount of antagonism between white collar workers and others, and you can't afford to forget it. If workers are going to buy bonds, they've got to know that it's their campaign." The other workers agreed heartily.

Both workers agreed that it is necessary to use various means to arouse enthusiasm, but that there must be no appearance of pressure from above. They said that the most effective poster used in their plant, one which excited much favorable comment, was the one bearing the words "We ask for it. Hitler takes it." They admitted that on several occasions a foreman would help them by threatening a recalcitrant worker that he would not give him overtime work, or by "bawling him out" in scathing language. But they were not concerned about such methods, if used only occasionally, since they consider that a man who can afford to buy bonds and refuses is a "yellow dog" anyway and deserves harsh

treatment

Regraded Unclassified



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treatment if he receives it.

One of the team captains admitted to using an interesting, if deceptive, technique in boosting his sales. (The team captains do a limited amount of soliciting themselves.) In the early days of the campaign, if a worker said he would sign up for a \$50 bond, the captain would say "No. We haven't received any \$50 bonds yet. And I think they're going to be pretty scarce this time - hard to get. But I'll take your name down, and if we receive any \$50 bonds, I'll let you know when they come in." A good many of these, if they could afford a larger subscription, would then sign up for a \$100 bond. Then, during the last couple of days, the team captain would go to the others and tell them that a few \$50 bonds had finally arrived.

The team captains interviewed were most ingenious, extremely proud of their part in the campaign, and anxious to talk about it. It should be mentioned that the same organization of captains and key-men is used in War Savings and other campaigns to raise money. A Red Cross drive takes place next week, and both of these captains were looking forward to it with keen anticipation. One of them told me proudly that he had already put out a number of buttons, to men working near him, and to others he had met in the wash-room, even though the campaign had not yet started. This, he said, had caused others to come to him to ask him why he had not told them the buttons had arrived. "Already", he said, "they felt that they had been left out of something important."

Enclosed is a copy of the May-June, 1942 issue of the "Ford Times", with the article on the second page devoted to the results of the last Victory Loan drive in the Windsor Ford plants. Also enclosed is a folder containing Mr. Eyton's report on the last Victory Loan Campaign with some criticisms and suggestions for improvement, reporting forms, and miscellaneous material which may be of interest.

May 17, 1942.

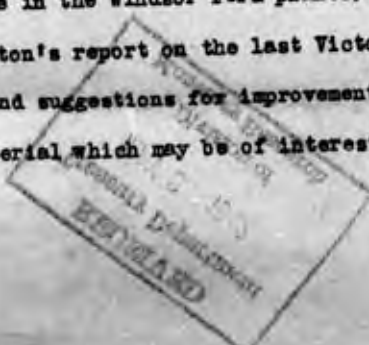
- 11 -

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May 17, 1942.



Treasury Department 304  
Division of Monetary Research

Date..... May 27 ..... 19 42

To: Secretary Morgenthau

The appended report on the Victory Loan and War Savings Campaign among the employees of the Canadian General Electric Company is based on a personal interview by Mr. Hoflich with an official of the Company in Montreal.

H.D.W.

MR. WHITE  
Branch 2058 - Room 214½

The Victory Loan and War Savings  
Campaign Among the Employees of the  
Canadian General Electric Company

The General Electric Company in Canada has about 8,900 employees. This group is purchasing, during the six-months period ending September 30, 1942, War Savings Certificates and Victory Bonds in the amount of approximately \$969,000, an average per employee of \$109.00. This represents a small fraction less than 14% of the payroll. All purchases are made on the payroll deduction plan, with the exception of cash purchases of Victory Bonds during the February, 1942 campaign.

The War Savings campaign among General Electric Company employees is organized on a local basis in each of the plants and offices. Committees of employees are organized to conduct the campaign. In the first intensive drive of October, 1940, little personal solicitation was carried on, and the employees were expected to make their cash purchases and sign payroll deduction cards at a specified place. This is now considered to have been a mistake. The personal canvas during the October, 1941 drive brought better results. About 3% of the General Electric payroll is now being deducted regularly for the purchase of War Savings Certificates.

It is believed here that the payroll deduction plan for certificates constitutes an ideal savings program for wage-earners. Only one sale is required, since the worker signs up for the duration of the war. Deduction from the pay check is a relatively painless means of extracting the money. And not many employees seek to redeem certificates, since to do so involves a sacrifice of interest, as with our War Savings Bonds.



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For the Victory Loan "blitz" campaigns, the General Electric Company was organized on a nationwide basis. The company loaned Mr. L. E. Butters, Sales Manager of the Appliance Division for Quebec, to the Victory Loan Committee for three months during the second campaign, on a 75% basis. That is, he was supposed to devote 75% of his time to the Victory Loan campaign and 25% to his own job for which he was receiving his full salary. Mr. Butters considers this a mistake, as he believes that the Victory Loan organization, to be effective, requires full-time devotion to the task.

Mr. Butters went to the General Electric head office in Toronto to organize and direct the company campaign. A goal of \$600,000 for the company's employees was set by the Dominion Committee. At the end of the campaign this objective had been exceeded by \$134,000.

Each of the six or seven General Electric plants was organized as a local unit. In every case the local general manager was put in charge, being asked to serve by the president of the company. Mr. Butters feels that the most important factor in organizing a company with branches is the appointment of a responsible person to head the local plant organization.

The General Manager in each plant used his department heads to organize the foremen, who in turn canvassed the workers. Mr. Butters feels that foremen make by far the best canvassers, because he considers that "prestige pressure" is essential. The foremen, he stated, did not coerce the workers, but approached them with the appeal to aid in reaching the quota of the particular department.

A certain amount of canvassing was done after hours, but about 75% of the campaign was conducted on company time. Mr. Butters considers it essential to conduct the drives largely during working hours.

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The General Electric Davenport Works in Toronto may be used as an example of local plant organization. This plant employs 853 people. Butters and a professional bond organizer (investment banker) went first to the local manager, after his letter of appointment from the company's president had been received. The campaign was carefully explained to him and his cooperation secured.

The manager then arranged a meeting of all department heads and a few foremen. Butters, a Treasury representative, and a member of the Toronto Victory Loan Committee addressed this meeting on the subjects of organization, routine, promotional selling, and the support the Central Committee was prepared to extend.

The next step was a meeting of the voluntary canvassers selected by the department heads. These canvassers were largely foremen, although a few other well-known and capable workers were included. The same sort of talks were given to the canvassers. Then a ten-day canvassing campaign was conducted in the plant.

A tall flagpole was marked off in thousands of dollars and used as a thermometer. Attached to the flagpole was a large red ball which "climbed" up the pole day by day until the objective at the top had been reached. Also each canvasser wore a small thermometer on his lapel, showing each day the proportion of his group's quota which had been reached.

Before the opening of the drive, a handbill was given to each employee, explaining frankly that war employment conditions could not last indefinitely and that substantial savings would be needed to weather the economic storm at the end of the war. A number of employees stated that this argument was most effective.



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The General Electric Company arranged to buy the bonds and resell them to employees on the installment plan over a period of six months, charging 3% interest on the unpaid balance. No down payment was required. This is said to have largely eliminated the workers' argument that he had no money with which to make the purchase.

In the Montreal office thermometers for each department were placed on the bulletin board and marked every morning showing each department's standing in terms of its quota. This is believed to have been useful in stimulating a competitive spirit.

Mr. Butters suggested that no employees receiving less than \$80 a month be approached during the Victory Loan drive, but that they be urged to bring their War Savings Certificate purchases up to 5% of their wage. He deemed this desirable because certificates are not so readily cashed. However, a considerable number of these lower-paid workers did purchase Victory bonds, and most of those turned in, or purchases discontinued, after the campaign were from this group.

Before the opening of the Victory Loan campaign the General Electric Central Committee, headed by Mr. Butters, sent a letter to each local chairman (local manager), advising him on the procedure he was expected to follow. A copy of this form letter is attached.

May 21, 1942.

Form 309

**TREASURY DEPARTMENT**

**INTER OFFICE COMMUNICATION**

**DATE May 27, 1942**

**TO Secretary Morgenthau**  
**FROM Mr. White**

Appended are the last of Mr. Hoflich's local reports on the War Savings and Victory Loan campaigns in Canada, as listed below:

1. The Victory Loan campaigns in Toronto and North York, Ontario.
2. The War Savings and Victory Loan campaigns in Montreal, Quebec.
3. The check deduction plan for the sale of War Savings Certificates to dairy farmers in Quebec.
4. The War Savings and Victory Loan campaigns in the plants of Canadian Industries, Ltd. and Defense Industries, Ltd.
5. The War Savings program for the employees of the Metropolitan Life Insurance Company in Ottawa, Ontario.
6. Suggestions for the payroll deduction plan of selling War Savings securities.

Copies of these reports, together with all enclosures, have been sent to Mr. Graves.



THE VICTORY LOAN CAMPAIGNS IN  
TORONTO AND NORTH YORK, ONTARIO

Toronto.

Toronto, with a population of over 700,000, is the second largest city in Canada. There are approximately 128,000 industrial employees in the city. Toronto is probably the most important financial and wholesale distributing center in the Dominion.

The attached chart shows the organization of the second Victory Loan Campaign in this city. All of the members of the committees shown on the chart are partners in local investment houses, with the exception of the Honorary Chairman, who was not active. This of course indicates that the campaign was organized and directed entirely by the professional bond people.

In Toronto there was no citizens advisory committee. In the opinion of Mr. K. M. Pringle, one of the vice-chairmen, the city is too large for such a committee to be useful. Here, he says, you would have to put either five or 500 on the committee to avoid offending many people who would feel that they should be members. Hence this device was dispensed with, and Mr. Pringle feels that the hearty co-operation of all groups in the community proves that the campaign can be carried on successfully without such an advisory group.

Two committees not shown on the chart were attached to the Employees Committee in charge of the drive for all firms with more than 50 employees. One was an advisory committee of eight outstanding industrialists in the city, who it is stated, gave valuable advice and assistance on this phase of the campaign. The other group was composed of 80 bond and stock men, each of whom was given about ten plants to contact and organize for the industrial drive in the large plants, in which voluntary workers' committees were organized to canvass the employees.

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The general house-to-house canvas was conducted under the direction of the Organization and Distribution Committee, by about 700 commission salesmen. The city was divided into seven canvassing districts, each with a sub-committee in charge, as shown on the chart. The salesmen received about \$300 each for the three to four weeks' period. But, it is stated, they were among the best salesmen in the city, largely from the insurance field, and the regular earnings of many if not most of them, are in excess of \$300 in a like period of time.

Mr. Pringle, who is sales manager of his firm, is firmly convinced that the paid salesman is more effective than the voluntary worker. He pointed out that Toronto subscriptions averaged \$82 per capita in the larger plants organized by workers' committees, as compared to \$172 in the smaller firms canvassed by paid salesmen. Mr. Pringle was asked if this might be due to a greater percentage of lower-paid workers in the large plants. His reply was in the negative. He believes that the average person's sales resistance is lower when he is approached by a stranger than when a friend or acquaintance is trying to extract funds from him. He believes also that the stranger is able to be more persistent.

Pringle's approach is quite frankly that of a salesman, since he considers this is a "selling job", and he is convinced that people will not buy as many bonds voluntarily, through a mass appeal, as they will when solicited individually by someone outside of their own group of associates. There may be a lack of consistency in the fact that Pringle does not apply the same reasoning to the large "Special Names" contributors who are canvassed by other men in the same general business group, that is, by prominent bond dealers and, in some communities, by other prominent business men.



- 3 -

This committeeman believes, however, that it would not be feasible to dispense with the present plan for covering large groups of employees, since it would be impossible to obtain a sufficient number of paid canvassers to do the job. In some cases it is possible for a salesman in the house-to-house canvas to make additional sales to workers who have already subscribed at their place of employment, but the approach is usually extremely difficult in such cases.

The smaller firms, with less than 50 employees, are covered by the paid canvassers. In such cases, the canvasser seeks the employer's permission to speak to the workers, or to have a committee member address them, at a short meeting during working hours, usually just before the lunch hour. Then the workers are asked to sign the pledge cards after the meeting, and the canvasser attempts to "sell" the employees individually.

The public relations committee in Toronto has an elaborate organization of subcommittees in charge of the various publicity and promotional activities. The vice-chairmen are bond men who take an active part in the publicity program, and the committee members are chosen for their special abilities, and their professional or business connections, for the various parts of the program. A list of the subcommittees and their members is appended.

Around \$30,000 was allotted to the Toronto Committee by Provincial headquarters, out of Dominion funds, for publicity purposes during the second Victory Loan drive. (I was told by the chairman of the publicity committee that this information is given in confidence to the United States Treasury.)

Appended is a summary of publicity activities during the second campaign.

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The Gracie Fields Rally, starring that comedian, packed the auditorium with 17,000 people. Ten bands and a military demonstration were featured also. It is now realized that many more people would have been reached if the program had been broadcast. There was a ten minute Victory Loan speech, and the campaign was mentioned from time to time during the program. Tickets were distributed, without charge, through the canvassers who had been out for a week on the drive, to individuals who they believed might be influenced to increase their subscriptions. It is said that many members of the audience were influenced to do that very thing.

Mrs. Boardman Harriman spoke at the Women's Rally, and all members of the women's local military organizations were present in uniform.

City Hall Square was used for frequent noon and evening meetings. A huge thermometer was erected in the square to show the day-to-day progress of the campaign. Often the boosting of the marker on the thermometer was made the occasion for a public ceremony, lasting 20 minutes. Sometimes the rope regulating the thermometer was pulled by a visiting movie celebrity. On other occasions a band was featured. The publicity chairman is working on a plan to hold these demonstrations from day to day in various parts of the city during the next campaign. But it will be necessary to substitute for the thermometer some device which can be moved on a truck.

The street car floats, which were moved about the city between the hours of 8:30 A.M. and 11:30 P.M., featured various appeals such as demolished homes on the theme "It can happen here". The floats were illuminated at night.

The beacon, about seven feet high, with a lighted gas flame, was lighted by a famous hero of the first World War, and was kept aflame



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throughout the campaign. This was part of a nation-wide program, during which a beacon was lighted first in Nova Scotia, and then other beacons lighted all the way across the Dominion from east to west.

Three small military parades were held each day, sent to various parts of the city.

Special motion picture films, sent out from Ottawa, were shown in school and other auditoriums. Six crews were busy every evening showing these pictures, using portable outfits. Mr. Fry, the publicity chairman is impressed by the possibilities of this device, and the local committee has recommended that the National Committee provide for the next campaign at least one complete cinema show, including a feature film, a documentary propaganda reel and other short features.

Mr. Fry warned that women cannot be depended upon "too much" for the organization of activities, because, he says, they are handicapped by the lack of experience.

Sound trucks were used to good advantage, at City Hall Square, in parading the streets all over the city to call attention to the drive, and for street corner meetings. Recordings of music, speeches, and sound effects such as those representing exploding bombs, were used to attract attention.

It is believed that the slogan contests in the schools elicited a good response and developed considerable interest among parents. Small donated prizes were awarded to the winners.

The local committee has prepared "certificates of appreciation" or "honor testimonials" to send out to committee members and others who contributed their services to the last campaign. An anonymous sub-committee has been named to designate the recipients.

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North York.

The unit of North York, with a population of about 20,000, is adjacent to Toronto, and includes the township of North York and the towns of Weston and Seaside. The towns are suburbs of Toronto. Weston has three small war industries. The township includes a wealthy suburban area adjoining Toronto and a wider area populated by farmers, and workers who commute to Toronto.

A Toronto business man who lives in North York was chosen to act as chairman of the North York unit. He was assisted by three investment firm partners from Toronto, the "professional organizers". These four men appointed a large citizens advisory committee, an Employees Committee (to organize the larger Companies), a Special Names Committee (actually to solicit "B" names, since the largest contributors were solicited at their offices in Toronto), a Unit Sales Committee (for the general house-to-house canvas. All the members of this Committee were salesmen), and a Publicity Committee. The committees generally were widely representative of the different groups in the area.

The house-to-house canvassers were largely life insurance salesmen. But they were instructed not to use high-pressure methods, since the Committee wanted to avoid over-selling the people. A number of farmers and other local persons, such as farm implement salesmen, were hired also. Mr. McKey, the chairman, stated that Commission payments caused no local resentment.

Each salesman was given a card for each household in his area. The names were obtained from the mailing list of the local electric company.



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As an added incentive, weekly contests were organized for the salesmen. Prizes such as portable radios, first-aid kits, and golf clubs and balls were donated by local manufacturers and merchants. On every Monday morning at a breakfast for the salesmen, the results of the previous week's campaign were announced, and comment was made on each salesman's results. A "standing sheet" for all the salesmen was given to each one, for the purpose of creating a competitive spirit.

There were 36 salesmen in all. Sometimes one salesman would help another in difficult cases. This practice was encouraged by the pooling and equal division of the commissions among the salesmen.

It was suggested to all employers that they buy and hold bonds for employees, and then arrange their own payroll deduction plan. This was done in most cases.

Speakers were provided for mass meetings of workers in most of the industrial plants. Unless the employer objected, the committee provided a ceremony for the presentation of the Honor Roll given to each firm which attained its objective. Well-known people such as army officers, or movie stars, were obtained as speakers for such ceremonies. "But" said the chairman, "Keep away from politicians and stuffed shirts. Nobody wants to hear them speak."

Little was done by way of local publicity because (1) the unit was large in area and most of it sparsely populated, and (2) it was felt that they could not compete with Toronto on promotional stunts.

Mr. McKey, the general chairman, sent a letter to each resident of the unit, suggesting that he buy his bonds in North York rather than in Toronto. Members of the Publicity Committee went to all the schools, and had Victory Loan appeals written on the blackboards, telling the children to ask their parents and others to subscribe to the loan issue.

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The teachers then had the pupils copy this appeal, and asked them to take it home and show it to their parents.

Canvassers were instructed to talk in terms of war material rather than money. For instance, a salesman might say, "Mrs. Jones, I would like to ask you to lend Canada enough money to buy a machine gun", or "Mr. Smith, the proceeds from the \$100 bond you have agreed to purchase will completely equip an infantry soldier. Wouldn't you like to add a machine gun?"

It was discovered in this district that numerous employees will buy at home on the general canvas, as well as at their places of employment. The opinion was expressed that many workers are afraid to have their employer know how much they have saved, because of possible discrimination in the event of layoffs, which they feel will come eventually.

North York's quota was heavily over-subscribed.

May 20, 1942.



The War Savings and Victory Loan  
Campaigns in Montreal, Quebec.

The Island of Montreal is made up of (1) the metropolitan Montreal area, composed of the city of Montreal, and several other municipalities including Verdun, Hampstead, Mount Royal, Autremont, St. Michel, Montreal Nord, and St. Leonard, (2) a number of outlying towns and villages, and (3) a good-sized farming area. About 80% of the population is French-speaking. Metropolitan Montreal is the largest urban area in Canada, with a population of about 1,200,000. The island's population is about 1,400,000.

The War Savings Campaign.

For War Savings purposes, the island of Montreal consisted of a unit with joint-chairmen—one French-speaking and one English-speaking. These joint-chairmen, working on a voluntary basis, were actively in charge and there was no executive committee or general citizens' committee. It is admitted that such committees would have been useful, but, it is said, the organization was set up hurriedly at the last minute, and was not changed because it seemed to be functioning reasonably well.

The island unit was divided into sixty districts, each with a voluntary chairman and voluntary workers under captains.

During the two intensive War Savings drives, house-to-house canvasses were made in certain areas. It is felt that these canvasses may not have been worth the effort expended, as 85% of the people called on were working and had been solicited at their places of employment.

During the drive last fall, the Montreal office devised a Family War Savings Record, an English and a French copy of which are appended.

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Each of these small booklets has pockets for five stamp albums, with publicity and descriptive material on the other pages. The cover is attractively designed on heavy paper. The size of the stamp album pockets is such that they may be used for keeping War Savings Certificates.

In the house-to-house canvass, one of these record books was given to each person who bought four or more stamps. A canvasser who sold four stamps to a person would then paste one stamp in each of four albums, to give the purchaser an incentive to fill at least four albums. These record books cost the committee about seven cents each, and the committee member who described this plan was not sure that the results justified the expenditure of time and money. But since the purpose was to encourage systematic saving, rather than to sell immediately a large volume of stamps, the results are difficult to measure.

As part of the school stamp program, cards were given to each class, each bearing the word VICTORY in large letters. A star was pasted along one of the letters for every stamp sold, until the letters were covered. Then a new card would be started. The cards of each class were fastened to its classroom door, except during the weekly assembly period, when a member of the class would carry them in on a standard. This was said to be successful in developing a spirit of rivalry among the different classes in the schools.

Appended is a French and an English copy of the April, 1942 War Savings School Bulletin, copies of which have been distributed to the various Montreal schools at irregular intervals by the district chairmen, for the purpose of creating interest in stamp and certificate sales among school children and their parents. But these papers will be read only if they are "newsy", and the Montreal publicity chairman says that proper machinery to collect school news has not been set



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up in that city. He is dubious about the value of the school bulletin in its present form.

Throughout the Dominion, the stamp albums can be folded into envelopes addressed to the War Savings Committee in Ottawa, requiring no postage, and may be mailed directly to Ottawa in exchange for certificates, if this is more convenient than presenting them at a bank or post-office. Appended is one of these albums, together with the proof of an adaptation of the same in French, prepared in Montreal for the French Canadians.

The retail stores program in Montreal has been handled entirely by the Provincial War Savings office in that city. This program has been confined to the five large department stores, where special booths for the sale of stamps and certificates have been installed.

The program for selling certificates to employees, largely on the payroll deduction plan, in Montreal has also been operated through the Quebec Provincial office in Montreal. Mr. Bond, an official of the Aluminum Company of Canada, who is in charge of the employees' plan in Montreal, devised an interesting plan to obtain salesmen for the installation and servicing of payroll deductions in the city. He first wrote letters to a large number of firms in the city, after a telephone call to each, asking each company to loan one or more salesmen to the War Savings Committee for two full days each month to canvass and service firms on the payroll deduction plan. He asked for only high calibre bilingual salesmen, and he tried to obtain only those working on a straight salary rather than on a commission basis. This was because the work for the committee was on an unpaid, voluntary basis, and he wanted men who would not suffer financially because of their participation.

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When a company agreed and furnished the names of salesmen it would provide, Mr. Bond wrote a letter of appreciation to the company, and a letter to the salesmen confirming their appointment, and telling them they would be called shortly for attendance at instructional meetings for two consecutive days which would constitute their first month's contribution.

The services of about 100 salesmen were secured in this way. Their functions were (1) to introduce the payroll deduction plan for the purchase of certificates in those firms not participating, and (2) to service and improve such plans already in operation. Each salesman was given about twenty companies in the same area, and he worked on the same group of companies each month, under the direction of a supervisor on the permanent War Savings staff, bringing in reports each month at the end of his second day.

Every month, two or three days before the appointed days, each salesman was sent a reminder that he was expected to work on the days agreed upon.

The only weakness which developed was a rather heavy turnover of salesmen, so that almost constant instructional work was necessary to break in new salesmen. This plan was dropped at the time of the theoretical merging of the War Savings Committee and the Victory Loan Committee at the end of 1941, but it may be reintroduced when the merger has actually been consummated.

During the last War Savings intensive campaign in Montreal, a parade with 155 floats was witnessed by about 250,000 persons. Also the usual newspaper, radio and billboard advertising was used.

War Savings objectives have sometimes been stated in terms of war weapons, as in the city of Montreal where the goal last year was two



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corvettes, costing about \$600,000 each, per month. But this was not found to be particularly effective. It is explained that it would be more effective if it could be tied in with something concrete, like the local launching of two corvettes each month.

In the agricultural districts on the island the stating of goals in terms of weapons has failed to arouse interest. According to Mr. Gingras, the equipment or weapons, such as a machine gun or "blitz buggy" does not strike the residents as being important enough for all the trouble it takes to raise the money. In the case of a small community with a goal of a 500 pound bomb per month, one resident said, "We all save our money for a whole month to buy one bomb and then--Boom!--it is gone".

The idea was used in savings stamp publicity, as in a poster picturing five soldiers on a battlefield firing rifles, and bearing the words "Five shots for 25 cents".

#### The Victory Loan Campaign

The Victory Loan campaigns in Montreal were organized and directed almost entirely by investment bankers, on the same basis and through the same machinery, as in other Canadian communities discussed in previous reports.

I was told that the commissions paid to salesmen in the general canvass aroused very little resentment. But in industrial plants, the question "Are any commissions being paid?" was invariably asked, by both labor and management. Of course no commissions were paid on bond sales in plants with 50 or more employees, where the canvassing was carried on entirely by workers on a voluntary basis.

In the farming areas around Montreal, the paid solicitors in the house-to-house canvass were generally local people, including a few

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retired farmers, who commonly turned their commissions over to the Red Cross or some such agency. In Montreal, all kinds of salesmen were hired, including a substantial number of life insurance agents.

Mr. B. W. Turnbull, who was public relations chairman in both Montreal Victory Loan campaigns, has had experience in both the advertising and security business. He is of the opinion that this is the best possible background for such publicity work.

He pointed out that the goal of all publicity is to close the sale at the time in the minds of spectators. He believes that often this goal is lost sight of in staging entertainments and various kinds of promotional stunts. Mere entertainment is not sufficient. The show itself is only bait. Care should be taken to ensure that the hook is beneath the bait. The one important question with respect to all publicity is—does it sell bonds?

For example, early in the first Montreal Victory Loan drive, a Victory Loan sports show was staged, witnessed by 12,000 people. It was an excellent show, but there was little mention of Victory Bonds, therefore its publicity value was negligible. Turnbull suggests that during this show a blackout might have been featured, with an announcer stating that "Tonight London is blacked out, as we are. But Londoners are the victims of a vicious Nazi air raid, while we have been sitting in safety and comfort. Our families and homes seem to be in no immediate danger. But if we are to keep the invaders from our shores, if the enemy is to be defeated before he reaches Canada, each one of us must support the Government in its all-out war effort. Each of us must make sacrifices to preserve our liberty. What a small thing it is to ask us to lend money for the support of our armed forces. A Victory Loan drive is now in progress, and at least a billion dollars must be raised. Buy Victory Bonds. Lend the Government more than you can conveniently spare—so that the next blackout may not be a real



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blackout, with you and your family numbered among the victims." Such a spectacular appeal, he believes, would have closed the sale—mentally—for most of those present.

One of the most effective means of publicity in Montreal was furnished by three sound trucks, with records playing martial music, recorded five-minute speeches, and announcers. These trucks drove through the streets, very slowly so that a complete speech could usually be heard by listeners.

In the country districts the sound films sent from Ottawa proved to be the best drawing cards. About fifty showings were given in Montreal also, but in the city these were no novelty and did not attract large crowds. Turnbull suggests posters similar to regular commercial movie posters to advertise the Victory Loan war and propaganda pictures. He believes also that complete movie shows, with full-length features carrying Victory Loan propaganda themes, should be produced for free showing at regular movie houses.

This publicity chairman believes that parades, with bands, soldiers and floats, are good promotional stunts. But he believes that the expense would not be justified except for the additional newspaper publicity which is obtained.

Talking posters were used with good results in Montreal. On a number of special billboards were shown a lifesize picture of a soldier. Sound equipment, with records, was placed behind each billboard, so that at intervals the soldier seemed to be speaking. Slogans such as "To do the job we must have more guns and planes" and "Remember the boys in Hongkong" were played on the records.

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Eighty records with three or four minute Victory Loan messages were made in Montreal to be used in places of entertainment such as skating rinks in small towns. But Turnbull is dubious about their effectiveness when people are out for a good time. The records were used also at various meetings and gatherings, and often were more effective than local speakers. At any rate, this was an inexpensive form of publicity, since the records cost only about a dollar each.

The radio was used for short speeches and for plays carrying a Victory Loan message, the scripts being prepared locally. Brief educational radio programs, describing the investment features of Victory Bonds, were favorably received. A Victory Loan Ski Meet was held during the February drive. Its chief value was the securing of Victory Loan publicity in the sports pages of newspapers.

Mr. Turnbull stressed the idea that posters should have action pictures with dramatic emphasis rather than still life.

In Montreal newspaper essay contests aroused a good deal of interest.

Appended are English and French copies of "Tale of a Sale", sent to all committee members and canvassers before the opening of the June, 1941 Victory Loan drive in Montreal, indicating the various forms of publicity used to prepare the public for a favorable reaction to the campaign.

Also appended is an article "Victory Loan Local Publicity", with criticisms and suggestions, written by a man who has been active in public relations work in the two Victory Loan campaigns in Montreal.

May 25, 1942.



The Check Deduction Plan for the Sale  
of War Savings Certificates to Dairy Farmers  
in Quebec.

In the Province of Quebec 80% of the farmers sell milk to the dairies or butter and cheese factories. They receive payment by check once a month, or in some cases two or three times per month. In this Province, around the cities of Montreal, Quebec and Sherbrooke, a system of pay check deductions for the purchase of War Savings Certificates by dairy farmers has been in operation since last fall. It has been reasonably successful, but it is considered here that the plan has not yet been given a fair trial, since it has not been in operation during the summer months when milk sales reach their peak. Nearly all of the butter and cheese is manufactured in the late spring, summer and early autumn, and most of the butter and cheese plants are closed during the winter months. At the present time about 20 creameries in Montreal are in the plan, making regular deductions from farmers' checks for certificate purchases.

The plan was introduced by Mr. Napoleon Charest, president of J. J. Joubert Ltd., a dairy company in Montreal (subsidiary of Borden's) which buys milk from farmers in an area fifty miles wide around the city.

In describing the plan to me, Mr. Charest pointed out that Quebec is divided into parishes, and that in each parish there is at least one creamery (called here milk, butter and cheese factory). The creamery owner or manager is in a better position to know the farmers, being in almost daily contact with them, than anyone else in the community. He is acquainted with the farmers, usually on a friendly basis, and knows a good deal about the financial situation of each of them.

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Mr. Charest pointed out also that the farmers can buy certificates only when they have money. They have money when they sell their products. An arrangement to deduct a certain sum from each check received by them would assure their regular purchase of certificates.

So Mr. Charest, as head of the Joubert Company (He was at the time also War Savings President for the Province) tried an experiment. He addressed a letter to each farmer who shipped milk and cream to his company, saying something to this effect: "Our country is at war. Our Government is asking every citizen to do his duty, in part by lending money to his Government. Canada asks her sons and daughters to lend to the utmost of their ability . . . This is a time of sacrifice for every loyal Canadian who loves his country. Will you do your part." Then the letter asked the farmer to authorize the Joubert Company to deduct something from each pay check for the purchase of War Savings Certificates.

Very few farmers failed to respond favorably to this appeal. Mr. Charest then called a meeting of representatives of all milk distributors and creameries in Montreal, told them of his experiment and the favorable responses received. As a result most of the creameries came into the scheme. Some of them thought the plan was not feasible, but, as expressed by Mr. Charest, it was necessary to "put into their hearts the patriotic spirit".

The Provincial War Savings Committee, headed by Mr. Charest, then developed a program to get all possible agencies interested in the plan. They wrote to all the creameries in and near Montreal and Quebec asking them to cooperate, and sent them materials which they would need, such as explanatory folders and authorization cards. Local War Savings Committees were asked to push the plan.



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The Committee went also to the Quebec agricultural department, which has agronomists all over the Province. The department wrote letters to the agronomists, urging them to talk about the plan and urge its adoption by creameries and farmers. The same appeal was made to the Provincial dairy inspectors. Because of the great influence of the church in Quebec, letters were written to the clergy explaining the plan and urging their support. Similar letters were addressed to members of the Cercle des Fermieres, a rural women's organization. Letters were written also to editors of farm papers and papers with many farm readers, asking them for publicity in their columns. The Committee borrowed from the Provincial Agricultural Department a man who was accustomed to talking to farmers, and he spent several days a week preparing publicity material.

The plan is now in operation in a relatively small number of creameries (about 20 in and near Montreal which remit about \$6,000 per month for certificates). The real test of the plan will come during the summer months when milk production reaches its peak and when the butter and cheese plants are all in operation.

Mr. Gerard Gingras, Executive Secretary of the Provincial War Finance Committee in Montreal made the point that "The farmer takes a lot of selling, but once he is sold he will do well". Mr. Gingras thinks that the dairy plan has real possibilities. He told me that a similar plan is in operation, to a limited extent, in one of the western provinces, through the agency of grain elevator companies.

Mr. Charest warned that the word "contribution" should not be used. He always makes it clear to farmers that they are lending to the government, and that the money will be returned to them—more than they have lent—after the war. He appeals to the farmers' pride by

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telling them that the repayment of the loan will be a business stabilizer, that "again we can say the farmer is stabilizing the country". He points out to them also that high farm prices cannot continue after the war, and that then they will need the money which the Government returns to them.

Mr. Charest did not suggest to each farmer the amount to be deducted from his check. He asked him to subscribe to the limit of his ability, at least \$4.00 (for a \$5.00 certificate) per month and not more than \$40.00.

The Joubert Company in February, the poorest month of the year, sent to Ottawa \$1,272 deducted from the checks of 229 shippers. The Guaranteed Pure Milk Company, another Montreal Creamery which has had good results, remitted \$1,388 from 245 farmers.

The Guaranteed Pure Milk Company, which receives all its milk in eight gallon cans, makes deductions on the basis of five cents or more per can. At present prices eight gallons of milk with average butterfat content brings the farmer \$1.86.

Mr. Charest believes that the most logical deduction basis would be according to the butterfat content and he plans to change to that basis this summer.

It should be mentioned that where milk is picked up by company trucks, the truck drivers carried deduction authorization cards and assisted in selling the plan to farmers on their route.

Appended are letters and publicity and other material sent out by the Provincial War Savings Committee in Montreal. Those written in English are self-explanatory. Those in French are numbered and consist of the following:



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1. Letters, publicity material and forms sent to milk establishments.
2. Communications sent to newspapers.
3. Letters sent to agronomists and inspectors by the War Savings Committee and by their superiors.
4. Communication, with attachments sent to local War Savings Committees in rural areas.
5. Letter to the U. C. C. - Catholic Union of Farmers.
6. Letter to county prefects on the occasion of the quarterly meeting of mayors.
7. Letter to presidents of the Cercle de Fermieres, a rural women's organization.
8. Letter to the clergy.

May 23, 1942.

The War Savings and Victory Loan  
Campaigns in the plants of Canadian  
Industries, Ltd. and Defense Industries, Ltd.

Defense Industries, Ltd. and Canadian Industries, Ltd. are the large Dupont companies of Canada. About 40,000 workmen are employed in the Defense Industries munitions plants in various parts of Canada, and Canadian Industries employs 7,000 to 10,000 workers in the manufacture of chemicals, fertilizers, cellophane, etc. The two companies operate 34 manufacturing plants.

About 5% of the payroll of these two companies is deducted for the purchase of War Savings Certificates. Sales of Victory Bonds to employees of this company during the February, 1942 campaign averaged \$170 per employee, including executives, and \$137 exclusive of executives. These are very high averages.

Mr. B. W. Keightley, Public Relations Director for Canadian Industries, has had an important part in the publicity work of both War Savings and Victory Loan Campaigns in Montreal, and has had charge of the payroll deduction plan for the purchase of War Savings Certificates and Victory Bonds by employees of Defense Industries and Canadian Industries in all of their plants.

Mr. Keightley made the following general observations during my conversation with him:

1. It is first necessary to "sell the war". Set up an intimate relationship between the individual and the war, and you have paved the way for the sale of certificates and bonds.
2. In Canada, there is a general tendency (a) for the Government to underestimate the patriotic response of the people, (b) for employers to underestimate the patriotic response of their workers, and (c) for the individual to underestimate what his own patriotic response will be.



- 2 -

As a result, certificate and bond sales quotas have always been too small. Mr. Keightley urges that sales quotas be set up which are a challenge to the people, instead of the conservative, safe quotas of the past.

3. In the past Victory Loan campaigns, publicity has been controlled by bond dealers. This, he feels, is a mistake because, in his opinion, although bond people may understand security underwriting and distribution, they do not understand the field of public relations.

4. Be honest with workers. Make it clear that the Government is not selling securities simply because it needs the money. If this were the only consideration, the Government could print money. But, with incomes going up, and the production of consumers' goods diminishing, it is necessary to decrease purchasing power. This was stressed both in meetings of canvassers and mass meetings of workers in Canadian and Defense Industries plants.

5. It is essential to make payroll deductions as simple as possible. To make monthly deductions on a weekly payroll causes unnecessary accounting complications. It also increases sales resistance, since each deduction is larger than it would be on a weekly basis.

6. If employees limit their purchases of certificates and bonds because they are afraid to have their employers know how much they are saving, it is because the employer has the wrong attitude toward his workers or has done a poor employee relations job. In such cases, the employer should consider the bond campaign a fine opportunity to improve his relations with employees by disabusing them of the idea that he will discriminate against them if they have substantial savings.

Both of these companies were approached and organized on a national basis for both the War Savings program and the Victory Loan campaigns.

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But the companies' head offices gave to each local management the responsibility of setting up local plant committees.

At each plant a permanent plant committee was set up to handle both War Savings and Victory Loans. The selection of the chairman was always left to the discretion of the local manager. The chairman in most cases was the Personnel Director or the Works Manager. Permanent committees for publicity and canvassing were also appointed. Then sub-committees for canvassing were set up under the chairmanship of department foremen.

All organizational work and canvassing was done on company time. No dislocation of business or loss of production was noted.

The canvassing of the plant was all done by employees' committees, and both Mr. Keightley and his assistant, Mr. Cooper, are convinced that this yields far better results than canvassing of workers by paid salesmen. Both believe, however, that it is preferable to have workers in a particular department canvassed by workers from other departments, because workers usually do not like to have the people working with them know about their personal business.

The presidents of the companies sent letters to each employee, explaining the campaign and asking his support and cooperation.

The Victory Loan Campaigns in most plants were accomplished by an intensive one-day "blitz", preceded by a mass meeting on company time.

In the Montreal plant each of 88 canvassers was given about 20 names to cover.

Appended is a copy of one of the bulletins sent out about once a month to all employees by the Canadian Industries—Defense Industries War Savings Committee.

May 26, 1942.



The War Savings Program for the  
Employees of the Metropolitan Life  
Insurance Company in Ottawa, Ontario

At the Canadian head office of the Metropolitan Life Insurance Company in Ottawa, about 940 persons are employed. All of these employees are signed up for the purchase of War Savings Certificates on the payroll deduction plan, the total deductions amounting to about  $4\frac{1}{2}\%$  of the payroll each month.

Before the introduction of the plan, a meeting of all employees was held to explain the program and request 100% participation. The management then went to the section heads and organized them to sell the plan to the employees in their respective departments.

Both Mr. W. D. McKewen, Personnel Director, and Mr. George Brady, another official of the company, emphasized the importance of:

1. Selling the idea first to the section heads.

2. Having the employees approached by other company employees.

Paid canvassers may sell more on a high pressure basis, but such sales will not continue. Victory Bonds sold by high-pressure salesmen are the bonds that were sold again by the initial purchasers. No one can do the job better than other employees, if you are interested in a continuous, permanent savings program.

3. Having the company organize the campaign so efficiently that employees have virtually nothing to do but sign the payroll deduction authorization card.

The head office in Ottawa also advances money to branch offices to buy War Savings stamps for sale to employees.

May 26, 1942.

Suggestions for the Payroll Deduction  
Plan of Selling War Savings Securities.

The following suggestions were made by Mr. B. L. Cassidy, Sales Manager for the Appliance Division of the Westinghouse Company of Canada, who was interviewed at his office in Montreal. Mr. Cassidy has been active in the Quebec Provincial War Savings and Victory Loan Committees, as well as in the organization of the payroll deduction plan in his own company.

1. The employees' plan must be approached from the point of view of labor's feeling of frustration due to higher wages and the scarcity of consumers' goods.

2. The crux of the payroll plan is the calibre of the men who make the initial contact with management. Many of these contact men have lacked the necessary resourcefulness. Too many have not had experience in reaching the heads of companies who constitute the directing force of industry.

The slavish compilation of lists of companies, boards of directors, and names of officers is not the answer. It is necessary to secure the type of man who has wide acquaintance with the actual heads of companies, who is a member of the same clubs, knows what their characteristics are, and how they may be expected to react. An amateur may be completely "stymied".

It is necessary to know (1) who is the real, not the titular, head of each company, and (2) what kind of man he is. This requires contact men who know the structures of local companies and the nature of business rivalries, and who are pretty close to the actual directing heads of the various companies.



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If you first approach the titular executive you will embarrass him and antagonize the man who is actually head of the concern.

The first premise, therefore, is that maximum results will not be achieved unless you first sell the idea to the active head of the business. Explain to him that the thing is so important, with ramifications so vast, that you must have his blessing and active support. Tell him that you are after a certain percentage of his payroll. Explain to him that this is definitely a good employee relations effort on his part, that it will bring the employees closer to the company, due to the singleness of purpose that results from management and labor working together on such an important matter.

3. You cannot afford to "pull your punches" in talking with employers. The management wants to know definitely what the objective is. State bluntly the percentage of payroll it is necessary to obtain.

4. Too many people approach the sale of war securities from the "campaign angle", thinking in terms of contributions to charities, the Red Cross, etc. Remember that you are selling something valuable, and that a lending process is involved, not a contribution.

5. Canada has made the mistake of making it necessary to sell \$50 and \$100 bonds every six or eight months. Admittedly it is necessary to sell the bonds, and workers cannot be kept at campaign pitch continuously. But the great advantage of certificate sales through the payroll deduction plan is that money comes in continuously with only supervisory efforts. No reselling is necessary, since workers sign up for the duration of the war.

6. Approach the management with a definite plan that fits their type of thinking, not just a vague appeal for funds. In Canada, as in the United States, too many employers are ready to hold the Government up to ridicule. This can be circumvented, and the respect of employers gained, by approaching them with a definite program.

- 3 -

The analysis approach usually appeals to management. This approach can be used by taking advantage of the system whereby workers sign for regular payroll deductions. By personal conversations with those who seek to reduce or cancel their pledges, and by careful study of the payroll and the size of deductions, the employees can be divided into four groups--(1) non-subscribers who cannot afford to purchase for legitimate reasons, (2) those who are saving and buying certificates up to the full limit of their ability, (3) non-subscribers who could afford purchases without undue sacrifice, and (4) those who are not buying up to the limit of their ability.

Such an analysis tells you at once that you should concentrate exclusively on the last two groups in both War Savings and Victory Loan campaigns. The goal should be to shift as many as possible into the second group. Such an intensive campaign will yield much better results in terms of money and energy expended than a drive in all directions. It makes it clear that there is no point in a great "ballyhoo" drive with mass meetings and promotional stunts every six months or so.

Furthermore, such an analysis enables you to approach employers with a plan which will more readily gain their respect and cooperation. You are in a position to furnish the management with a list of employees to concentrate on, based on present subscriptions in relation to ability to purchase. It will appeal especially to those in the Comptroller and Accounting Divisions. You cannot gain these people's support by means of "ballyhoo". But probably you can enlist their cooperation by telling them that you have a definite plan of operation, and that your desire is to inconvenience them just as little as possible.



- 3 -

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- 4 -

7. All canvassing of employees should be carried on during working hours, on company time. This gets better results, and the Westinghouse Company found that it caused no loss in production.

8. For plants where labor is organized, it is well to persuade a trade union official to approach the management and offer his assistance in conducting the campaign. If done tactfully this helps to gain the support of union members, and serves to improve relations between management and labor. This was tried and found effective in a number of cases in Montreal.

9. Explain to the management that there are two points of view with respect to employee canvassers--(1) that they should be foremen, (2) that they should be ordinary workers not in a supervisory position—and ask the management to use the plan or combination of plans which seems preferable to them. In the Westinghouse plant, little attention was paid to workers' positions in choosing the canvassers. An attempt was made to select workers who were persuasive, tactful, and widely respected. Some of those chosen were foremen and supervisors and some were not.

May 26, 1942.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE May 27, 1942.

TO Secretary Morgenthau  
FROM Mr. Haas

In accordance with your request of yesterday, there is attached a tabulation of the prices of the 8 uncontrolled basic commodities included in the B.L.S. basic commodity index, and also a price chart for each of the 8 commodities.

Prices of 8 uncontrolled basic commodities  
Weekly September 1941 to date  
(Cents per unit)

| Date    | Wheat<br>bu. | Flax-<br>seed<br>bu. | Barley<br>bu. | Corn<br>bu. | Butter<br>lb. | Hogs<br>lb. | Steers<br>lb. | Cotton<br>lb. |
|---------|--------------|----------------------|---------------|-------------|---------------|-------------|---------------|---------------|
| 1941    |              |                      |               |             |               |             |               |               |
| Sept. 5 | 114.5        | 194.5                | 60.5          | 75.8        | 36.5          | 11.975      | 11.750        | 17.2          |
| 12      | 116.4        | 205.3                | 70.5          | 75.6        | 36.8          | 12.075      | 11.375        | 17.7          |
| 19      | 112.8        | 196.5                | 69.0          | 74.4        | 36.0          | 11.875      | 11.500        | 17.1          |
| 26      | 113.5        | 199.8                | 70.0          | 73.7        | 37.0          | 11.375      | 11.500        | 16.4          |
| Oct. 3  | 114.6        | 194.5                | 69.0          | 72.1        | 37.0          | 11.150      | 11.625        | 17.0          |
| 10      | 113.1        | 183.5                | 65.0          | 69.6        | 34.5          | 11.025      | 11.500        | 16.8          |
| 17      | 103.9        | 173.5                | 66.0          | 68.4        | 33.5          | 10.125      | 11.375        | 16.2          |
| 24      | 114.1        | 174.8                | 66.5          | 72.8        | 34.3          | 10.375      | 11.250        | 16.4          |
| 31      | 112.1        | 180.0                | 69.0          | 74.3        | 35.0          | 10.475      | 11.500        | 16.2          |
| Nov. 7  | 114.5        | 181.5                | 76.0          | 76.1        | 36.5          | 10.425      | 11.500        | 16.4          |
| 14      | 113.1        | 180.0                | 75.0          | 72.7        | 37.0          | 10.175      | 11.250        | 16.4          |
| 21      | 113.0        | 183.0                | 77.0          | 71.3        | 35.0          | 10.350      | 11.750        | 16.4          |
| 28      | 112.8        | 183.0                | 77.0          | 70.1        | 34.5          | 10.025      | 11.750        | 16.6          |
| Dec. 5  | 115.9        | 184.5                | 77.0          | 72.9        | 34.3          | 10.125      | 12.250        | 17.4          |
| 12      | 122.6        | 205.5                | 80.5          | 77.1        | 35.0          | 11.175      | 12.625        | 17.2          |
| 19      | 119.4        | 199.0                | 82.0          | 78.3        | 34.3          | 11.025      | 12.500        | 17.3          |
| 26      | 119.6        | 201.8                | 81.0          | 77.0        | 34.0          | 11.475      | 13.100        | 17.4          |
| 1942    |              |                      |               |             |               |             |               |               |
| Jan. 2  | 121.5        | 210.5                | 83.0          | 79.6        | 34.5          | 11.375      | 12.875        | 18.2          |
| 9       | 123.0        | 211.5                | 85.5          | 81.3        | 35.3          | 11.525      | 12.875        | 18.4          |
| 16      | 124.6        | 222.0                | 85.5          | 80.4        | 35.8          | 11.475      | 12.875        | 18.8          |
| 23      | 125.8        | 225.5                | 85.0          | 83.8        | 35.0          | 11.625      | 12.500        | 19.7          |
| 30      | 123.6        | 227.3                | 85.5          | 83.3        | 35.3          | 12.000      | 12.625        | 19.7          |
| Feb. 6  | 121.1        | 233.0                | 85.5          | 81.6        | 34.8          | 12.525      | 12.875        | 19.3          |
| 13      | 121.4        | 231.0                | 87.0          | 81.9        | 34.6          | 12.850      | 12.625        | 19.3          |
| 20      | 122.5        | 234.5                | 85.5          | 82.5        | 34.3          | 12.925      | 12.500        | 19.3          |
| 27      | 121.6        | 235.5                | 85.5          | 80.6        | 34.0          | 13.100      | 12.875        | 19.4          |
| Mar. 6  | 121.5        | 245.5                | 85.0          | 81.3        | 34.0          | 13.375      | 13.250        | 19.3          |
| 13      | 121.9        | 257.8                | 85.0          | 82.3        | 34.3          | 13.425      | 13.000        | 19.3          |
| 20      | 118.0        | 272.0                | 84.0          | 82.0        | 34.3          | 13.500      | 13.250        | 19.4          |
| 27      | 117.4        | 270.5                | 83.5          | 82.0        | 34.3          | 13.650      | 13.625        | 20.1          |
| Apr. 2  | 117.6        | 272.0                | 83.0          | 82.3        | 36.0          | 13.850      | 13.875        | 20.3          |
| 10      | 114.3        | 261.5                | 85.0          | 82.8        | 36.5          | 14.400      | 13.875        | 20.5          |
| 17      | 111.5        | 256.5                | 85.5          | 82.5        | 37.3          | 14.150      | 14.250        | 20.2          |
| 24      | 112.5        | 254.5                | 85.5          | 82.5        | 37.8          | 14.375      | 14.125        | 20.1          |
| May 1   | 113.9        | 252.0                | 87.0          | 83.1        | 38.8          | 14.025      | 13.750        | 20.1          |
| 8       | 116.9        | 257.8                | 87.5          | 86.0        | 38.0          | 14.000      | 13.750        | 20.3          |
| 15      | 114.1        | 260.0                | 89.5          | 85.6        | 37.3          | 14.150      | 14.000        | 20.2          |
| 22      | 111.5        | 255.0                | 92.0          | 85.1        | 36.8          | 14.275      | 14.000        | 19.8          |
| 29      | 112.0        | 256.0                | 92.0          | 86.8        | 36.5          | 14.425      | 13.750        | 19.6          |

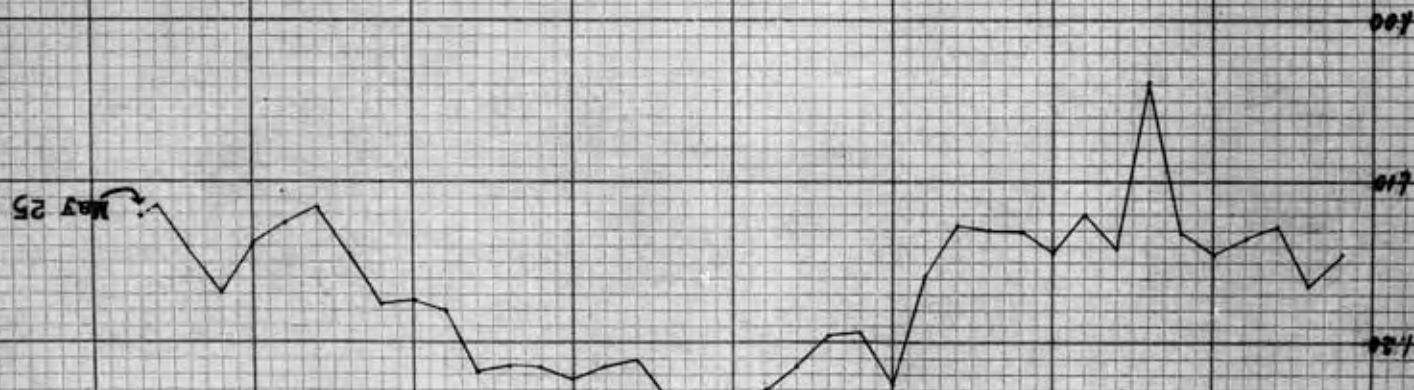
## Percent increase

|          |      |      |      |      |     |      |      |      |
|----------|------|------|------|------|-----|------|------|------|
| Dec. 5   |      |      |      |      |     |      |      |      |
| - May 25 | -3.4 | 38.8 | 19.5 | 19.1 | 6.4 | 42.5 | 12.2 | 12.6 |
| Jan. 30  |      |      |      |      |     |      |      |      |
| - May 25 | -9.4 | 12.6 | 7.6  | 4.2  | 3.4 | 20.2 | 8.9  | -0.5 |



Dollars per bushel

Wheat, #2 hard winter, Kansas City

Sept.  
1941

Oct.

Nov.

Dec.

Jan.  
1942

Feb.

Mar.

Apr.

May

Flexseed, #1, Minneapolis

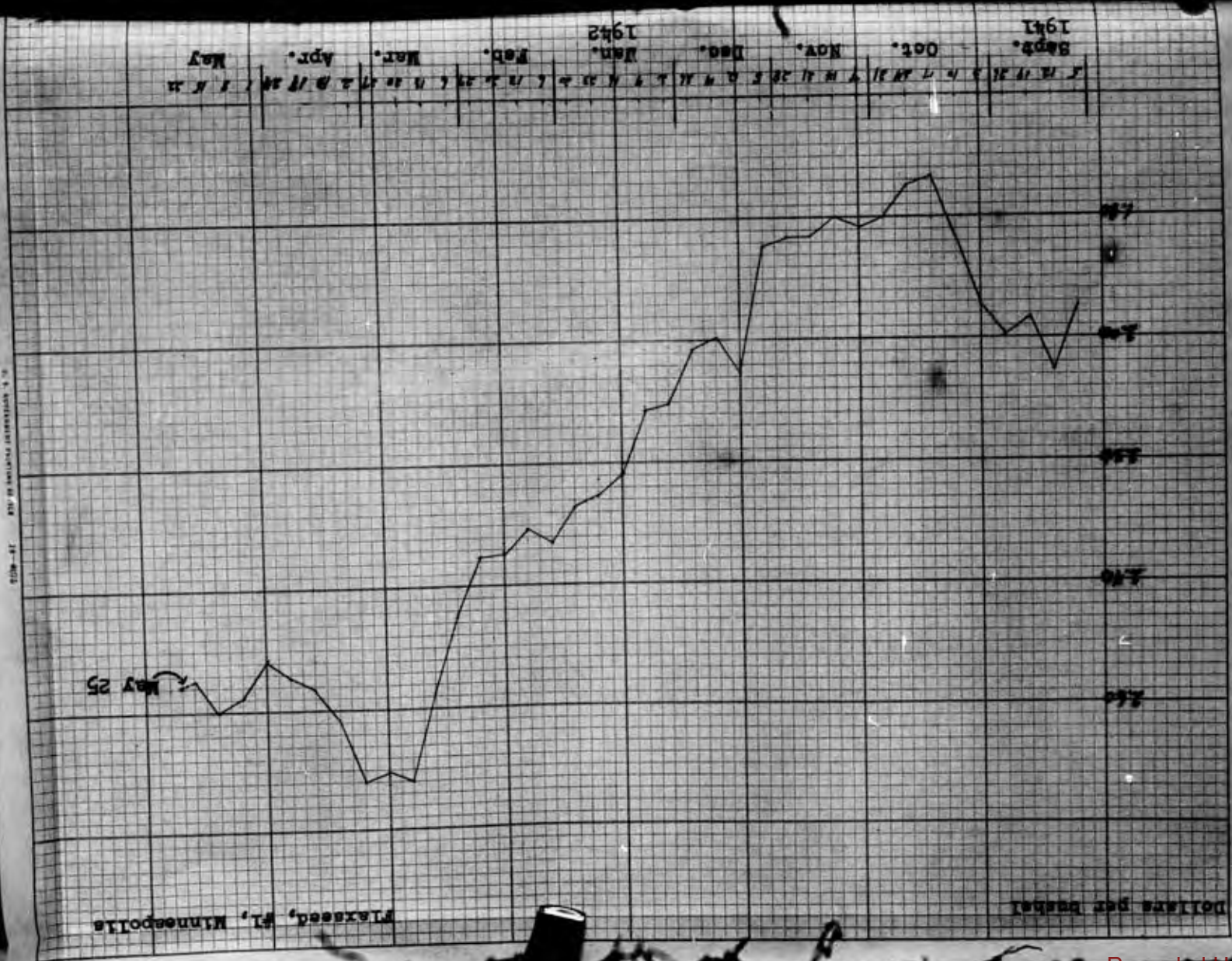
Dollars per bushel

May 25

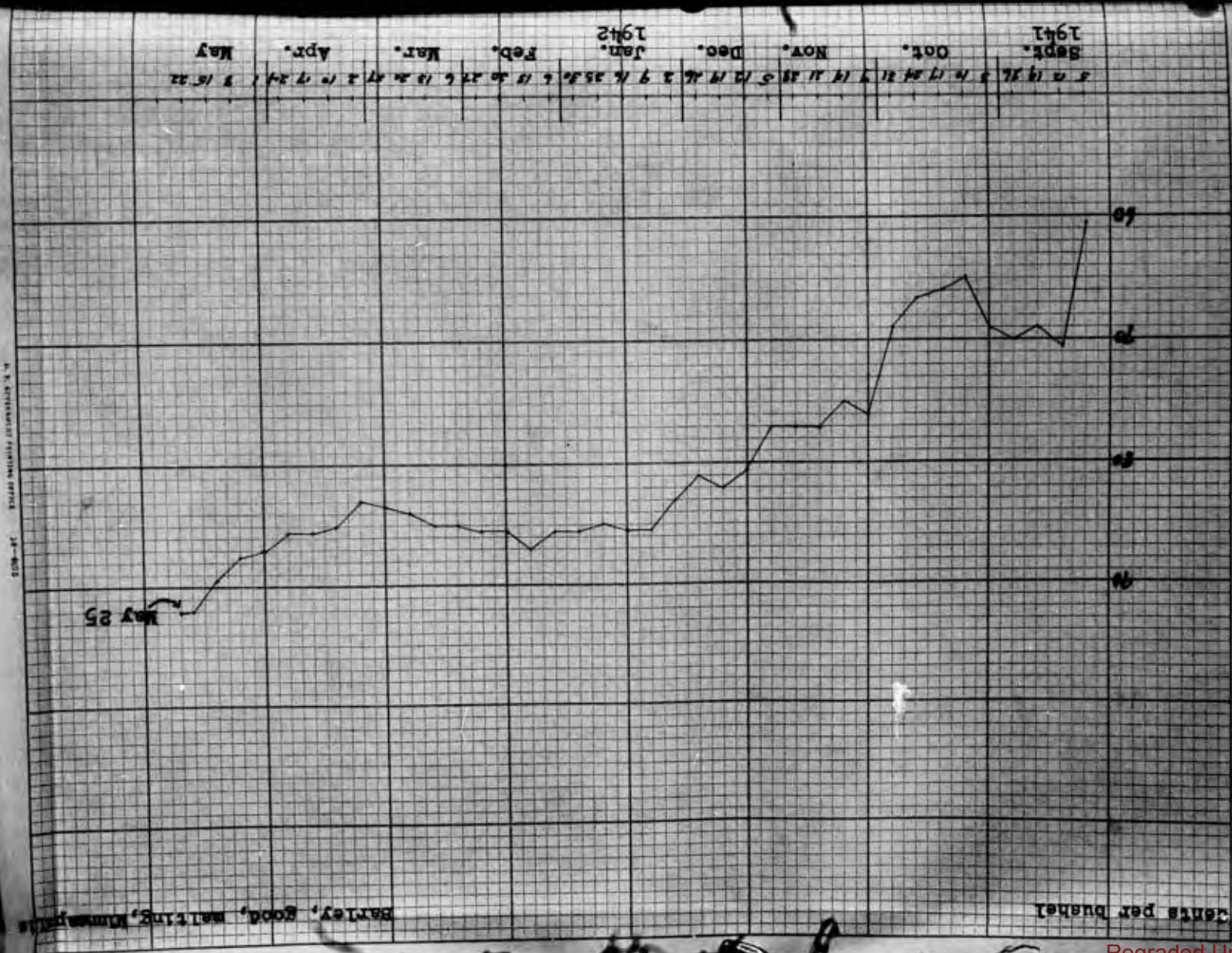
U. S. GOVERNMENT PRINTING OFFICE 16-4072

Sept. 1941  
 Oct.  
 Nov.  
 Dec.  
 Jan. 1942  
 Feb.  
 Mar.  
 Apr.  
 May

2.40  
 2.60  
 2.80  
 3.00  
 3.20  
 3.40  
 3.60  
 3.80  
 4.00









Cents per bushel

Corn, #5 yellow, Chicago





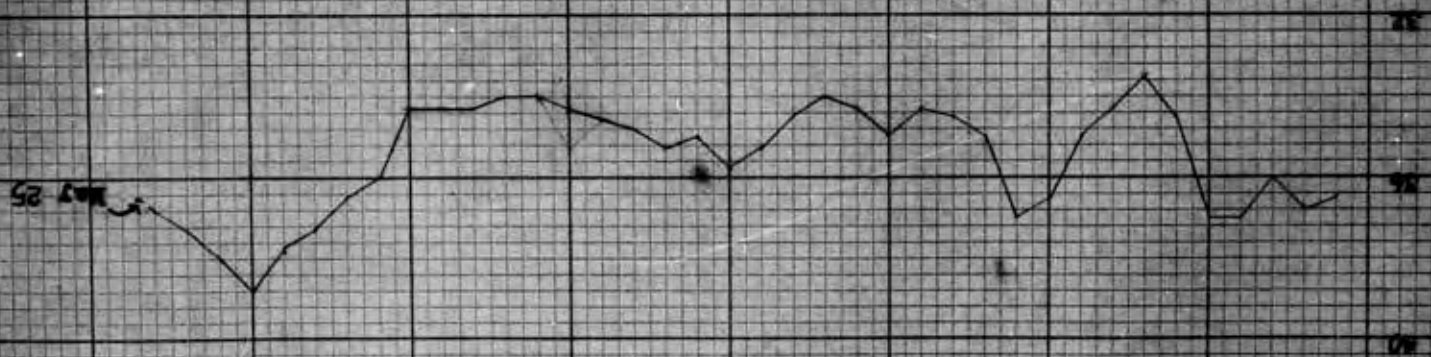
Grains per pound

WHEAT, EXTRA, 92 BUCKS, CHICAGO

U. S. GOVERNMENT PRINTING OFFICE 16-6078

May 25

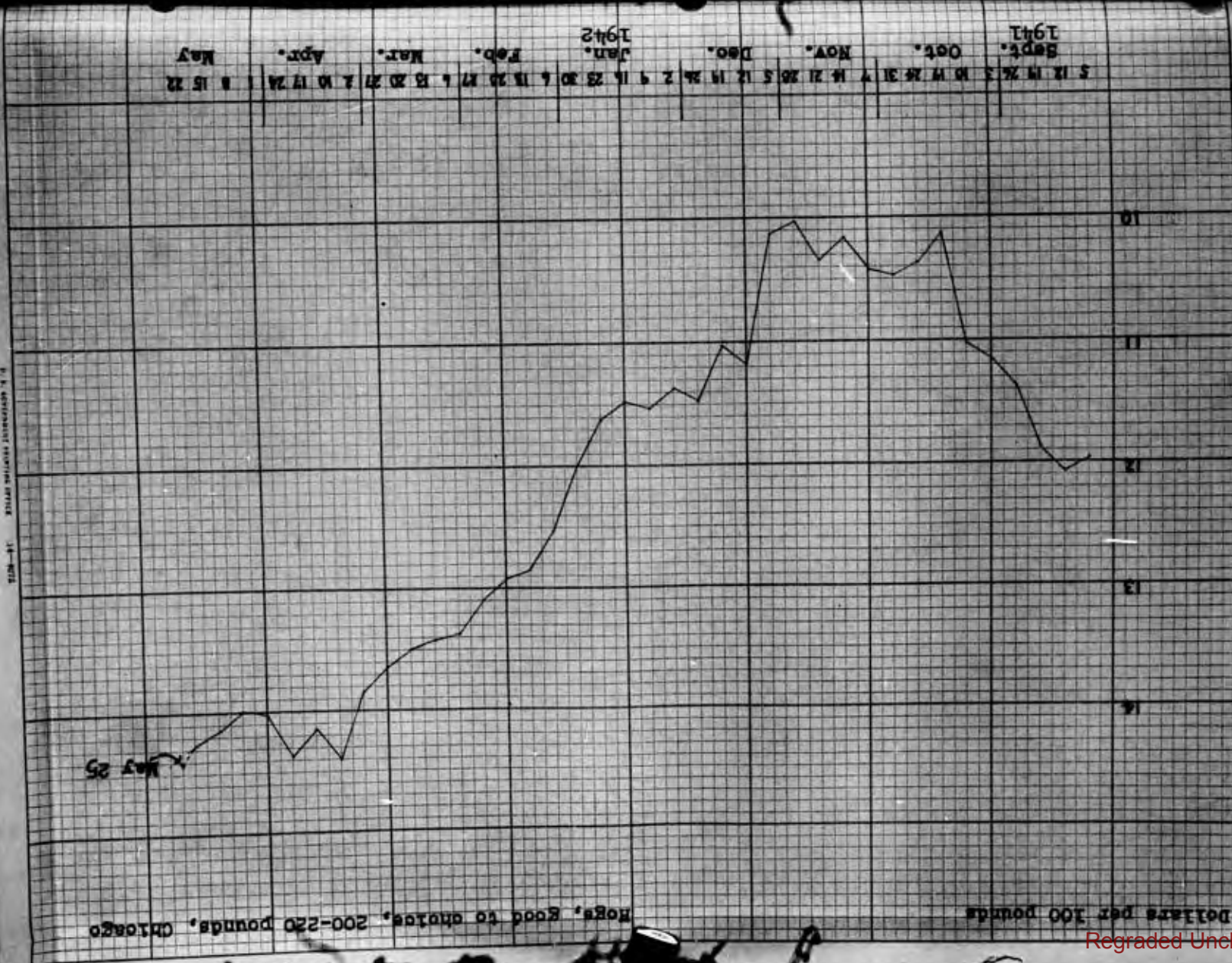
Sept. 1941  
 Oct. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31  
 Nov. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30  
 Dec. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31  
 Jan. 1942 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31  
 Feb. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29  
 Mar. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31  
 Apr. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30  
 May 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31





Hogs, Good to choice, 200-250 pounds, Chicago

Dollars per 100 pounds

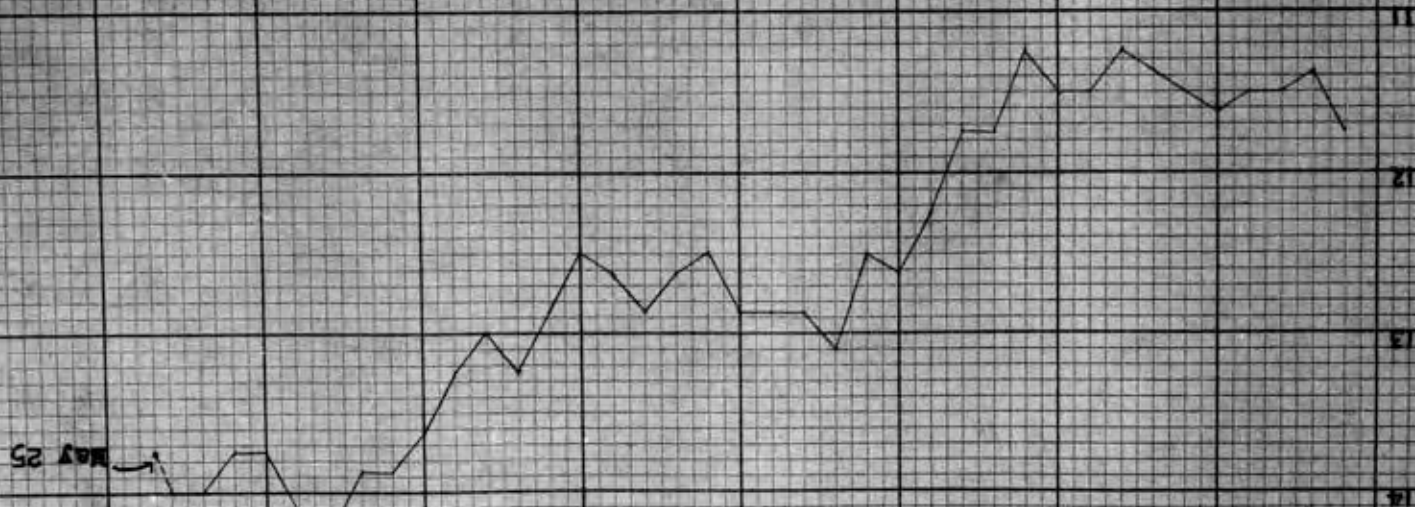


Regraded Unclassified



Dollars per 100 pounds

STEAKS, Beef, 900-1,100 pounds, Chicago





Count per pound

Regraded Unclassified

348

Sept. 1941  
Oct.  
Nov.  
Dec.  
Jan. 1942  
Feb.  
Mar.  
Apr.  
May

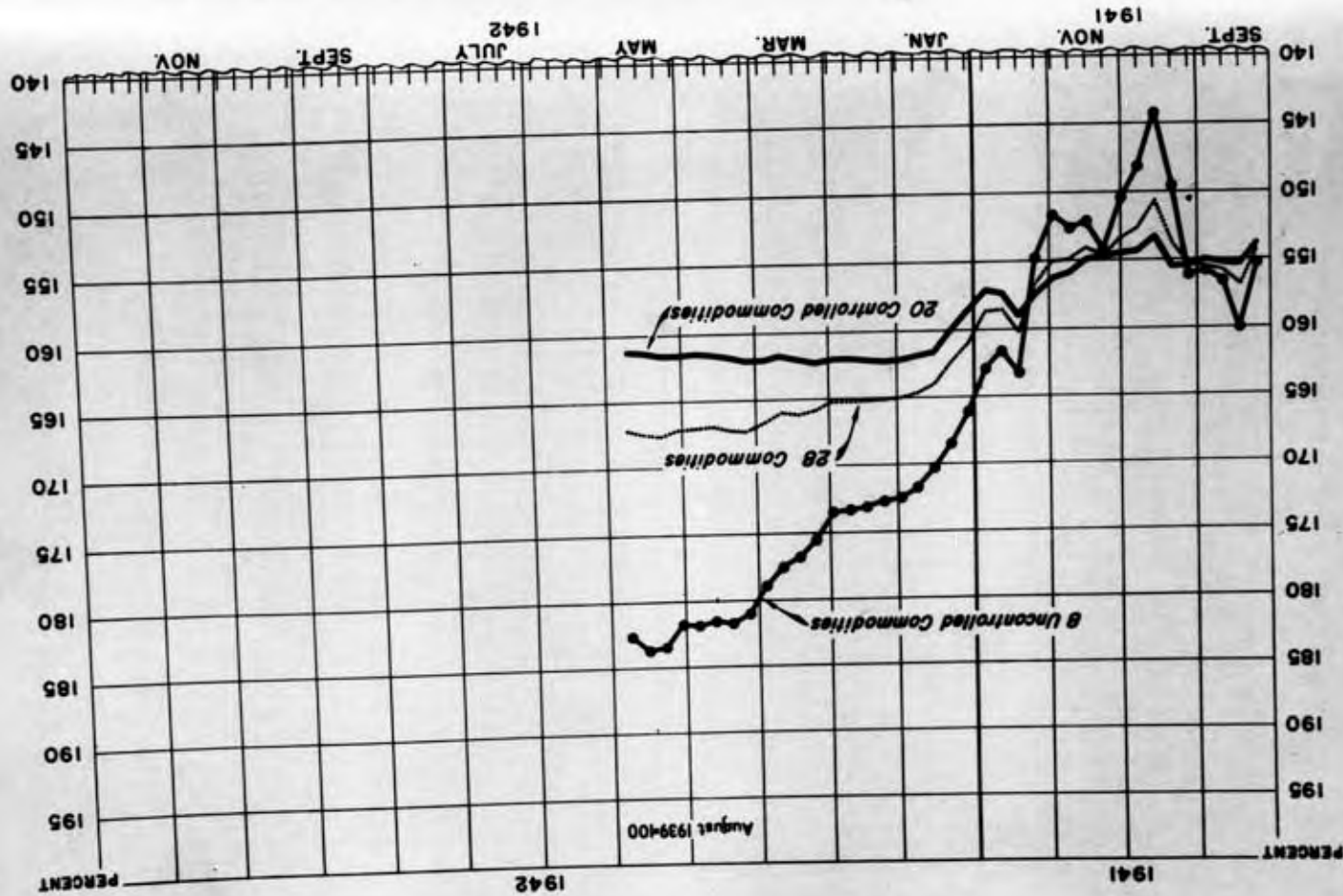
May 25

U. S. GOVERNMENT PRINTING OFFICE 16-50718

Cotton, middling 15/16 staple, Va. to spot market



# WHOLESALE PRICES OF 28 BASIC COMMODITIES Controlled and Uncontrolled Components





OFFICE OF THE CHIEF  
U. S. SECRET SERVICE

# TREASURY DEPARTMENT

WASHINGTON, D. C.

May 27, 1942

Memorandum for Assistant Secretary Gaston

From: Chief, U. S. Secret Service

Several months ago a survey was made by Supervising Agent Reilly at the Bureau of Engraving and Printing Building to determine if it could be used as a possible permanent entraining and detraining point for the President and as a storage space for the President's private Pullman car, and it was found suitable for that purpose. Due to the lack of available funds, it was necessary to hold the plan in abeyance. On May 16, 1942, I was advised by Mr. C. W. Barber of the Federal Works Agency that the Agency now has sufficient funds to start the project.

A conference was held in my office concerning this matter, with Supervising Agent Reilly, Mr. C. W. Barber, and Messrs. Earl Comer and Harry Karr of the Pennsylvania Railroad. Upon conclusion of the conference another inspection was made of the proposed site and it was agreed by the Pennsylvania Railroad representatives that the plan was feasible. Mr. Barber was to report this matter to the Commissioner of the Federal Works Agency and obtain the necessary approval to start construction of the shelter for the Pullman car; and the Pennsylvania Railroad representatives were to draw plans for resetting the railroad track which enters the Bureau of Engraving and Printing Building. Subsequently I was advised by Mr. Barber that he had received the Commissioner's approval of the project. The Director of the Bureau of Engraving and Printing has approved this project.

When the project is completed (about two to three months) it will be possible for the President to leave the White House by the Southwest Gate, motor through the Mall to the entrance of the Bureau of Engraving and Printing Building tunnel, continue through the tunnel to the loading platform, and thereby be completely sheltered while entraining or detraining.

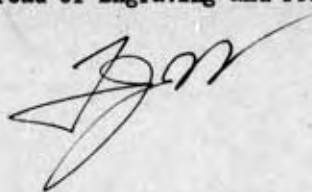
DEFENSE





- 2 -

Arrangements have been made with the United States Army Engineer Corps to construct a train level platform beside the Pennsylvania Railroad track at the Army Recreation Camp located between Lincoln Memorial Bridge and Arlington Cemetery. The work is now in progress and is expected to be completed within the next ten days. Upon completion the site will be used as an entraining point for the President until the Bureau of Engraving and Printing site is available.

A handwritten signature, possibly reading "J. M.", is written in dark ink. The signature is stylized with a large, sweeping initial letter.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE May 27, 1942

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: Export Freight Situation.

Lighterage freight in storage and on hand for unloading in New York harbor last week increased by 261 cars to 20,846 cars. (See Chart 1.) The amount of rail storage space occupied at the end of the week was 13,381 cars and there was additional storage space available for 5,878 cars.

Exports from New York declined by 487 cars to 6,391 cars. (See Chart 2, upper section.) However, receipts for export at New York (lower section of chart) increased slightly to 6,626 cars.

Receipts for export at 9 other North Atlantic ports showed a 38 percent increase last week, reaching 3,728 cars. This is the highest level for the month. Receipts for export at 6 Pacific ports, on the other hand, declined by 8 percent to 2,889 cars. (See Chart 2, lower section.)



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE May 27, 1942

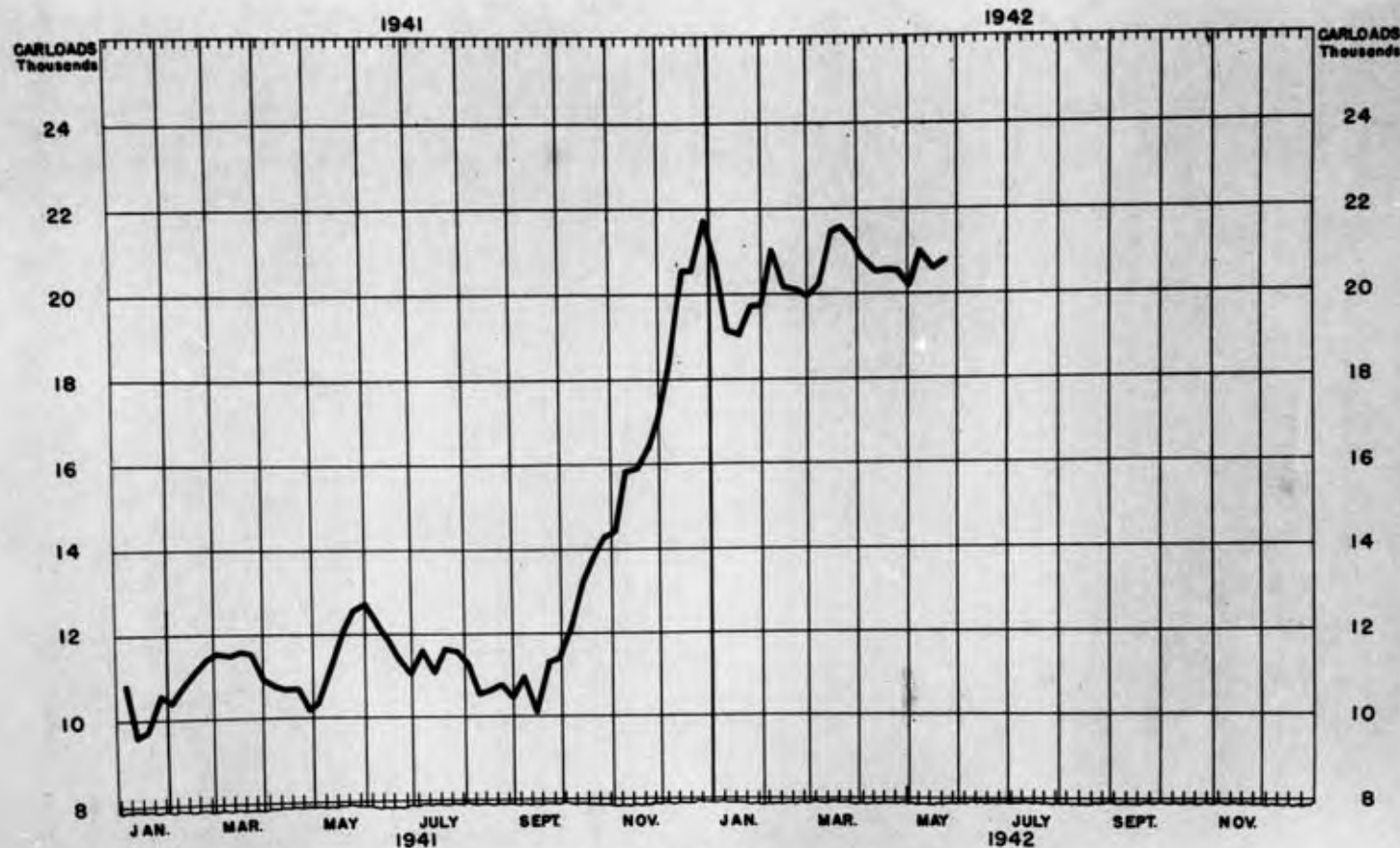
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FROM Mr. Haas  
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# LIGHTERAGE FREIGHT IN STORAGE AND ON HAND FOR UNLOADING IN NEW YORK HARBOR\*



\* Largely export freight, but about 10% represents freight for local and coastal shipment. Figures exclude grain.

Office of the Secretary of the Treasury  
Bureau of Economic Warfare and Statistics

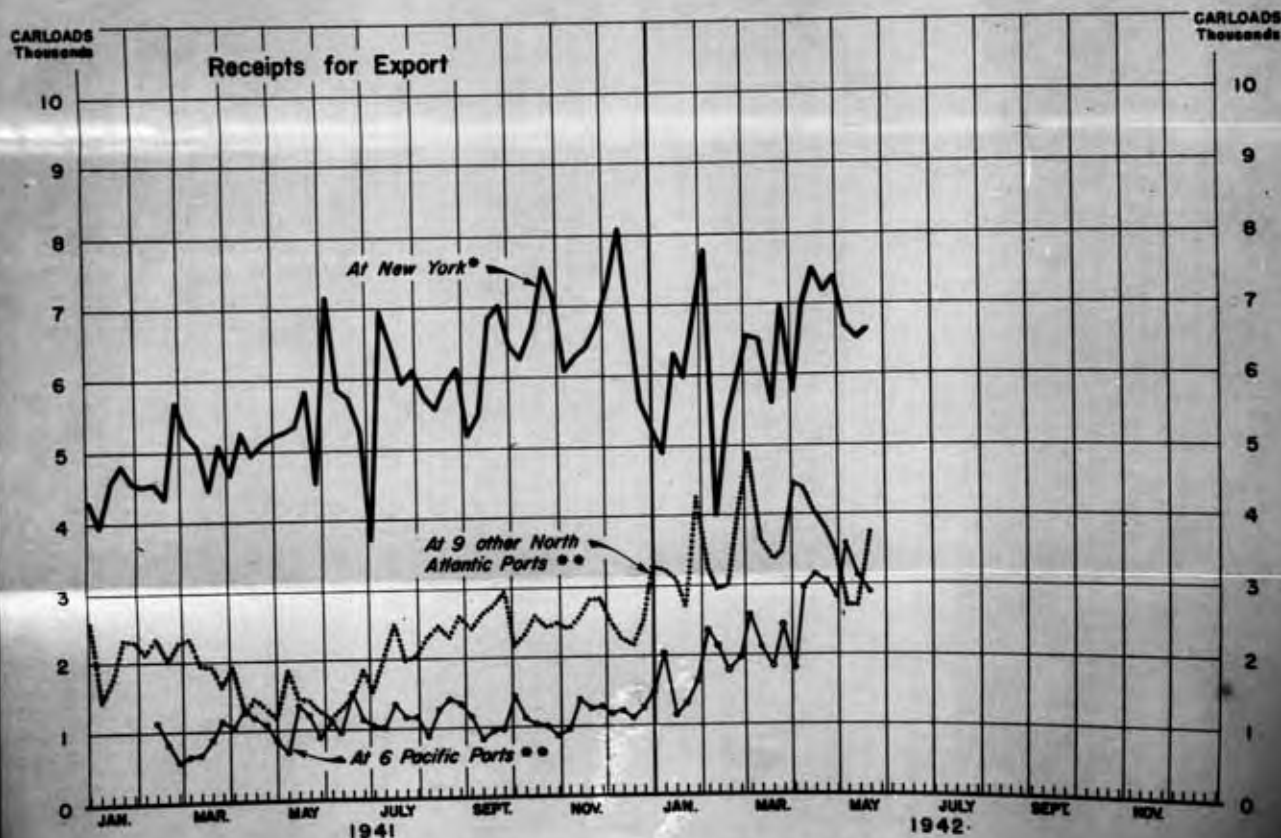
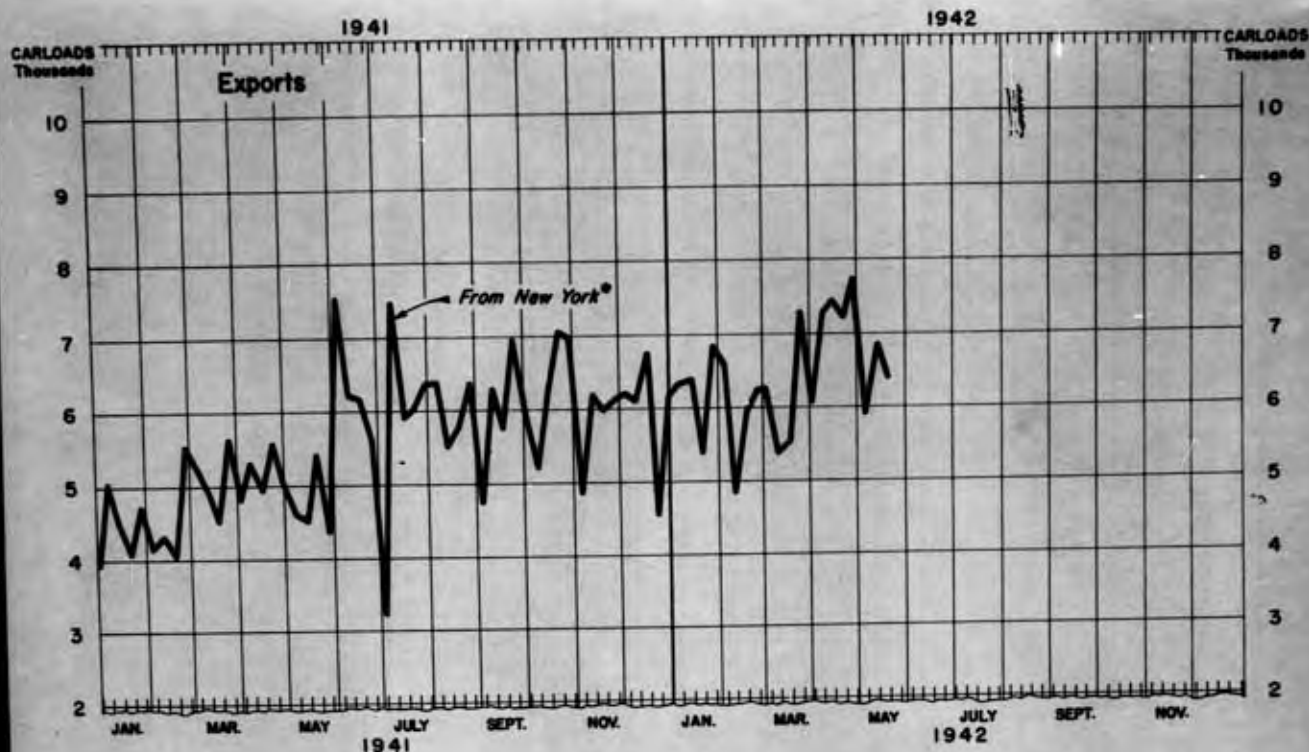
C-303-D

Chart 1  
353

Regraded Unclassified



# EXPORT FREIGHT MOVEMENT



\* As estimated from data of general managers' association of New York.  
 \*\* Association of American Railroads.

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DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
FD 811.20 (D) E. D. B./1130

May 27, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses herewith a copy of despatch no. 4950 dated May 5, 1942 from the American Embassy, Buenos Aires, Argentina, concerning repayment of a dollar loan by the Argentine Government.

Enclosure:

From Embassy, Buenos Aires,  
no. 4950, May 5, 1942.

eh:copy  
5-28-42



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DUPLICATE

Buenos Aires, Argentina, May 5, 1942.

356

No. 4950

Subject: REPAYMENT OF DOLLAR LOAN BY THE ARGENTINE GOVERNMENT.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to report that, according to the local press yesterday morning, the Argentine Government has repaid a short-term loan of \$5,000,000 contracted in New York in April 1940 and due today. It is reported that this loan, which bore 3-1/2% interest, had been obtained for the purpose of meeting obligations on treasury bills taken up by a Netherlands banking syndicate in 1938. As the Embassy has reported from time to time the Central Bank has acquired a large reserve of foreign exchange in recent months as a result of a large influx of refugee capital, and presumably the Government had no difficulty in arranging the repayment of the dollar loan aforementioned.

CONFIDENTIAL

It is not known why the Government did not also repay the short-term Swiss loan that was recently renewed and which now bears 3-1/4% interest (reported in the Embassy's despatch No. 4689\* of April 8, 1942), although it has been suggested that there may have been a desire to remain in a debtor position for other commercial reasons.

Respectfully yours,

For the Ambassador:

Edward L. Reed,  
Counselor of Embassy.

File No. 851  
JWG:je

A true copy of  
the signed orig.  
j.s.

\* Probably should read No. 4679  
F. D.

eh:copy  
5-28-42

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YDEPARTMENT OF STATE  
WASHINGTONIn reply refer to  
FF 811.51/4196

May 27, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits paraphrased copies of Sections Two and Three of telegram no. 1707, dated May 20, 1942, from the American Embassy at Rio de Janeiro, concerning control measures proposed to regulate movements of United States dollar currency and other currencies.

Reference is made to this Department's letter of May 25, 1942, which transmitted Section One of the telegram under reference.

## Enclosure:

Copies of Sections  
Two and Three of  
telegram no. 1707,  
May 20, 1942, from  
Rio de Janeiro.



PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMEMBASSY, Rio de Janeiro.  
TO : Secretary of State, Washington.  
DATED: May 20, 1942  
NUMBER: 1707

SECOND SECTION

After making an administrative review of the registration statements the Embassy will make decisions as to Point Six. In cases where holdings appear to be bona fide without Axis interests procedure (A) will be followed. In the case of Axis nationals' holdings procedure (B) will be used and in cases of Brazilians or of nationals with dubious connections who explain unsatisfactorily the circumstances of their holding notes procedure (C) will be used. Before being returned to owner the serial number of notes will be made of record under (C) to prevent other parties from selling them to the bank later and copies of these records will be sent to the Department by the Embassy.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMEMBASSY, Rio de Janeiro  
TO: Secretary of State, Washington.  
DATED: May 20, 1942  
NUMBER: 1707

THIRD SECTION

In as much as currency offerings after May 25 become subject to the presumption of contraband it is felt such registration will meet the problem effectively. That the Treasury Department will not license currency importation from Brazil other than those for Bank of Brazil's account except such shipments which were made prior to May 19 from Brazil, is of course a corollary to this program.

Such additional evidence of effective and prompt cooperation by the Finance Minister and the Bank of Brazil merits from the Department a telegram of appreciation in my opinion.

(MESSAGE ENDED)

CAFFERY

Copy:bj:5-29-42



May 27, 1942

Federal Reserve Bank of New York,

New York.

Gentlemen:

With reference to our exchange of correspondence in August 1934 and repeatedly since then and on the basis of the arrangement established with your institution we request you kindly to ask for authorization from the Treasury of the United States in favor of the Banco Central de Guatemala for the purchase from the United States Treasury of 150,000 ounces fine gold at the current price of \$35 per ounce.

Upon receipt of your advice that you have obtained the license which we request you to relay to us by cable we shall send you a check for the exact amount which you will kindly indicate representing the value of the 150,000 ounces fine gold 1000 fine requested by us.

The commission, expenses, and any possible difference which may have to be paid kindly charge to our deposit account with you.

Very truly yours,

(Sgd.) Banco Central de Guatemala

(Received by telephone from the Federal Reserve Bank of New York, June 1, 1942.)

Note: At \$35 an ounce, 150,000 ounces equals \$5,250,000. Federal is cabling Banco Central that gold will be made available if latter provides funds by June 8. --(Init.)F.D.

ims

AS

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

Tehran

Dated May 27, 1942

Rec'd 10:11 a.m.

Secretary of State,  
Washington.

RUM

170, May 27, 11 a.m.

Reference Nos. 137, May 3, 154, May 14, and 153,  
May 15.

A formal financial agreement was signed last night by Prime Minister for Iran and British Minister for Great Britain. Its terms are identical with those given in my No. 154, full text being sent by air mail.

This agreement was expeditiously and fairly negotiated and is advantageous to Iranians and British.

DREYFUS

HPL

Gow:hj:5-22-42



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YDEPARTMENT OF STATE  
WASHINGTONIn reply refer to  
FF 862.5151/2377

May 27, 1942.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits copies of a paraphrase of telegram no. 2231, dated May 22, 1942, from the American Legation at Bern, concerning reports of German attempts to purchase Swiss franc exchange in Switzerland and nine hundred tons of silver from Spain with United States dollar currency.

## Enclosure:

Paraphrase of telegram  
no. 2231, May 22, 1942,  
from Bern.

eh:copy  
5-28-42

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YPARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN LEGATION, Bern  
TO: Secretary of State, Washington.  
DATED: May 22, 1942, 9 p.m.  
NUMBER: 2231

Telegram no. 39, May 21, from Basel quoted as follows:

"At least one important bank here has been approached by German agents recently to purchase in ten lots of 1,000,000 each a total of 10,000,000 Swiss francs against United States dollar notes at an exchange rate of two francs per dollar. I am informed that the 58,000,000,000 franc credit held by Germany in the Bank of France is being utilized directly and indirectly for dollar purchases.

Moreover information has reached me that at the present time Swiss francs are greatly needed by the Germans. The purchase of 900 tons of Spanish silver currency which is located at Madrid in Government vaults is being negotiated by Germany. Recently the Spaniards increased their price to Swiss francs 100 per kilo as compared with former price of Swiss francs 80 per kilo. An offer in American dollars of the price Swiss francs 100 has been made by the Germans. Refusal by Madrid of this offer thus has created a demand for Swiss francs on behalf of Germany. Ten lots of ten tons each is called for in the first purchases.

"Several Million dollars" have been brought into this country by the Germans who obtained this currency in occupied countries and France, because of the relatively high prices being paid, according to my informant. However, because of the fear that the price may go lower, other dollar holders here are selling. According to one banker the American dollar in Switzerland is endangered because of the German-Spanish silver negotiations which may force the present rate of two Swiss francs to the dollar down to one Swiss franc.

Although small private Basel banks and others may be selling for Germany's account francs against dollars nevertheless the German proposal has apparently been refused by large banks here.

I have been informed that the armament industry of Germany is much in need of silver and that there is a very short supply of silver in the Reich as well as in other European countries including Switzerland. Approximately 90,000,000 Swiss francs are involved in the Spanish silver deal. Shoes".

The Legation will report promptly to the Department the results of its investigation of this report in its relation with the general subject.

HARRISON

Copy:lc:5/25/42



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DEPARTMENT OF STATE  
WASHINGTON

May 27, 1942

In reply refer to  
FF 195.2/4004

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits copies of a paraphrase of telegram no. 1125, dated May 4, 1942, to the American Legation at Bern, concerning the Maritime Commission's rescinding of its previous approval of the transfer of the Weather Bird.

Reference is made to the Department's letters of April 7 and 17 and May 11, 1942.

Enclosure:

Copies of paraphrase of  
telegram no. 1125, May 4,  
1942, to Bern.

Copy:bj:5-28-42

## PARAPHRASE OF TELEGRAM SENT

FROM: Secretary of State, Washington  
TO: AMLEGATION, Bern  
DATED: May 4, 1942, noon  
NUMBER: 1125

Reference your telegram 1766, April 28, 10 a.m.  
from Bern.

Previous approval given by Maritime Commission for  
transfer of Weather Bird was rescinded on April 28.  
Inform Nice and Vichy.

HULL

Copy:bj:5-28-42



COPY NO. 13

BRITISH MOST SECRET

(U.S. SECRET)

CORRECTION

OPTEL No. 173. Under "IN LIBYA" for the 33 corrupt groups read: "21, although two of the newest have already suffered heavy losses in RUSSIA. The Italian Army, except when in close co-operation with the Germans..."

OPTEL No. 174

Information received up to 7 A.M., 27th May, 1942.

1. NAVAL

Pocket Battleships ADMIRAL SCHEER and LUTZOW, with four destroyers, were seen in NARVIK morning 26th. One of H.M. Drifters has been mined and sunk off MALTA.

2. MILITARY

BURMA. The Japanese are reported to have reached LONKIN 70 miles W.N.W. of MYITKYINA.M.

3. AIR OPERATIONS

WESTERN FRONT. 26th. Five small daylight operations were carried out by our Fighters. Six enemy aircraft crossed the coast and bombs were dropped round SOUTHAMPTON causing only minor damage.

26th/27th. Two aircraft laid sea mines in the BALTIC.  
Two enemy aircraft crossed the coast.