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War Savings Bonds
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May 7, 1942
9:27 a.m.

Ted
Gamble: Yes, sir.

HMJr: Morgenthau.

G: Yes, sir.

HMJr: Good morning.

G: Good morning, sir.

HMJr: Gamble, now on these Negro meetings.....

G: Yes.

HMJr:I want to be consulted on all the details.

G: Fine.

HMJr: Because I saw this thing from New York by this Kudner, or whatever his name is, on the community sings in New York.

G: Arthur Kudner.

HMJr: Yes.

G: Yes.

HMJr: Well, of course, I've asked for him. I'm not getting what I want.

G: Yes.

HMJr: On these Negro things I'm going to get what I want.

G: All right, sir.

HMJr: Now, as a starter, I wish you'd speak to that - the Negro that you told me last night.....

G: Thomas.

HMJr: Thomas.

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G: Yes.

HMJr: Put this up to him, amongst their own people, who would they like to - I'd like the names of three men and three women, singers, that they'd like to hear the most.

G: Yes.

HMJr: And that they consider their greatest singers.

G: Yes.

HMJr: You see?

G: Yes, sir.

HMJr: And - I mean, I wouldn't specify. I'd just say, if we could get three men and three women singers. List them 1, 2, 3. Who would attract the biggest audience for a Negro mass meeting.

G: Yes.

HMJr: You see?

G: Yes.

HMJr: And, if necessary, he should send out a few questionnaires; but I'd like the answer not later than Monday.

G: Fine. Well, we'll have it by then.

HMJr: Tell him to list them 1, 2, 3 - the men and women Negro - not Negroes - singers. I wouldn't say black or white.

G: No, I understand.

HMJr: If they could get three men singers or three women singers, which ones would their people come to hear.

G: Yes.

HMJr: And if he could send out word and have the answer by Monday.

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G: Fine. Well, we'll have it, I think, maybe before then.

HMJr: And on the same thing, what speakers.

G: Yes.

HMJr: Men and women.

G: Yes.

HMJr: What speakers.

G: Yes.

HMJr: Will you do that?

G: Yes, sir.

HMJr: Because I'd like to have what the Negroes think. I know what I think.

G: Yes, I understand.

HMJr: Because I think that - my own opinion is, I think that they'd rather hear Marion Anderson than anybody else.

G: Probably Anderson and Robeson, but you can't tell.

HMJr: But you don't know.

G: That's right.

HMJr: That's the point.

G: Yes. Well, I'll have that information for you.

HMJr: Right.

G: All right, sir.

May 7, 1942

Mr. Ted Gamble
Secretary Morgenthau

May 7, 1942.

MEMORANDUM FOR THE SECRETARY

With reference to your request for some action of the colored problem, please be advised that a plan has been developed to submit to Messrs. Isbey, Patterson, and Collins for the states of Michigan, New York, and Illinois, at a meeting which has been set to be held here on Friday. At that time I will discuss this plan with these Administrators and I believe I will be able to report a very favorable answer to your request. *and any other Government Departments are going to help.*

*5/10/42 Mr. Gamble
must be told that
we will help*

Ted R. Gamble.

May 7, 1942

Mr. Ted Gamble
Secretary Morgenthau

I wish you'd talk to me the first thing in the morning about this man that I said is the head of a committee here, about the discrimination against Negroes. I think his name is McLean - whatever his name is. What I have in mind is that I think it would be helpful if you had a talk with him before you saw the three State Chairmen tomorrow, and find out what, if anything, any other Government Departments are doing to help.

*5/8 - Mr. Gamble
said he took this
up with Hays*

5/7/42

J. N. Peyton, President
Federal Reserve Bank
73 South 5th Street
Minneapolis, Minnesota

Alfred H. Williams, President
Federal Reserve Bank
925 Chestnut Street
Philadelphia, Pennsylvania

Chester C. Davis, President
Federal Reserve Bank
411 Locust Street
St. Louis, Missouri

M. J. Fleming, President
Federal Reserve Bank
Federal Reserve Bank Bldg.,
East Sixth & Superior Avenues
Cleveland, Ohio

William A. Day, President
Federal Reserve Bank
Sansome and Sacramento Sts.
San Francisco, California

W. S. McLarin, President
Federal Reserve Bank
104 Marietta Street
Atlanta, Georgia

H. G. Leedy, President
Federal Reserve Bank
10th and Grand Avenues
Kansas City, Missouri

(Letters to all the Federal Reserve banks re objective of billion dollars per month by July in War Savings Bond campaign. Listing instructions re desired procedure for reporting bond sales. - Signed HMJr. Copies to Thompson.

R. R. Gilbert, President
Federal Reserve Bank
Wood and Akard Streets
Dallas, Texas

Clifford S. Young, President
Federal Reserve Bank
230 S. LaSalle Street
Chicago, Illinois

Roy A. Young, President
Federal Reserve Bank
30 Pearl Street
Boston, Massachusetts

Allan Sproul
Federal Reserve Bank
33 Liberty Street
New York, New York

Hugh Leach, President
Federal Reserve Bank
Ninth and Franklin Streets
Richmond, Virginia

MAY 7 1942

My dear Mr. Sproul:

On May 1 the Treasury Department inaugurated a War Savings Bond Quota Campaign, with a billion dollars a month by July as its objective.

In undertaking to reach the sales quotas that have been established for each state and county, State Administrators and chairmen of local committees in the field organization of the War Savings Staff will need more timely information on bond sales than is possible under the existing reporting procedure.

Therefore, in order that bond sales may be tabulated quickly and with a minimum of report preparation, it is proposed that State Administrators of the War Savings Staff or their representatives call upon issuing agents on the 8th, 15th, 23d, and last day of each month for the total sales of Series E Bonds for the quarter-monthly period. A county breakdown of Series F and G Bond sales by Federal Reserve Banks will also be needed by the State Administrators, due to their importance in computing quotas. This quarter-monthly sales information will not supplant the regular monthly report on sales prepared for the Treasury Department by the Federal Reserve Banks. It will serve as guide to assist the field organization in determining progress toward quotas during the course of each month.

It is expected that in many instances issuing agents will furnish sales figures verbally. Where it is more convenient for them to do so in writing, they will be supplied with postal card report forms addressed to the State Administrator or representative designated by him.

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Your valuable assistance is requested in carrying out this reporting procedure, and it will be very much appreciated if you would -

- (1) advise all issuing agents qualified by your Federal Reserve Bank to anticipate these requests, asking their cooperation in furnishing sales totals (at issue price).
- (2) arrange to furnish the State Administrator of each state in your district with county totals of Series F and G Bond sales, four times each month.

Within the next few days, each State Administrator in your district will contact your liaison officer concerning this matter.

Sincerely,

(Signed) H. Morgenthau, Jr.

Allan Sproul, President
Federal Reserve Bank
33 Liberty Street
New York, New York

HBM:wcb

May 7, 1942
9:34 a.m.

HMJr: Hello.

Ted
Gamble: Hello.

HMJr: Gamble.

G: Yes, sir.

HMJr: I'm just signing these twelve letters to the presidents of the Federal Reserve Banks, but I hear they haven't cleared through Bell. Anything that goes through the Federal Reserve Banks should be cleared through him.

G: Fine. Well, I will take them in.....

HMJr: I didn't call him, but I'll sign them.

G: Well, I'll take them in to him and discuss them with him after they return.

HMJr: Will you do that?

G: Yes, sir. If they're returned to my office, I'll take them in to him.

HMJr: Miss Chauncey will take them to your office, but I'd like you to discuss them with him.

G: Fine. I'll go down and talk to him about them.

HMJr: Thank you.

G: All right, sir.

May 7, 1942
11:51 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Roy.

Roy
Blough: Yes.

HMJr: What happened this morning?

B: Well, they're still going at it.

HMJr: Did they read my letter?

B: Oh, yes. It was read the first thing.

HMJr: Well, it's not out - it hasn't - it's funny
it isn't out on the ticker.

B: Well.....

HMJr: Is it an open meeting?

B: No, it's an executive session.

HMJr: Oh, oh. I see.

B: But - we got here a little late. There was
no transportation. And he went right into
the session; he didn't speak to the Chairman
about releasing it.

HMJr: Yeah.

B: Now.....

HMJr: Well, supposing somebody talks to the Chairman
and finds out what they're going to do about
giving out the letter when the meeting's over.

B: All right.

HMJr: See?

B: I'll have that done right away.

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HMJr: What sort of reception did my letter get?

B: Well, I don't know that we know for sure, yet.

HMJr: Weren't you there?

B: Oh, yes, I'm right here.

HMJr: I mean, weren't you there when the letter was read?

B: Yes, indeed.

HMJr: Uh huh.

B: They're still asking a lot of questions. There's nothing - it hasn't been accepted with open arms at all, but they're asking a lot of questions, and nobody has really started to lambaste it.

HMJr: They have not.

B: No, they haven't done that. There'll be some, I think, who will; but they're sparring. Here's Robertson on the one side, who doesn't think it's enough and wants a sales tax; and here's McKee on the other side who doesn't want to go down in the exemptions; and here's Cooper and Doughton who don't know just yet what they do want.....

HMJr: Which way to jump.

B:and the thing - they still - they seem to be still sparring around.

HMJr: Well, in any event, be sure it's given out to the press.

B: All right. You'd like to have it given out.

HMJr: Surely.

B: Okay.

HMJr: I don't want it to leak out.

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B: Do you wish me to call you about it?

HMJr: No, no. Between you and Paul, you work it out.

B: We'll see that it gets out.

HMJr: That's right.

B: Okay.

HMJr: Thank you.

B: Yes, indeed.

May 7, 1942
5:10 p.m.

Operator: Go ahead.

J. Edgar
Hoover: Hello.

HMJr: Hello.

H: This is Hoover talking, Mr. Secretary.

HMJr: Hello, Mr. Hoover.

H: Fine. I just wanted to let you know that if your folks on that committee that was appointed this morning, if they want anything on the Argentine situation, whoever is representing, if you'll just let us know.

HMJr: Well, I frankly couldn't understand why the Attorney General didn't want you people on, because it seemed to me that you'd have a lot of information.

H: Well, very frankly - I can speak frankly to you - I suggested to him that he have somebody on.

HMJr: Yes.

H: And he felt that it should be otherwise; but I wanted you to know that if we had anything here.....

HMJr: Well, I'm sure you have.

H:it was - it's entirely available to you.

HMJr: Well, I'd like to have it, because I'm personally interested.

H: Fine. Well, now, I'll have - I'll not only have our men scout through the files on it; but if there are any questions that your representative has on it, you have him feel at perfect liberty to give us a call here and it will be available to him.

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HMJr: Because here - as I say, I just didn't understand the move. Here you're down there.....

H: Yes.

HMJr:and you people must have - the Argentine thing is, to use the vernacular, just lousy.

H: Well, it's the worst thing in South America.

HMJr: Right.

H: It just stinks down there.

HMJr: Well, that's what I thought; and I wanted to - wanted to give them something to chew on other than each other there.

H: (Laughs) I really thought that your suggestion was not only good, but very diplomatic.

HMJr: Yeah.

H: (Laughs) But I'll have our men get the material we have together, and - so it'll be available to your folks even on the informal basis.

HMJr: I tell you what let's do, so we don't be too polite. When you have something, let me know, and have one of your trusted men walk it over and give it to me personally.

H: I'll do that.

HMJr: How's that?

H: That'll be fine.

HMJr: I thank you.

H: Fine.

HMJr: Thanks.

H: Good-bye.

May 7, 1942
5:16 p.m.

Abbott
Mills: Abbott Mills speaking, Mr. Secretary.

HMJr: Go ahead.

M: Thanks to Frank Iseby we can report that the Ford Motor Company has qualified as an issuing agent.

HMJr: Oh, wonderful.

M: And the General Motors Corporation are going ahead with plans through banks that, the way they explain it, will be equally satisfactory.

HMJr: Good.

M: The one quite important thing to mention to you, and that was a problem we hit out at Ford. There's a Mr. Sid Goodman, or Leo Goodman, under Mr. Houghteling's staff.....

HMJr: Yes.

M:on the labor end of it, who more or less unannounced, went out to the Ford works with a labor union war savings plant plan which was all right in itself, but he irritated the Ford people to the extent that if it hadn't been for Frank, they never would have qualified.

HMJr: Well, he.....

M: And it would be their wish that he be kept away from them in the future. Frank says you may remember him when you and Mrs. Morgenthau were in the Keller - with Mr. Keller in the tank plant.

HMJr: I know very well.

M: And he was a great embarrassment to the Ford people, and he was a great embarrassment then.

HMJr: Well, Mr. Graves and Gamble are sitting here, and you're on the loudspeaker, and they both

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hear what you're saying.....

M: Fine.

HMJr:and if they don't do something about it.....

M: Well, they handle.....

HMJr: Wait a minute.....

M:because Frank was talking to Ted Gamble earlier in the afternoon.

HMJr: Hold on a minute. For your own confidential information.....

(talks aside) Do you want him to tell it to Iseby?

For you and Iseby and nobody else.....

M: Uh huh.

HMJr:just for the two of you, Goodman is being taken out of Michigan and will not go back in there again.

M: Oh, that's fine. That will relieve a lot.

HMJr: Yeah.

M: Mr. Secretary, the way it is now, we've cleaned everything up except Hudson, and their president is ill, and would recommend that I come back to Washington by tomorrow if I can't get to Hudson.....

HMJr: Yeah.

M:and Frank will be in Washington anyway, we'll lose his advantage, and then come back maybe a week later and clean up the lesser companies.

HMJr: Okay.

M: Then Frank has another matter he'd like to

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speak to you more or less confidentially on now.

HMJr: Well, he'll have to talk fast.

M: Yeah, he's right here.

Frank Iseby: Oh, Mr. Secretary.

HMJr: Yeah.

I: While we were out there, Harry Bennett came to me and he said - about this Ford housing project.

HMJr: Yeah.

I: He asked me if I knew Harold Smith, and I said I did.

HMJr: Yeah.

I: They have a man here from Mr. Smith's office, and Mr. Bennett wanted to know if we couldn't get some information to Harold Smith - ask him if he would wait on any decision until the report of his man was in Washington tomorrow.

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

I: If you want to - it's Mr. Ford that's involved personally in connection with it.

HMJr: Well, are you going to be here tomorrow?

I: Tomorrow afternoon. They said you wanted me at four o'clock.

HMJr: Well, wait a minute. Let me switch you over to Bell and if Bell's in, let him handle it. He knows Harold Smith better than I do.

I: All right.

HMJr: Just a minute.

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I: All right. Bennett was so fast in okaying this issuing agent business.....

HMJr: Well, now, just a minute. Hold on. I'm delighted about Ford, but hold on, will you please?

I: All right.

MEMORANDUM FOR THE FILES:

Meeting in Mr. White's Office,
May 7, 3:00 p.m.

Present: Dr. Clark, Minister Wrong, Mr. Carswell
and Mr. Plumptre for the Canadians

Generals Aurand and Maloney for the War Department
Mr. Stinebower for State
Messrs. Tarshis and Shenefield for the Board of
Economic Warfare
Messrs. Rostow and Ecker for Lend-Lease
Messrs. White, Hicks and Miss Kistler for Treasury

The meeting was called to discuss the possible effect, upon Canada's dollar position and upon the use of Canadian facilities for production of war materials, of the proposed pooling of Canadian production through the Joint Munitions Assignment Board in Washington.

General Maloney, executive secretary of the Board, stated that discussions of pooling arrangements have been going on for only the past few months and that a number of details remain to be worked out.

General Aurand, chairman of the Subsidiary Assignments Committee in Washington, explained the operation of the pooling arrangement and pointed out some of the problems which have arisen. He stated that production of finished war materials of Continental United States is thrown into the Washington pool and assigned without regard to financing according to strategic war needs. He said the question of whether or not war materials being produced in Canada under orders from the United States Government are to be thrown into the Washington pool and assigned from Washington has plagued the Committee from the start. Part of the difficulty has arisen from the lack of knowledge of the overall Canadian production picture, which is complicated by the fact that in a number of instances, Canadian factories have orders for the identical product from the three Governments concerned - i.e. from Canada, the United Kingdom and the United States. Experience to date has indicated a number of difficulties involved in assigning Canadian production from London. He stated that the proposal to pool Canadian production in Washington had not been raised by United States people who would approve the suggestion only if Canada and Britain were both willing.

General Aurand admitted that the proposal to assign Canadian production from Washington might affect adversely Canada's dollar position, but he assured the Canadians that, in his opinion, if Canada

Division of Monetary
Research

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enters the Washington pool, our Army procurement people would be more, rather than less, willing to place orders in Canada than they are under present arrangements. In his opinion, supplies are now and will continue to fall so short of demand that our ordnance people will continue to place orders wherever they can find the capacity and that the only thing that will lead to a cessation of United States orders in Canada is the termination of the war. He cited the fact that the proposed regular War Department appropriation for 1943, which is now before the Budget Bureau, includes several million for Lend-Lease to be used merely for continuing present United States contracts in Canada for British type equipment. He stressed the point that ordnance officers in the War Department are not concerned with the probable distribution of the finished materials that they order, that all they are interested in is getting orders placed for the items on the list of requirements submitted.

General Aurand stated that the problem of financing production of Canadian materials going into the Washington pool is still an open question. In his opinion the production and assignment of finished munitions is a military problem; the financial problem is one for the Treasuries to take care of. As he sees it, the problem of financing would arise only when munitions produced in Canada under British orders are assigned by the pool to non-Empire countries. He suggested that in the case of such Canadian produced munitions assigned to non-Empire countries, the United States would pay Canada for them. In the case of munitions coming from Canadian production lines in response to American orders, the United States would pay for such goods regardless of what country received them. In the case of goods produced under British orders, Canada would, he thought, pay for them and write the cost against the billion dollar (Canadian) gift to Britain. He stressed the fact that because, in a number of cases, Canadian factories are producing the same goods under orders from the three Governments--Canada, United Kingdom and United States--it would frequently be a matter of arbitrary decision as to which Government's orders are being filled and thus which Government is responsible for payment.

Mr. White raised the question of what effect the proposed assignment procedure would have on the volume of future British and United States orders placed in Canada. General Aurand was confident that the pooling arrangement would not affect procurement procedures, that the determining conditions were physical.

Mr. Carswell suggested, on instructions from Mr. Howe, that material produced in Canada on United States orders enter the pool as American goods, that to do so would strengthen United States position at the assignment table as well as give American procurement officials an incentive to utilize Canadian capacity and to continue placing orders in Canada.

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Division of Monetary
Research

General Aurand replied that this supposed advantage to United States in having the goods enter the pool as American is a fictitious one, that on the other hand, the suggestion had definite disadvantages from our point of view in that Canada would have complete determination of whether Canadian, British or United States orders were being filled by the material coming off the Canadian assembly lines. The question of whether war material produced in Canada should go into the pool as Canadian goods regardless of what country financed their production or whether the goods paid for by United States should be considered as United States production was left to future determination.

Dr. Clark said that he was reassured concerning Canada's exchange prospects by General Aurand's explanation.

T.M.K.

May 6, 1942

MEMORANDUM FOR THE FILES:

Meeting in Mr. White's Office with
Dr. Clark, Deputy Minister of Finance
for Canada, 3:20 p.m., May 6, 1942.

Present: Mr. White, Dr. Clark,
Miss Kistler

Dr. Clark stated that U. S. Government orders now placed in Canada total \$480 million. There are in addition probable ship contracts of \$160 million and other pending contracts of \$167 million, bringing the total for actual and probable contracts to \$807 million.

Dr. Clark reported that during the first quarter of 1942 Canada's net U. S. dollar exchange position was \$44.8 million better than had been expected—i.e. that the Canadian Government's reserve of gold and U. S. dollars showed a net increase of \$43 million during the quarter as compared to an anticipated net loss of \$2 million. An uncertain, but in his opinion, an important factor had been the rumored return of the Canadian dollar to par with United States currency, which resulted in the speeding up of payments by American importers for Canadian goods and the deferment of payments by Canadian importers of U. S. goods.

Dr. Clark stated that the purpose of the Canadian proposal is to forestall, as a result of the proposed pooling arrangement, a possible reluctance on the part of U. S. service procurement officials to placing orders in Canada on the theory that if they know the U. S. Government is committed to purchasing up to a certain sum of goods in Canada (\$542 million in 1942) they would place what orders they could in Canada and have no reluctance to doing so.

Dr. Clark stated that the British Government had pressed Canada to enter the London pool and had reluctantly agreed to Canada's joining the pool here. He stated that Prime Minister King and the President discussed the question of Canadian representation on the Munitions Assignment Board during King's recent visit to Washington, and he thinks that Roosevelt agreed on the understanding that Canada would pool with the United States.

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Mr. White suggested Lend-Lease procedure and possibly with the Reciprocal Lend-Lease Arrangement to meet the problem, but Dr. Clark again voiced the Canadian Government's objections to such a proposal.

It was agreed that Mr. White should call a meeting of the representatives of the interested U. S. Government agencies to discuss the arrangements and the possible effect of it on American procurement policies, either for May 7 if Dr. Clark found he could remain over, or early next week in the event that Dr. Clark had to return to Ottawa yesterday afternoon.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 7, 1942.

TO The Secretary
FROM Harold Graves *HG*

I think you will be interested in reading the attached telegram from Mr. Trounstine.

As I told Mr. FitzGerald, Mr. Trounstine and his colleague, Mr. Moore, asked me to arrange for them to see you next Tuesday if your time will permit.

1942 MAY 7 AM 8 17

WUWE21 64 NT

CINCINNATI OHIO MAY 7 1942

HON HENRY MORGANTHAU JR

SECY OF TREASURY

YOUR REQUEST THAT I SERVE AS CHAIRMAN OF THE OHIO WAR SAVINGS COMMITTEE IS MY COMMAND. I CONSIDER IT A GREAT PRIVILEGE TO BE GIVEN THE OPPORTUNITY TO DEVOTE MY TIME AND EFFORTS IN ASSOCIATION WITH ROY MOORE TOWARD MAKING THE WAR SAVINGS PROGRAM A SUCCESS I REALIZE THE SERIOUSNESS AND IMPORTANCE OF OUR TASK AND I WILL GIVE MY VERY BEST EFFORTS SINCERELY

PHIL J TROUNSTINE.

815AM MAY 7.



TREASURY DEPARTMENT

WASHINGTON

May 7, 1942

DEFENSE SAVINGS STAFF

My dear Mr. Secretary:

Miss Luise Rainer made an appearance for War Savings at Toledo, Saturday morning, May 2. The result of this visit is contained in the following wire addressed to the writer:

"IN RESPONSE TO THE APPEARANCE OF MISS LUISE RAINER IN TOLEDO LAST SATURDAY MAY SECOND, IT APPEARS, ON THE BASIS OF INCOMPLETE RETURNS, THAT LUCAS COUNTY WILL HAVE SUBSCRIBED IN EXCESS OF FOUR MILLION DOLLARS. WE ARE HOPEFUL THAT WE WILL REACH FOUR MILLION THREE HUNDRED THOUSAND. SIGNED ROLAND L. WHITE, CHAIRMAN LUCAS COUNTY WAR BOND AND STAMP COMMITTEE"

Attached are the schedule of her itinerary, breakdowns on the Court House and Civic Auditorium rallies, two of the tear sheets from Toledo, and an article in Variety.

Sincerely,

Carlton Duffus
Chief, Motion Pictures
and Special Events

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



COURT HOUSE RALLY

1:15 to 1:30 Band Concert - McCune Post Band -
American Legion

1:30 Flag raising ceremony - Star Spangled
Banner - Band and Glee Club - Marine
and Sailor Guard of Honor

1:35 Introduce Master of Ceremonies, Bob Hall,
M. C. introduces our notables on plat-
form to take bows, including Mothers.

1:50 Songs by Glee Club

2:00 Speaker (5 min.) Wythe Williams

2:10 Band Number

2:20 Swear in new enlisted Navy men.
(Commander Bartley)

2:30 Luise Rainer (After her talk solici-
tation through crowd - announcing
subscriptions, etc.)

Closing God Bless America- Band, Glee Club
and Public.

SCHEDULE FOR LUISE RAINER

10:45 A.M. Broadcast W.S.P.D. from Crystal Room,
Commodore Perry

11:00 A.M. Leave Commodore Perry

11:30 A.M. Champion Spark Plug (this will be the
only forenoon assignment. Miss Rainer
will return to the Commodore Perry
immediately after her appearance at the
Champion Spark Plug for luncheon and rest.)

1:30 P. M. Court House

3:30 P. M. Spicer Manufacturing Company

4:30 P. M. Willys-Overland

5:00 P. M. Local #12 C.I.O. - Winthrop & Ashland
Dedication of Service Flag - 592 stars
80 piece band at this dedication

A sound truck will accompany Miss Rainer on all these trips. She will return to hotel immediately after dedication of service flag for rest and dinner until 8:30 p.m. when she appears at the Civic Auditorium.

Two buses will be at Naval Armory at 10:30 a.m. to bring sailors to Commodore Perry. These buses will be at our disposal all day.

EVENING PROGRAM - CIVIC AUDITORIUM

8:00 P.M. Concert W.P.A. Concert Orchestra

8:15 P. M. Introduce Master of Ceremonies,
Martin Courtney, M. C. introduces
any notables on platform to take
bow.

8:20 P. M. Songs by Glee Club

8:25 P. M. Speaker (5 min.)

8:30 P. M. Orchestra number

8:35 P. M. Swear in new enlisted men.
(Commander Bartley)

8:40 P. M. Luise Rainer (15 min. talk)

(After talk solicitation through
crowd - announcing subscriptions,
etc.)

Closing Star Spangled Banner




TREASURY DEPARTMENT
WASHINGTON

May 7, 1942

MEMORANDUM FOR THE SECRETARY:

You asked me to get you a report on the War Bond Rally to be held by District Grocery Stores, Inc., as advertised in the Washington Post of April 27, attached.

I hand you such a report herewith.

GRAVES 

FOR DEFENSE





TREASURY DEPARTMENT

WASHINGTON

District of Columbia Committee
439 Washington Building
May 1, 1942

WAR
EXCESS SAVINGS STAFF

Dear Mr. Graves:

Doubtless because of changes necessitated by uncontrollable circumstances, the rally at the Warehouse of the District Grocery Stores on Thursday, April 30, did not attain the proportions that otherwise might have been the case.

You will recall that the original full page advertisement, noted by Secretary Morgenthau, billed both George Jessel and Sophie Tucker to appear on Monday, April 27. For unavoidable reasons, this dual appearance could not be arranged for that date. Therefore, the rally was postponed until Thursday, when Mr. Jessel appeared without Miss Tucker.

Notwithstanding the difficulties encountered, all concerned were pleased with the event. Mr. Jessel put on a good show, which was witnessed by perhaps 500 persons assembled in front of the Warehouse and at windows of large nearby buildings.

Mr. Jacobsen, President of the D. G. S., and his associates reported after the rally that the publicity incident to the rally and the occasion itself induced purchases of Bonds totalling \$40,000.

As you have probably noted in the press, the D. G. S. began its War Bond Sales campaign with a quota of \$250,000. This was later raised to \$500,000, which goal has been reached. Officials of the Association are carrying on and plan to bring sales to members and their employees to a total of \$1,000,000 during 1942.

With kindest personal regards, I am

Sincerely yours,

Hugh Lynch
Administrator

Hon. Harold M. Graves
Assistant to the Secretary of the Treasury
Main Treasury Building
Washington, D. C.



Through the courtesy of the NATIONAL THEATER and in cooperation with the D. C. WAR SAVINGS STAFF



GEORGE JESSEL



SOPHIE TUCKER

Georgé **JESSEL**
Sophie **TUCKER**

Now Appearing at the NATIONAL THEATER in the SMASH MUSICAL HIT

GEORGE JESSEL'S
"HIGH KICKERS"

DIRECT FROM LAUGH MONTHS ON BROADWAY

Assisted by a group of
AMERICA'S LOVELIEST
SHOW GIRLS



WALTER COMPTON

Used by
WOL's Acc Commentator
and
Mutual's "Double or Nothing" M. G.
WALTER COMPTON

Contribute their help to further America's All-Out War Effort and

Will Sell

WAR SAVINGS
BONDS & STAMPS

Tuesday, April 28, 1:30 p.m. at the

D. G. S. WAREHOUSE

FOURTH and C STREETS, S.W.

Come out and see George Jessel, America's premier laugh-provoker and Sophie Tucker, the host of the "Red-Hot Mambo." Buy a WAR BOND or STAMP from two of America's outstanding stage favorites. **EVERYONE INVITED.** Remember the **TIME** and **PLACE**:

DISTRICT GROCERY STORES WAREHOUSE
4th & C Sts., S.W., TUESDAY, APRIL 28th, 1:30 P.M.

The District Grocery Stores, Inc., a co-operative group of 276 individually-owned and operated food stores located in Metropolitan Washington, through their members, and employees, have purchased

\$500,000 IN WAR BONDS

and are continuing their drive in an effort to double this amount.



New and Modern Home of the District Grocery Stores. Awarded Certificate of Merit for Superior Design and Construction by Washington Board of Trade

DISTRICT THE OWNER IS YOUR NEIGHBOR **Grocery STORES** INC.

Letters went out 5/7/42

33

5/7/42

34

Mr. Gamble now says that what he cleared with the Secretary was the model letter for transmitting the Third War Edition of U.S. Defense Savings News. He then turned the matter over to Miss Ready in Defense Savings with instructions that the letters be prepared and sent out. Miss Ready says Mr. Gamble didn't send the letters over until yesterday morning and they have been working on them ever since. The ones which the Secretary is to sign will be over here for signature by 12:00 today, and the others will be sent out without fail by the Defense Savings Staff today.

5/4/42

p.m.

35

Mr. Gamble's secretary reported that
these letters are going out tonight.
Mr. Gamble cleared them with the
Secretary.

May 4, 1942

FOLLOW-UP FOR THE SECRETARY:

The letters mentioned in the attached memo have not gone out. You asked that they be in the hands of the various people to whom they were to go not later than today.

April 30, 1942.

Harold Graves, Ted Gamble and Ferdinand Kuhn
Secretary Morgenthau

I would like to send a copy of the Third War Edition of the U. S. Defense Savings News to every Senator, Congressman, member of the Supreme Court, the President and Vice President, and Cabinet, Director of the Budget, Wayne Coy, Harry Hopkins, Donald Nelson, Mrs. Roosevelt, Heads of the Independent Agencies. I want to send them an accompanying letter explaining just what it is, how many newspapers are cooperating and how many news boys. Describe it in a nice, newsy, friendly letter of one-page, and put it in their hands not later than Monday.

I can't remember all the names that I said to send this thing to, but send it to the same list that got the General Electric book - that would be the right list - and any other people around town who don't believe in our Volunteer Plan.

Follow-up 5/1/42 -

*Letters sent 5/4 - Mr.
Gamble says he
checked it with
the Secretary -*

May 7, 1942.

MEMORANDUM FOR THE SECRETARY

The attached letter went out with a copy of the Third Edition of the United States Defense Agent News, to the mailing list suggested by yourself.

Ted R. Gamble.

May 7, 1942

Letters enclosing Third Edition of U. S. DEFENSE AGENT NEWS. Telling of resolution passed by American Newspaper Publishers Assoc. at their Annual Convention re fine work being done by newspaper boys of this country in voluntary campaign to aid war financing. Letters signed by Secretary. Sent to the following list:

The President
Mrs. Roosevelt
Hon. Donald M. Nelson
Hon. Claude R. Wickard
Secretary of Agriculture
Hon. Walter F. George
Hon. Cordell Hull
Hon. Jesse H. Jones
Hon. Vice President
Hon. Leon Henderson
Hon. Frances Perkins
Hon. Frank Knox
Hon. Frank C. Walker
Hon. Henry L. Stimson
Hon. Marriner S. Eccles
Hon. Stephen Early
Hon. Alben W. Barkley
Hon. Speaker of the House
Hon. Robert L. Doughton
Hon. Archibald MacLeish
Hon. Harold D. Smith
Hon. Lowell Mellett
Hon. Harold L. Ickes
Hon. Francis Biddle

Copies to Thompson and Miss Chauncey.

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Hon. Archibald MacLeish
Hon. Harold D. Smith
Hon. Lowell Mellett
Hon. Harold L. Ickes
Hon. Francis Biddle

Copies to Thompson and Miss Chauncey.

May 7, 1942

My dear Mr. President:

Last week the Members of the American Newspaper Publishers Association at their Annual Convention passed a resolution expressing their appreciation of the fine work being done by the newspaper boys of this country in the voluntary campaign to aid war financing.

We at the Treasury Department too, are proud of the newspaper boys who have started a new kind of newspaper service in this country. They are selling over 12,000,000 War Savings Stamps every week, for a total of well over a million dollars every seven days.

The latest report shows that 867 newspapers in 47 states and Hawaii have already sold over \$25,000,000 worth of United States War Savings Bonds and Stamps. These sales figures have been computed by the Post Office showing the actual purchases by the newspapers. The sole reward these 300,000 young Americans get is the satisfaction of doing a man-sized job in the War Program. Acknowledgment of the magnificent example they are setting has been made by you, and the Treasury Department has made provision to issue to them suitable certificates of award.

Knowing that you would be interested in the activities of these boys, particularly those who might hail from your own state, I am taking the liberty of enclosing the Third Edition of the U. S. DEFENSE AGENT NEWS, published by the Treasury Newspaper Advisory Committee.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The President,
The White House,
Washington, D. C.

Mr. Messenger

H. M. C.

Harmon 4/33



THE SECRETARY OF THE TREASURY
WASHINGTON

May 7,
1942

Last week the Members of the American Newspaper Publishers Association at their Annual Convention passed a resolution expressing their appreciation of the fine work being done by the newspaper boys of this country in the voluntary campaign to aid war financing.

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Knowing that you would be interested in the activities of these boys, particularly those who might hail from your own state, I am taking the liberty of enclosing the Third Edition of the U. S. DEFENSE AGENT NEWS, published by the Treasury Newspaper Advisory Committee.

Sincerely yours,

Secretary of the Treasury.

Enclosure.

FOR DEFENSE



May 7, 1942.

MEMORANDUM FOR THE SECRETARY

In answer to your request that the publicity and promotional man that was hired for Dutchess County, visit with you next Saturday morning and that the Dutchess County Chairman visit with you next Sunday morning, you are advised that:

Mr. Paul Emile Rugile, former Brooklyn newspaper man, thirty-three years of age, who was recommended by the New York office for this job as special promotional man, will telephone your Dutchess County farm next Saturday morning at 9:00 A. M. for information as to the hour you would like to see him.

The Dutchess County Chairman, Mr. Richmond Meyer, Mid-Hudson Oil & Trucking Company, Poughkeepsie, New York, will telephone your Dutchess County farm next Sunday morning at 9:00 A. M. for information as to the hour you would like to see him.

If you do not already know it, you might be interested to learn that the Vice Chairman of Dutchess County is Paul Miller. He is also Treasurer of Dutchess County.

Ted R. Gamble



U. S. DEFENSE AGENT NEWS

Devoted To The Activities Of

American Newspaper Boys For Victory



PUBLISHED BY THE TREASURY NEWSPAPER ADVISORY COMMITTEE

THIRD WAR EDITION

FOR IMMEDIATE RELEASE TO ALL NEWSPAPERS

\$1,100,000 U.S. WAR STAMPS SOLD BY PHILADELPHIA BULLETIN BOYS

YOUNG AMERICA IN ACTION

It is the spirit of the American people that has made it possible for the American Newspaper Boys to sell over \$1,100,000 worth of U.S. War Stamps in Philadelphia. The boys, who are members of the American Newspaper Boys' Association, have been working hard to raise money for the war effort. They have been selling stamps in their own neighborhoods, and their efforts have been rewarded with a large number of awards. The boys are proud of their achievements and are looking forward to continuing their work in the future.



NEWSPAPER BOYS SALES REACH 22 MILLION DOLLARS



Members of the Philadelphia Bulletin boys' group are shown here with their stamps and certificates of achievement. The group is one of the many active in the Philadelphia area.

Philadelphia Leads the Nation With More Than Half a Million Deliveries Every Week; Total Is Enough To Buy Five Bombers

Philadelphia leads the nation with more than half a million deliveries every week. The total is enough to buy five bombers. The American Newspaper Boys' Association is proud of the achievements of its members in Philadelphia. The boys have been working hard to raise money for the war effort, and their efforts have been rewarded with a large number of awards. The boys are proud of their achievements and are looking forward to continuing their work in the future.



you're mighty right we're proud

TOP AWARD WINNER OF THE BALTIMORE NEWS-POST AND SUNDAY AMERICAN

John J. ...

P. S. Fenold Names State Chairman for Milwau C. M. A.

The Milwaukee Committee has been appointed to assist in the work of the C. M. A. in the Milwaukee area. The committee is headed by P. S. Fenold, who has been named as the state chairman for the Milwaukee area. The committee will be working to raise money for the war effort and to provide support for the American Newspaper Boys.



Members of the Louisiana boys' group are shown here with their stamps and certificates of achievement. The group is one of the many active in the Louisiana area.

LOUISIANA ON THE MAP

The Louisiana boys' group is one of the many active in the Louisiana area. The boys have been working hard to raise money for the war effort, and their efforts have been rewarded with a large number of awards. The boys are proud of their achievements and are looking forward to continuing their work in the future.

MORE ABOUT HONOR AWARDS NEW RULES MAKE IT EASY!

The American Newspaper Boys' Association has announced new rules for the honor awards. The new rules are designed to make it easier for the boys to receive awards for their achievements. The boys are proud of their achievements and are looking forward to continuing their work in the future.

New Carrier Boy Promotion Act

The American Newspaper Boys' Association has announced a new promotion act for carrier boys. The act is designed to provide more opportunities for carrier boys to receive awards for their achievements. The boys are proud of their achievements and are looking forward to continuing their work in the future.

THE AMERICAN NEWSPAPER BOY HAS HIS SLEEVES ROLLED UP

The American Newspaper Boy has his sleeves rolled up. The boys are working hard to raise money for the war effort, and their efforts have been rewarded with a large number of awards. The boys are proud of their achievements and are looking forward to continuing their work in the future.

CHAMP BOND BUYER

The American Newspaper Boy is a champion bond buyer. The boys are working hard to raise money for the war effort, and their efforts have been rewarded with a large number of awards. The boys are proud of their achievements and are looking forward to continuing their work in the future.



Members of the American Newspaper Boys' Association are shown here with their stamps and certificates of achievement. The group is one of the many active in the Philadelphia area.

WAR SAVINGS STAMPS BY NEWSPAPER BOYS, COMPILED BY REGIONAL ORGANIZATIONS, AS OF MARCH 28, 1942

REGIONAL ORGANIZATION: [Name]

STATE: [Name]

POPULATION: [Number]

SALES: [Number]

PERCENTAGE: [Percentage]

... [Detailed data table with columns for various categories and sub-categories]

WAR SAVINGS STAMPS BY NEWSPAPER BOYS, COMPILED BY REGIONAL ORGANIZATIONS, AS OF MARCH 28, 1942

REGIONAL ORGANIZATION: [Name]

STATE: [Name]

POPULATION: [Number]

SALES: [Number]

PERCENTAGE: [Percentage]

... [Detailed data table with columns for various categories and sub-categories]

THE RECORD NEWSPAPER CARRIERS AT TROY, NEW YORK, ARE SUPER-SALESMEN WHO WIN SUPER AWARDS



J. J. Van Hook

Troy, N. Y., carriers are the best in the country, according to a report by the National Newspaper Carriers' Association. The report, based on a survey of 100 carriers in 100 cities, says that Troy carriers are the best in the country because they are the most efficient, the most reliable, and the most patriotic.



The Hartford (Conn.) Times Carriers Received the Highest Award in the Country.

The Hartford (Conn.) Times Carriers received the highest award in the country for their outstanding performance in 1940. The award was presented to them by the National Newspaper Carriers' Association.

NOW U. S. WAR SAVINGS STAMPS AND BONDS

Buy U. S. War Savings Stamps and Bonds regularly. They are the easiest way to help our country win the war.

THE DAYTON, OHIO, DAILY NEWS CARRIERS PASS 1,500,000 SALES MARK QUICKLY

The Dayton, Ohio, Daily News carriers have passed a sales mark of 1,500,000 U. S. War Savings Stamps and Bonds. This achievement was accomplished in a remarkably short period of time.

THE FOUR-MILLIONTH STAMP—FOR MY BOY

The Four-Millionth Stamp—For My Boy

Bought by Mrs. Janet Russell Blake, Iowa's Last Girl and Mother of the War



Mrs. Janet Russell Blake, Iowa's last girl, holding the four-millionth stamp.

The four-millionth stamp was purchased by Mrs. Janet Russell Blake, Iowa's last girl, and is now being held by the War Relocation Authority.



Mrs. Janet Russell Blake, Iowa's last girl, holding the four-millionth stamp.



LOS ANGELES TIMES BATTLE FLEET GOES INTO ACTION

The Los Angeles Times Battle Fleet is now in action. The fleet consists of several ships that are used for training and public relations purposes.

MEMBERS OF THE LOS ANGELES DAILY NEWS



Members of the Los Angeles Daily News standing together.



BRONX NEW YORK HOME NEWS CARRIER TOP HONOR AWARD WINNER WITH SALES OF 75,000 TEN CENT U. S. SAVINGS STAMPS

A Bronx New York Home News carrier has won the top honor award for his outstanding sales of 75,000 ten-cent U. S. Savings Stamps.

PICTURES WANTED



Members of the Bronx New York Home News carrier team.

Honor Shields and Stars and Gold Bars Are Now Being Shipped on All Registrations

Honor shields and stars, and gold bars are now being shipped on all registrations for U. S. War Savings Stamps and Bonds.



*** MARCHING ALONG TOGETHER—FOR VICTORY! ***

May 7, 1942.

MEMORANDUM FOR THE SECRETARY

This is to advise you that the National Association of Manufacturers, following our visit with Mr. Roscoe, reported Mr. Witherow has telegraphed their 8,200 members relative to our Payroll Savings Plans. A report on this will be made to you on receipt of replies to these telegrams.

The United States Chamber of Commerce, through Mr. O'Leary, have contacted all the members who requested similar information. You will receive a report on this.

You may further wish to know that Mr. Eric Johnston, the new President of the United States Chamber of Commerce, has consented to serve on our Payroll Savings Advisory Committee. We have not received word of Mr. Witherow's acceptance but I am told by Mr. Roscoe that we will get it.

Ted R. Gamble.

May 7, 1942.

MEMORANDUM FOR THE SECRETARY

Your request that photostats be made of the answers to the wires you sent to the firms who employ 5,000 or more people and that these photostats be distributed to our state organizations, has been complied with.

You might also wish to know that all of these wires are being answered individually and a copy of the General Motors brochure is being sent to them.

Ted R. Gamble.

May 7, 1942.

MEMORANDUM FOR THE SECRETARY

The following men have been assigned by the American Federation of Labor to supervise the organizers in the several districts of the country in their new work of enlisting the aid of all locals in obtaining at least 10% of every member's pay every pay day:

Mr. John Murphy (A.F. of L.) to work with our Mr. Gilbert Hyatt in the northeastern district.

Mr. George Googe (A. F. of L.) to work with our Mr. James Barrett in the southern district.

Mr. Harry E. O'Riley (A. F. of L.) to work with our Mr. Elmer Dowell in the middle western section.

Mr. S. Flannigan (A. F. of L.) for the Pacific Coast, to work with one of our men yet to be named.

We have taken the cards of the 13,000 firms from Mr. Tickton who has broken them down by states, showing the number of persons participating and the amount of War Bonds being purchased, and they are to be put in the hands of these labor workers. Their respective crews or organizers are now being gotten together and this whole plan will be in operation by the end of this coming week.

Ted R. Gamble.

May 7, 1942.

MEMORANDUM FOR THE SECRETARY

Your suggestion that we receive names of ships being launched by the Navy and have the states adopt them as War Bond quota objectives, has run into the following snag:

A directive from Admiral Hepburn, "that no name of any ship can be given out until twenty-four hours before the launching".

We are trying to determine if the Navy would permit the placement of a plaque or small silver plate with copy to the effect - "This destroyer was made possible by the war savings of the State of New York".

You may be interested in the attached report showing the cities that have, through our state organizations, named planes purchased through the savings of War Bonds.

Ted R. Gamble.

<u>TOWN</u>	<u>RAISED</u>	<u>WANTS</u>	<u>NAMED</u>
Napa, California	\$300,000	Bomber	City of Napa
Reno, Nevada (state-wide)		Bomber or Pursuit	Reno Avenger
Palo Pinto County, Texas (each town)	300,000 (3/28)	Bomber (for each town)	For each town--last named "Miss Palo Pinto County".
Louis County, Mo.	100,000	Interceptor	Louis County, Mo.
Oklahoma City, Okla., American Pen Women		Bomber	
Cle Elum - Rosyln, Wash.		Bomber	
El Paso, Texas	300,000	Bomber	City of El Paso
Amarillo, Texas	300,000	Bomber	City of Amarillo
Cleveland, Ohio	100,000 (5/1)	Bomber	City of Cleveland
Baltimore, Md.	7,500,000	Bomber	City of Baltimore
Great Falls, Mont. (statewide)	89,475	Interceptor	State of Montana
Durham, N. C.		Bomber	
Idaho Falls, Idaho		Bomber	Idaho Falls
Nashville, Tenn.		Bomber	City of Nashville
Peoria, Illinois	200,000 (3/5)	Bomber	Spirit of Peoria
Chattanooga, Tenn.		Bomber	
Scottsbluff, Neb. (statewide)		Bomber or Fighter	
Miami, Florida		Bomber	
Juneau, Alaska	436,552	Bomber	Spirit of Alaska

THE SECRETARY OF THE TREASURY
WASHINGTON

May 7, 1942.

My dear Mr. President:

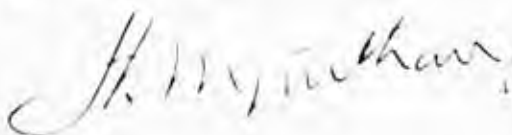
As a result of the increase in postal savings deposits, the Canal Zone Postal Savings System now has \$1,000,000 available for investment in Government bonds. The Postal Savings System pays a fixed rate of 2% on deposits, and, therefore, it is necessary that these funds be kept invested as far as practicable at a rate sufficient to cover the payment of such interest. The System's present portfolio of approximately \$3,400,000 is made up principally of intermediate and long-term securities, and it would seem advisable that the funds presently available be invested in obligations redeemable at any time that funds are required for the discharge of deposit liabilities.

The Governor of the Panama Canal has indicated his readiness to purchase a series of special Treasury notes for the Canal Zone Postal Savings System, bearing interest at 2% per annum, payable semi-annually, and maturing in five years, which would be redeemable upon demand to the Treasury.

These notes would be similar to the special 2% Treasury notes which the Treasury has, with your approval, issued from time to time to the Board of Trustees, Postal Savings System, to the Federal Deposit Insurance Company and to other accounts, for the purpose of providing investment obligations to those agencies and accounts which can be liquidated at par to meet any unusual demand upon them.

Inasmuch as the Second Liberty Bond Act, approved September 24, 1917, as amended, under which such Treasury notes would be issued, provides that they may be issued only with the approval of the President, I trust that the proposed issuance of such special 2% Treasury notes to the Canal Zone Postal Savings System will have your approval.

Faithfully yours,




The President,

The White House.

FOR DEFENSE

BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

THE PANAMA CANAL

WASHINGTON OFFICE

WASHINGTON

ADDRESS REPLY TO
CHIEF OF OFFICE
THE PANAMA CANAL
WASHINGTON, D. C.

March 23, 1942

The Honorable D. W. Bell
Under Secretary of the Treasury
Treasury Department
Washington, D. C.

Dear Mr. Bell:

The following air-mail letter has been received from
the Governor of The Panama Canal:

Despite efforts to encourage conversion of
postal savings into Defense Bonds, postal savings
deposits have increased to such an extent that
\$1,000,000 is now available for investment in Gov-
ernment bonds. Please take up with the Treasury
Department and advise as to the availability of
bonds for investment purposes, with sufficient
return to enable us to pay 2% on deposits.

I would appreciate advice as to the several kinds of
bonds referred to in an informal discussion with Mr. Haf-
felfinger, of your office, March 21.

Very truly yours,

B. F. Bardick
Chief of Office

Sales of United States Savings Bonds
 From May 1 through May 6
 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
	Daily	May 1 to Date	May 1 to Date	to Date as % of Quota	Daily	May 1 to Date	May 1 to Date	to Date as % of Quota	Daily	May 1 to Date	May 1 to Date	to Date as % of 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			84.0				60.3				144.3	
8			98.0				69.3				167.3	
9			109.7				76.3				186.0	
11			131.8				89.8				221.6	
12			141.8				97.4				239.2	
13			154.5				110.1				264.6	
14			168.0				120.6				288.6	
15			182.0				129.6				311.6	
16			193.7				136.6				330.3	
18			215.8				150.1				365.9	
19			225.8				157.7				383.5	
20			238.5				170.3				408.8	
21			252.0				180.8				432.8	
22			266.0				189.8				455.8	
23			277.7				196.8				474.5	
25			299.8				210.3				510.1	
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	

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

May 7, 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.

from 1942

TREASURY FINANCING
(In millions of dollars)

	C A S H							REFUNDINGS
	TRUST FUNDS	TAX NOTES	SAVINGS BONDS	TREASURY BILLS	SHORT-TERM ISSUES	LONG-TERM ISSUES	TOTAL CASH	
<u>1942</u>								
May	360	300	600	300	1,250	1,000	3,810	-
June	-	150	800	100	1,750	-	2,800	-
July	130	250	1,000	800	2,000	-	4,180	(276 EFG (875 HOLC)
August	325	300	1,000	100	1,900	600	4,225	-
September	-	150	1,000	-	3,000	-	4,150	342 Tr. Notes
October	140	250	1,000	-	3,400	600	5,390	320 EFG
November	350	350	1,000	-	3,750	-	5,450	1,507 Gtfs.
December	-	150	1,250	-	2,900	600	4,900	232 Tr. Notes
<u>1943</u>								
January	145	250	1,500	-	4,000	-	5,895	-
February	360	250	1,000	-	3,400	600	5,610	-
March	-	150	1,000	-	-	-	1,150	66 Tr. Notes
April	210	250	1,000	-	3,400	600	5,460	-
May	625	300	1,000	-	4,000	-	5,925	289 GOG
June	-	150	1,000	-	400	600	2,150	(629 Tr. Notes (454 Bonds)
TOTAL - -	2,645	3,250	14,150	1,300	35,150	4,600	61,095	4,990

Office of the Under Secretary
May 7, 1942.

Maturity Schedule of Interest Bearing Public Marketable
Securities issued or guaranteed by the United
States through 1952, exclusive of
Federal Housing Administration
debentures, and Postal
Savings Bonds.

(In millions of dollars)

Month	Fiscal Year									
	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952
July	1,151	324	-	-	-	-	-	-	-	-
August	-	-	-	-	-	-	-	-	-	-
September	342	279	918	1,214	-	-	451	1,250 ^{1/}	1,186	755
October	320	1,401	-	-	-	759	-	-	-	-
November	1,507	-	-	-	-	-	-	-	-	-
December	232	421	1,037	1,072	-	701	571	2,277	-	1,628
January	-	-	-	16	13	-	-	-	-	-
February	-	114	412	-	-	-	-	-	-	-
March	66	610	718	992	-	2,338	-	-	-	1,024
April	-	2,090	-	-	-	-	-	-	-	-
May	289	1,614	-	-	-	-	-	-	-	-
June	1,083	416	755	1,855	-	-	1,014	-	1,627	1,501
Total	4,990	7,269	3,840	5,149	13	3,798	2,036	3,527	2,813	4,908

Note: - Schedule based on first call date.

^{1/} Estimated sale of 2% Treasury bonds of September 15, 1949-51.

OFFICE OF THE UNDER SECRETARY
May 6, 1942.

**Maturity Schedule of United States Savings Bonds,
Series A, B, C, D and E, Outstanding
January 31, 1942, through the
fiscal year 1952.**

(In millions of dollars)

Month	Fiscal Year									
	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952
July	-	-	-	21	35	39	45	98	81	199
August	-	-	-	11	25	31	39	78	57	147
September	-	-	-	9	25	27	35	48	53	143
October	-	-	-	19	26	28	44	57	60	162
November	-	-	-	18	25	29	40	71	62	100
December	-	-	-	26	63	50	74	139	131	487
January	-	-	-	47	106	113	172	348	227	528
February	-	-	-	23	48	48	65	121	213	531 1/
March	-	-	38	26	43	48	74	167	69	451 1/
April	-	-	23	26	32	41	62	88	83	436 1/
May	-	-	17	22	26	36	71	67	165	800 2/
June	-	-	15	26	29	37	84	59	133	1,067 2/
Total	-	-	93	274	483	527	805	1,341	1,334	5,051

1/ Estimated from sales.
2/ Estimated.

UNDER SECRETARY OF THE TREASURY

May 7, 1942

May 7, 1942

Telegram received from Mr. John A. Hartford, President,
the Great Atlantic and Pacific Tea Company

"Tuesday's survey discloses consumer comment on price ceilings continues diminishing in all company's territories. Particularly small interest evidenced in New England. Sales Tuesday generally slightly higher than last week, with very little indications consumers are buying less in anticipation of effective date of ceilings. Main consumer concern this week on sugar rationing and coffee limitation.

"New York sales Tuesday lightly over last week. Only customer concern with coffee and sugar. Philadelphia sales slightly under last week, moderately under two weeks ago. The few comments heard are favorable to ceilings. Chicago sales approximately same as last week. Coffee and sugar situation causing more concern than ceilings. Boston Tuesday's sales slightly higher than last week. Comments fewer than on previous days, as customers evidence little interest or knowledge of ceilings, with some believing all prices will be same for all stores under ceilings. Sugar sales over country very slow.

"Manufacturers report business at standstill, causing many to effect March levels before deadline. Our company reflecting further downward retail prices to consumers. Find others doing likewise. Considerable inquiries being made by retailers concerning retail prices effective May 18 which will show them actual dollar loss against replacement on principally meats, soaps, canned citrus fruits and juices."

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 7, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Statements on the inflation problem.

In response to your request for data on statements you have made in regard to inflation problems, I am submitting the attached selected list of exhibits covering various price statements that you have made, together with certain memoranda on price problems prepared for you in this Division.

Attachments

Selected statements, memoranda, etc., indicating the concern of the Secretary of the Treasury over the inflation problem.

September 27, 1940:

At the suggestion of the Secretary, a Treasury price committee was organized to study the inflation problem, holding its first luncheon meeting on this date.

October 7, 1940:

The Secretary's interest in the problem of inflation led to the preparation of a memorandum submitted to him on this date, reviewing price developments during the World War period. Exhibit 1.

October 16, 1940:

The developing inflationary situation was responsible for a memorandum submitted to the Secretary on this date entitled "What should be done now about inflation?" Exhibit 2.

October 25, 1940:

A statement, presented at the meeting of the Treasury price committee on this date, entitled "What action is needed now to forestall inflation?" indicated that the major immediate problem was to insure adequate supplies of steel and other important materials. Exhibit 3.

November 1, 1940:

The Treasury price committee meeting on this date was attended by Mr. Leon Henderson, who discussed the work being done by his office to get increased production of basic materials.

December 13, 1940:

Concerned with the mounting prices of lumber and various basic materials, the Secretary gave the President two price charts, showing trends of basic commodity prices and building material prices. Copies of the charts were also sent to Mr. Henderson with a letter expressing the Secretary's concern with these evidences of inflationary tendencies. The letter, charts, and succeeding correspondence are shown in Exhibit 4.

December 15, 1940:

The Secretary asked Mr. Haas, "To find out from the Army each particular item that they insist must be made of pure wool, and then we could show this list to the Institute of Cotton Manufacturers, and find out from them if this article could not be duplicated in cotton. After all, we have 8 or 10 million bales of cotton, and if we can find some way of using this up on the Army and, at the same time, keep the price of wool from going through the ceiling that would be a move in the right direction." The list submitted is shown in Exhibit 5.

December 16, 1940:

The Secretary requested of Mr. Haas: "I noticed in your latest report that the price of butter is up 33 or 34%. I wish you would let me know whether the Department of Agriculture, through any of its affiliates or subsidiaries, owns any butter, stores any butter, or is lending any money on butter." A copy of the memorandum prepared in response to this request is shown as Exhibit 6.

December 18, 1940:

The Secretary had insisted for some time that a shortage of steel capacity was in prospect, despite assurances from Mr. Stettinius to the President that the industry was prepared to meet all demands. On this date he sent a letter to the President expressing his serious concern over the prospective steel shortage. Exhibit 7.

January 8, 1941:

A letter and chart were sent to the President on this date showing the increase in cost of building a 6-room frame house in St. Louis. Exhibit 8.

January 13, 1941:

The Associated Press quoted the Secretary as saying at his press conference that prices of wool and certain other commodities were too high, and that the danger of price inflation necessitated "every agency of the Government watching the situation every minute of the time". Exhibit 9.

January 15, 1941:

The Associated Press statement quoting the Secretary as saying wool prices were too high brought criticism from the Secretary of the National Wool Growers' Association. Resulting correspondence is shown in Exhibit 10.

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January 28, 1941:

The Secretary asked Mr. Haas to discuss with Mr. Hamm of the OPA the problem of controlling prices in the metal markets. A resulting memorandum from Mr. Haas is shown as Exhibit 11.

February 17, 1941:

Following conferences at the Treasury with Messrs. Hamm and Ginsberg of Mr. Henderson's office, at which the rationing of civilian demand was discussed and an illustrative chart on zinc prepared, the Secretary wrote a letter to the President, in which the extent of cooperation between the Treasury and the Price Administrator's office is indicated. Exhibit 12.

February 27, 1941:

The Secretary requested Mr. Haas: "Please bring to Leon Henderson's attention the fact that there is a tremendous rise in imported commodities. What are they doing about it? I want to hear from them. Have they brought it to the President's attention? If not, do they want me to bring it to the President's attention?" A letter subsequently sent to the President on this subject (March 11) is shown as Exhibit 13.

March 14, 1941:

The Gano Dunn steel report, indicating no shortage of steel capacity, was at variance with conclusions arrived at from analyses by the Treasury and other Government agencies. A criticism of the Dunn report submitted to the Secretary, together with correspondence with Mr. Dunn, is shown in Exhibit 14.

April 24, 1941:

The statement of the Secretary before the House Ways and Means Committee, in which he said that the proposed tax program was designed in part "to prevent a general rise in prices by keeping the total volume of monetary purchasing power from outrunning production," is given in Exhibit 15.

May 6, 1941:

Becoming concerned over the fact that Department of Agriculture price-lifting programs were being continued despite their contributing to inflationary pressure, the Secretary asked that this be called to the Department's attention. Memoranda to the Secretary on this subject are shown in Exhibit 16.

June 6, 1941:

A letter to the President on this date expressed the conviction of the Secretary that an immediate expansion in steel capacity was clearly called for, despite contrary conclusions presented in the second Gano Dunn report. Exhibit 17.

September 9, 1941:

A copy of the Secretary's statement on inflation before the Advertising Club of Boston is shown as Exhibit 18.

September 12, 1941:

A suggested method by which Government holdings of farm products might be used for inflation control is contained in a memorandum to the Secretary of this date. Exhibit 19.

September 24, 1941:

Copy of the Secretary's statement on the Price Control bill before the House Banking and Currency Committee is shown as Exhibit 20.

September 30, 1941:

Mr. Leon Henderson attended a Treasury luncheon meeting with the Secretary on this date, to discuss price and credit control and problems created by materials shortages. Others present were Under-Secretary Bell and Messrs. Eccles, Haas, Kuhn, Nelson, Ransom, Weiner and White.

October 2, 1941:

A copy of the Secretary's speech before the American Bankers' Association on this date is shown as Exhibit 21.

December 6, 1941:

To organize an inter-departmental committee for the study of the "inflationary gap" and other price problems, the Secretary on this date sent letters to 9 Government agencies asking that representatives be designated to serve on this committee. A copy of the letter to Mr. Henderson is shown as Exhibit 22.

March 3, 1942:

A copy of the Secretary's statement before the House Ways and Means Committee is shown as Exhibit 23.

March 20, 1942:

A copy of a chart, memorandum and letter on the effect of price ceilings on Canadian prices, sent by the Secretary to the President and others on March 20, is shown as Exhibit 24.

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October 7, 1940:

The Secretary's interest in the problem of inflation led to the preparation of a memorandum submitted to him on this date, reviewing price developments during the World War period. Exhibit 1.

October 7, 1940

To: Secretary Morgenthau
From: Mr. Haas
Subject: Movements of commodity prices and related price factors during the World War.

I am attaching herewith a detailed study of price trends during the World War period, with a chart showing the movements of prices and related price factors from 1913 through 1922. Developments in the price situation each year are discussed as separate sections.

The significance of this study, as it relates to the present situation, seems to lie particularly in its demonstration of the leading parts played by (1) capacity limitations, and (2) the method adopted for financing the war, in the price inflation which occurred during that period. It will be noted that commodity prices in general did not begin to rise until the index of production had practically reached its upper limit.

Attachments

COMMODITY PRICE TRENDS, 1913 to 1922,
AND RELATED PRICE FACTORS

Note: Numbers in circles refer to points on
attached chart.

January 1913 to August 1914

Commodity prices were generally stable during this period, but a gradual decline was under way when the World War began, largely due to world-wide business depression and credit stringency associated with the Balkan War, which ended in 1913.

August to December 1914

The outbreak of the war in August 1914 was immediately followed by a speculative upturn in commodity prices lasting about two months (1), which brought a rise of 2.3 points during August in the all-commodities index (1926 = 100). Sugar, grains, and chemicals were among the products having greatest price increases.

Quoting a report of the War Industries Board: "Many of the rather panicky apprehensions proved to be mistaken or at least premature, so that the prices which had bounded up so suddenly subsided again in September or October." After this flurry, the index dropped back to its pre-war level and remained there until the last quarter of 1915.

Increased war demand for certain commodities during this period was offset by the depressing effects of (a) a curtailment of export demand for many products, notably cotton, resulting from the blockade of the Central Powers; (b) severe monetary stringency in the United States, due in large part to repatriation of foreign funds, which resulted in high exchange rates for sterling (2) and other European currencies, with sterling temporarily reaching as high as \$7.00, and caused heavy exports of gold from the United States; (c) general unsettlement in trade and industry, accompanied by a sharp decline in industrial production (3), by the closing of the Stock Exchange and some commodity exchanges, by the unsettlement of international trade, and by a general moratorium on debts abroad, which prevented payments on foreign commercial obligations owed in this country.

- 2 -

The year 1915

Several factors that contributed toward starting a general rise in commodity prices, which got well under way in 1916, became increasingly important in 1915:

(a) Exports, which began to expand within a month after the outbreak of war (4), rose still higher in 1915 as war orders rapidly mounted. The demand for new tools and machinery to equip plants for munitions manufacture, in itself, created a great volume of industrial orders. The increase in exports at first was primarily in foodstuffs and textiles, but later in the year exports of munitions increased, with no restrictions imposed on their sale to belligerents.

(b) The demand for industrial raw materials increased rapidly under a phenomenal expansion in industrial production (5), induced both by the increased demand from abroad and by a rapid revival of domestic demand. The index of industrial production nearly doubled during the year, with the iron and steel industry experiencing the greatest revival in its history.

While the commodity price level was held down most of the year by continued large supplies of agricultural products, by increased output of mines, and by increased available supplies of manufactured products, a point was shortly reached where productive capacity became inadequate and labor costs began to increase, contributing toward a general mark-up of prices that began in the last quarter of the year (6).

(c) Monetary conditions became increasingly inflationary. Extremely easy money rates (7), accompanying a huge expansion in excess bank reserves under the newly-established Federal Reserve System, were caused principally by heavy imports of gold from Europe. More than \$400,000,000 in gold was shipped to this country in 1915. In addition, the velocity of turnover of bank deposits increased sharply during the year, partly because of increased speculation in the stock market, and bank loans began a general expansion that did not end until 1920.

- 3 -

Sterling declined gradually during 1915, averaging below \$4.70 during the last quarter (8). The allied governments floated a bond issue of \$500,000,000 in the United States in the fall of 1915, by far the largest flotation of this kind on record. This followed the resignation of Secretary of State Bryan, who had opposed loans to belligerents as contrary to a policy of neutrality.

The year 1916

The rise in commodity prices which began late in the previous year developed in 1916 into an upsweep of inflationary proportions (9). Industrial production had reached its practical limit of capacity under prevailing conditions (10), and no significant further increase occurred in the general production index during the remainder of the war period. Unprecedented advances in wages, together with increases in material costs as manufacturers bid against each other for purchases of supplies, contributed to the extensive price advance. Semi-finished products took the lead on the rise, and prices of raw materials turned exceptionally strong near the end of the year (11).

The monetary situation continued inflationary. Net gold imports of \$530,000,000 during the year kept the money market easy, despite a broad expansion in loans, though some tightness developed at the close of the year. The velocity of turnover of bank deposits continued to increase, and bank clearings gained 39 per cent over the previous year.

Exports continued to expand (12), and our "favorable" balance of foreign trade for the year exceeded \$3,000,000,000. During this period, sterling was "pegged" around \$4.75 by means of stabilization operations financed by funds borrowed in the United States. This rate made the dollar relatively undervalued, and to that extent was an inflationary influence. In the early part of 1916, foreign securities held by British investors were taken over by their government, in exchange for British government securities, and the proceeds from sales of the foreign securities were used for purchasing supplies in the United States. Upwards of \$750,000,000 in various foreign loans were floated in the United States in this year. This country also became a depository for immense sums of foreign capital formerly placed in London, as New York superseded London in the short-term financing of international trade.

- 4 -

The year 1917

Commodity prices continued their steep advance during the first half of this year (13), stimulated in part by events which foreshadowed the entry of the United States into the war early in April. Prices of raw materials and semi-finished products continued to lead.

Our entry into the war, however, was followed initially by certain deflationary influences. The flow of gold into the United States ceased, and was succeeded by rather heavy gold exports. Stock prices during the year suffered the most abrupt decline since the panic of 1907, due to prospects of reduced earnings owing to high labor costs and the probability of drastic profits taxation and price fixing. Industrial production and exports levelled off, with activity in some lines hampered by war priority rulings, and by transportation shortages.

These influences prevented a further rise in prices during the second half of the year. On the other hand, prices were kept from declining by new inflationary influences that were beginning to develop as a result of our war activities. Bank loans expanded far beyond any previous record, with loans of New York Clearing House banks rising 85 per cent during the year. The new Federal Reserve Banks began active rediscounting operations (14), the flotation of the first Liberty Loan (\$2.0 billions) in May and the Second Liberty Loan (\$3.8 billions) in October, marking the beginning of a huge increase in rediscounts with Government security collateral. By December 1917 the amount of Federal Reserve Notes had increased to \$1,251 millions, as compared with \$273 millions at the beginning of the year.

Industrial production had apparently reached the limit of capacity under existing conditions, making the increased war demand reflect itself more directly in prices of goods and materials. The use of United States funds to stabilize sterling may also have provided an impetus toward raising commodity prices in this country, since the rate chosen was apparently high for sterling and low for the dollar.

The beginning of a tightening in credit conditions was reflected in a firming of interest rates during 1917, which was followed by an increase in the Federal Reserve rediscount rate near the end of the year (15).

- 5 -

The year 1918

Prices in this year renewed their rise ⁽¹⁶⁾, as various inflationary influences began to take effect, but Government price fixing regulations on a substantial list of important commodities, which were put into effect over a period beginning in July 1917, together with priorities on Government orders, tempered the rise and made it much more gradual than the broad upsweep of 1916 and 1917.

Industrial production averaged lower than in the previous year, despite attempts to speed up the production of war materials, and was sharply depressed in the first quarter ⁽¹⁷⁾ by shutdowns of factories which were unable to secure materials because of a serious freight car shortage and an unusually severe winter.

Monetary expansion arising from war financing continued an outstanding inflationary influence. The flotation of the Third Liberty Loan (\$4.2 billions) in April 1918, and the Fourth Liberty Loan (\$7.0 billions) in September was followed by a huge expansion in the volume of rediscounts by the Federal Reserve Banks on Government security collateral ⁽¹⁸⁾, incidental to the public distribution of these issues on the installment plan through banks. Some volume of commercial rediscounts doubtless also is included in these figures, since banks were encouraged to use Government securities as collateral by preferential rediscount rates. Increased commercial borrowing is also indicated by an enlarged volume of "all other" rediscounts in 1918.

The year 1919

The ending of the war in November 1918 was followed by some setback in commodity prices, stock prices, and industrial activity during the first quarter of 1919, as war orders were cancelled and a general bearish sentiment swept over the country. This proved to be short-lived. Inflationary influences had been accumulating, and the removal of Government price restrictions by March (on all commodities except sugar and wheat) was followed by a wave of commodity speculation that carried prices to excessive heights ⁽¹⁹⁾. The removal of restraints on production for civilian purposes, combined with a general wave of reckless extravagance, brought a pronounced rise in industrial production during the latter part of the year ⁽²⁰⁾.

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The floating of the Victory Loan (\$4.5 billions) during the early part of 1919 marked a peak in the volume of Federal Reserve Bank rediscounts on Government security collateral (21). The removal of preferential rates on such collateral near the end of the year was followed by a declining volume in these rediscounts over the next several years. On the other hand, the wave of commodity speculation which set in at that time, accompanied by heavy borrowing from the banks, was reflected in an increased amount of rediscounts on other types of collateral (22). This carried total rediscounts to a new high level at the end of 1919.

While the demand for credit was expanding, the gold supply of the country was being reduced by heavy exports of gold, which continued without interruption for nearly a year after the embargo on gold was removed in June. In a 12-month period, a record total of \$466,500,000 in gold was shipped out of the country. Meanwhile, a severe decline in sterling (23), following a withdrawal of credits to England for supporting the currency, was a further deflationary price influence.

The increasing strain on the credit structure became strongly evident late in 1919, when call money rates soared in November to a monthly average of 10.4 per cent (24), and temporarily reached as high as 30 per cent. The stock market, which had shared in the general wave of speculation, was first to foreshadow the coming deflation. Stock prices began to decline in December, after reaching a new peak the previous month.

The year 1920

The momentum of the speculative movement carried prices upward until the early summer of 1920, despite evidences that the situation was becoming increasingly critical. Industrial production reached a new peak in January and February, and manufacturers, though heavily stocked with raw materials, were booked far ahead and felt secure in the industrial outlook. Prices of finished products, however were raised more rapidly than consumer incomes would support, and a "buyers' strike" movement set in.

Stock prices continued to decline sharply throughout the year. Large stocks of goods were piling up in this country; European demand fell off as factories abroad resumed operations, and imports began to increase heavily. Industrial production dropped sharply in April (25), initiating a decline that became more pronounced as the year progressed.

- 7 -

Money conditions became increasingly tighter during the first half of 1920 as bank loans mounted to new high levels, and a severe strain on the reserve position of member banks developed. Commercial paper rates rose steadily, reaching 8 per cent during the summer. In this contingency the Federal Reserve Board decided to discourage speculation in commodities by a sharp increase in rediscount rates early in 1920. This was done in two steps. The first, on January 23, was an increase in the rate of the Federal Reserve Bank of New York from $4\frac{3}{4}$ per cent to 6 per cent (26), which was followed by the banks in all other districts.

Stock prices in February suffered a severe decline. The silk market was among the first of the commodity markets to break, bringing on a panic in Japan in April 1920. In May, the Commercial and Financial Chronicle mentioned that "deflation seems to be gathering momentum; liquidation of stocks and bonds is extending to commodities; there are further cancellations of goods."

The second increase in the rediscount rate, to 7 per cent, went into effect on June 1, with four other Reserve Banks following the example of the New York Bank (27). Average prices of commodities, which had reached a peak in May, began to fall in June, and by the end of the year the downturn had developed into a precipitous break (28). The price level in December, according to the BLS all-commodities index, had dropped to a level 28 per cent lower than in May.

While rediscounts by the Federal Reserve Banks on Government security collateral declined steadily during 1920, this was more than offset by a sharp increase in "all other" rediscounts (29), which lasted until near the end of the year.

The years 1921 and 1922

The price decline continued until the summer of 1921, when raw material prices, which had suffered most severely, reversed their trend and started a gradual improvement (30). Prices of finished goods continued down for some months longer, and the final low for the all-commodities index was reached in January of the following year, 45 per cent down from its 1920 peak. This compares with an extreme decline of 51 per cent for the raw materials group.

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The high rediscount rates were kept in effect by the Federal Reserve Banks for nearly a year, throughout practically the entire price decline. On May 5, 1921, the Federal Reserve Bank of New York initiated a series of cautious reductions (31) which by the following year carried the rate back to its 1917 level of 4 per cent.

The evidence of a change in Federal Reserve policy given by the first reduction in rediscount rates doubtless played a part in stopping the decline in raw material prices in the following month. While the deflationary effect of a declining trend of bank loans (and rediscounts) continued into the following year, certain strengthening price factors were coming into play:

(a) Gold began to come into the country in heavy volume near the end of 1920, and the heavy import movement continued through the following two years.

(b) Industrial production (32) started to rise during the second half of 1921, and gained at an accelerated rate during 1922.

(c) Industrial stock prices began a substantial rise in the latter half of 1921.

(d) Sterling exchange (33) recovered rapidly in 1921 and 1922.

(e) The excessive supplies of various goods and materials had been substantially liquidated, and the production of some commodities was drastically curtailed. The cotton crop in 1921 was the smallest since 1895.

(f) The pent-up demand for new building construction which could not be satisfied in earlier years because of war priorities and high costs, provided a powerful business impetus when costs were lowered. In 1922 there was the largest amount of new building ever recorded in a single year.

October 16, 1940:

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The developing inflationary situation was responsible for a memorandum submitted to the Secretary on this date entitled "What should be done now about inflation?" Exhibit 2.

October 16, 1940

To: Secretary Morgenthau
From: Mr. Haas
Subject: What Should Be Done Now About Inflation?

I. The Problem as a Whole

The problem of inflation is of great concern to the Treasury. Treasury fiscal policy has been the major contributing factor to most war-time inflations, and is almost certain to be blamed in any event, even if innocent. An inflation, furthermore, reacts on the Treasury by increasing the level of monetary expenditure necessary to achieve any given physical objective. This, in turn, complicates the fiscal problem and so is likely to result in further inflation. It is advisable, therefore, that the Treasury should watch carefully all incipient movements likely to lead to inflation, even when such movements seem in themselves to lie outside the ordinary domain of fiscal policy.

An inflation can occur only when the amount of purchasing power offered in the market during a given period of time exceeds the supply of goods and services available during the same time valued at the previously prevailing price level. Under such circumstances, the price level naturally rises to a sufficient extent to equate the available purchasing power with the available supply of goods and services.

The problem of controlling an inflation, therefore, may be attacked either on the monetary front by restricting the supply of purchasing power, or on the physical front by increasing the volume of production. In each case the factor of timing is very important -- for some steps, if taken prematurely, are merely repressive in their effects, while others must be taken well in advance of the actual event to be effective when the danger arises.

The purchasing power offered on the market during any period comes from two sources: (1) new purchasing power created during the period, and (2) purchasing power carried over from previous periods, principally in the form of bank deposits. The available supply of goods and services may be correspondingly broken down into two parts: (1) those

Secretary Morgenthau - 2

produced during the current period, and (2) stocks carried over from preceding periods. The carry-over stock of goods is not likely to be as important, however, as the carry-over of purchasing power.

II. The Monetary Side

Under existing conditions, the problems of controlling inflation presented on the monetary side -- i.e., the problems of restricting purchasing power -- are less urgent than those presented on the physical side -- i.e., the problems of increasing production.

The problems on the monetary side consist essentially of (1) restricting the new purchasing power created in any period through current incomes to an amount sufficient only to purchase at the previously prevailing price level the supply of goods and services produced during the period, and (2) immobilizing the carried-over purchasing power so that it cannot be used to bid up the prices of either newly created or previously existing goods.

The problem of restricting current incomes to the current supply of goods and services presents special complications under war-time conditions when a large proportion of the total available supply of such goods and services is suitable for the war effort only, and not for civilian needs. This problem is one with respect to which no action can or should be taken, however, until the need for it actually arises. We can discuss it and plan for it now, but there is nothing to be done about it until an excess of current purchasing power over the current supply of goods and services actually arises or is on the verge of arising.

On the other portion of the monetary front -- that of controlling carry-over purchasing power -- there are a number of precautionary steps which may be taken now, the principal of which are to place our monetary legislation in order and to hold in check as far as possible any unnecessary rise in bank deposits. The principal contribution that the Treasury can make to such an effort within the framework of existing legislation, is to so plan its financing as to cause as little increase in bank deposits as possible.

Secretary Morgenthau - 3

When, and if, the problem of inflation becomes imminent, however, it is probable that some direct steps will be needed to control carry-over purchasing power, irrespective of the level of bank deposits then existing. Such control would be much easier than might appear at first sight, because of the limited number of purposes for which such purchasing power is likely to be expended.

Previously accumulated purchasing power is unlikely to be expended for the ordinary costs of living. The purposes for which such purchasing power is likely to be expended are practically confined to the two categories of capital goods and of durable consumers' goods. As far as capital goods are concerned, the utilization of carry-over purchasing power may be fairly effectively controlled by direct restrictions on capital expenditures for purposes not essential to the war effort. The durable consumers' goods for which carry-over purchasing power is likely to be expended are pretty well limited to houses, household goods, and automobiles. Expenditures for these purposes can also probably be fairly effectively limited by controls on mortgage money and on consumer credit, by excise taxes, and -- when necessary -- by rationing. A striking example of control by means of an excise tax is the new Canadian tax on automobiles which is levied at the prohibitory rate of 80 per cent on that portion of the price of any pleasure automobile in excess of \$1,200.

III. The Physical Side

The problems on the physical side are more urgent. Shortages are beginning to appear in the capacities for producing certain basic materials essential for the defense program, and prices for a number of such materials have already shown substantial advances. The importance of preventing price increases among individual commodities arises not alone from the fact that such increases may serve as the first step of an inflation spiral, but also because of their influence in stimulating speculative buying among these and other commodities. An effective control of inflation, of course, can only be achieved by increasing supplies, not by merely attacking the price symptoms.

Secretary Morgenthau - 4

The following basic defense materials are illustrative of capacity shortages which are beginning to appear. Others, perhaps even more critical in their relationship to the defense program, can doubtless be found. It is obvious that the industries concerned will be reluctant to make the necessary plant expansion on their own initiative. If a careful objective analysis indicates that shortages of capacity exist, and if the industries concerned will not undertake to increase their capacity, it will be essential that plant expansion be started soon by Government action.

(a) Steel

Some strain on steel ingot capacity is already being felt, although the bulk of the steel orders for defense materials has not yet reached the steel mills. The steel industry is now operating at a higher percentage of total ingot capacity than it was at the end of 1915, when price inflation in steel products began. The importance of insuring an adequate supply of steel is heightened by the increasing dependence of the Canadian armament industry on pig iron and steel from this country, since the Canadian steel output is near the limit of capacity.

The apparent strain on steel ingot capacity has been accompanied by a strain on pig iron capacity (which is now but slightly larger than the capacity during the World War period). Blast furnaces in August operated at a higher percentage of total capacity than the average rate in 1916, which was the highest annual rate of the World War period.

The output of blast furnaces during the coming winter may be limited by a shortage of iron ore. At the middle of September, the entire Great Lakes ore fleet of 296 vessels was in operation. If ore must be carried by rail while the lakes are closed, it will increase the costs of producing steel, and tend to increase steel prices or to decrease production.

To insure against any possibility of a shortage of steel for the armament industries of this country and Canada, which might also lead to an inflationary trend of prices for steel and its many products, it seems essential that a rigid scrutiny be made of all possible bottlenecks in the steel industry, from ore transportation, pig iron and steel ingot capacity, to finishing capacity. The length of time required to

Secretary Morgenthau - 5

build new production facilities -- variously estimated at 6 to 18 months -- emphasizes the need of early action.

It is understandable that the steel companies should be reluctant to increase capacity if an increase can be avoided, since it would add to present costs and would leave them with expensive surplus plants when the emergency is over. Nevertheless, the fact remains that steel ingot production is already almost at full capacity, although most of the defense orders for steel are yet to be placed. The steel problem is so important in the determination of basic policies for defense and for price control that it requires an unusually careful determination of all capacity limitations.

(b) Zinc

During the World War period, zinc was one of the first basic commodities to reflect a shortage of production capacity, and zinc prices soared to extreme heights early in the war. Today the same tendency is under way. Zinc is the only one of the principal non-ferrous metals to have already practically reached its 1937 price peak. The bottleneck is in smelting facilities, which are now being operated close to the present limit of capacity. Some idle capacity exists, which will require time to put into operation. Supplies of ore are ample, the potential output being far in excess of available smelting capacity.

A situation in which prices can reach the speculative peaks of 1937 under the moderate stimulus which the armament program to date has given them, has potentially serious inflationary possibilities. A careful analysis should be made of zinc capacity limitations, to determine whether Government action may be necessary to increase smelting capacity, in order to forestall further price inflation and to assure an adequate supply of zinc and brass for the defense program. The zinc producers, in all probability, will not go to the expense of greatly expanding domestic capacity, since the available world capacity after the war will again include the large smelters in Belgium and other countries now in German hands.

Secretary Morgenthau - 6

(c) Copper

While our mining capacity appears adequate, some tightness may develop in copper refining capacity under the combined demands of the United States and British armament programs, particularly since a substantial part of our capacity is being used for the refining of foreign copper in bond. During three months of this year, the refining industry has operated within 13 per cent of the estimated total capacity, which may be close to the practical limit. Capacity estimates in any industry are often not reliable, since they may fail to make full allowance for various factors which retard production, such as shutdowns for repairs. Domestic copper consumption in August reached the highest monthly volume since at least early 1939, when estimates were first compiled.

While the need for action in expanding copper refining capacity may be slightly less urgent than in the case of steel and zinc, an analysis of present capacity in relation to probable needs seems advisable. It is possible that some shortage exists in smelting capacity, although data for this section of the industry are inadequate. It may be noted that the output of refined copper was not sufficient to prevent a rise of nearly 80 per cent in copper prices in less than 12 months during 1936 and early 1937.

In the case of copper, additional methods of price control are available through (1) reduction of the 4-cent import duty; and (2) restrictions on the exports of refined copper.

(d) Lead

In lead, a different situation exists, in which the treatment of symptoms rather than an expansion of capacity seems called for. While the estimated refining capacity for lead is considerably in excess of recent peak output reached in 1937 and 1939, refining activity in recent months has not been stepped up rapidly enough to prevent a reduction in refiners' stocks to the lowest level since April 1930, equivalent to less than a month's supply at the current rate of shipments.

No action seems necessary to increase refining capacity, but in view of the close control over refined lead output held by the American Smelting and Refining Company, other action may be necessary to insure an adequate supply of

Secretary Morgenthau - 7

refined lead for the defense program, and to avoid price increases. The output in 1936 and 1937, it may be noted, was not increased rapidly enough to prevent a 75 per cent rise in prices. In the present situation, a large volume of pig and bar lead held in bond, which would become available if the 2 1/8 cent tariff were removed, tends somewhat to put a price ceiling over the domestic market.

October 25, 1940:

80

A statement, presented at the meeting of the Treasury price committee on this date, entitled "What action is needed now to forestall inflation?" indicated that the major immediate problem was to insure adequate supplies of steel and other important materials. Exhibit 3.

WHAT ACTION IS NEEDED NOW TO FORESTALL INFLATION?

1. Immediate problem: To insure adequate supplies of goods and materials.

The desirability of using the defense program as an opportunity to achieve full employment and a sound expansion of national income requires that repressive methods of inflation control be avoided during the early stages of the program. Increased consumer incomes will thus tend to expand production and employment in various consumer-goods industries that are now operating some distance from capacity. They may be diverted from those which are close to capacity by selective taxes on consumer goods.

The carrying out of such a policy, however, necessarily increases the difficulties of controlling inflation, since it will limit the amount of defense financing by noninflationary methods that can be used in the early stages of the program. Practically, it means that inflation must be controlled during this period largely by increasing the supplies of goods and materials as the demand for them increases.

In many industries, of course, the present capacity is adequate to meet very substantial increases in demand. The immediate problem, therefore, boils down largely to the removal of capacity bottlenecks in a limited number of industries. This applies with particular emphasis, of course, to industries producing defense materials, where the problem of inflation is secondary to the main problem of insuring against shortages that might slow up the defense program.

2. Present excess capacity in major industries.

The extent to which production (and employment) may be increased in each of the major industries without exceeding capacity may be indicated roughly by a comparison of recent FRB production indexes with the maximum production reached by these respective industries in previous peak years.

The following table shows the index figure (unadjusted) in September 1940 for each of the major industries included in the FRB index, together with the high reached in 1929 and the high reached in the 1937-1939 period.

-2-

Federal Reserve Board Indexes (Unadjusted)
1935-1939 = 100

	Weight <u>1/</u>	High in 1929	High 1937-9	Sept. 1940
Durable production				
Iron and steel	11.0	151	161	161
Machinery	10.8	136	134	141p
Automobiles	4.8	189	171	89p
Nonferrous metals	2.8	146	157	153p
Lumber	2.9	167	134	134
Furniture	1.5	157	125	127p
Stone, clay and glass products	3.0	129	137	139p
Nondurable production				
Textiles	11.2	99	131	119p
Leather	2.3	111	123	100p
Manufactured foods	10.9	123	135	131
Paper	3.1	90	136	122 ^{2/}
Petroleum	1.9	95	121	110 ^{2/}
Chemicals	6.3	93	118	115p
Rubber	1.4	123	129	121p
Bituminous coal	3.4	154	148	118p

p - preliminary

1/ - including both manufacturing and primary production2/ - August 1940

It will be noted chiefly that, while production in the industries closely associated with national defense is already at or near previous high levels, scope for increased production and employment exists in a number of other industries, chiefly in the consumers' goods group.

3. Lessons from World War experience.

Our experience during the World War lends distinct encouragement to the belief that, through proper planning, we can avoid inflation until industrial production as a whole approaches its capacity limits. But it also shows clearly the need of looking ahead and carefully planning in advance if this objective is to be achieved.

-3-

After the war broke out in 1914, general commodity prices held stable for a period, despite the enormous volume of foreign buying concentrated in this country, until industrial production had practically reached the plateau level at which it held over the next several years. When the heavy demand from both foreign and domestic sources in 1916, 1917 and 1918 could force production no higher, only then did it have much effect in raising the general price level.

The influence of capacity limitations on prices during the early years of the World War is shown more clearly in the case of specific products, like steel and textiles. Steel prices rose only moderately - less than \$5 per ton - until the practical limit of capacity was reached near the end of 1915, after which prices soared to fantastic heights.

Steel production in December 1915 exceeded by 17 per cent the peak output of any month in previous years, with an operating rate averaging 87.2 per cent of the capacity in that month. Currently, we are already operating closer to total capacity than we were at the end of 1915. If we add to the capacity at the beginning of 1940 about 800,000 tons which are being added this year in electric furnace capacity, the operating rate this week is approximately 94.0 per cent.

In the case of cotton textiles, likewise, the increase in prices during the World War was relatively small until production reached a level above which it could only with difficulty be increased.

Price inflation during the World War early became apparent in the nonferrous metal group, notably in zinc prices. The BLS price index for this group began to rise before the end of 1914, and had practically doubled by the end of the next year, when steel prices started sharply upward.

The rise in prices of steel, zinc, and other metals naturally induced an expansion of capacity. But this capacity came into operation too late to prevent the marked rise in prices noted above. In the case of steel, a capacity of 46,249,000 tons at the end of 1914 was expanded to 58,846,000 by the end of 1917 but it was not until the second half of 1917 that steel prices declined. Zinc smelting capacity was increased to such an extent that production overtook

-4-

consumption in 1916, but this was not soon enough to prevent a rise in zinc prices from 4.81 cents in October 1914 to 22.14 cents in June 1915.

An important lesson to be learned from this experience is the necessity for forecasting, well in advance, the amount of capacity that will be needed, in order that any necessary new capacity may be brought into production with the minimum delay. A surplus capacity, as an insurance against miscalculations, would be far preferable to the risk of possible shortages.

4. The present situation in commodity prices.

The rise in prices of a number of basic commodities that has been under way since the middle of August has had relatively slight effect, so far, on the broader indexes of commodity prices. The BLS all-commodity index, which had been in a gradually declining trend since last October, rose only 0.6 point in September to 78.0. The increase in commodity prices brought a slight rise in living costs during September.

The upturn since mid-August has been much more pronounced in the BLS price index of 28 basic commodities, which has risen nearly 10 per cent from the August low. The rise has been most persistent and most extensive among industrial materials, of which hides and wool have led the upturn, followed by the metals and silk. Among the basic foodstuffs, wheat has shown outstanding strength.

5. Supply shortages beginning to appear.

The recent increase in prices of basic industrial materials has been due, in a number of instances, to rather clearly apparent supply shortages, such as may be expected in increasing numbers as a characteristic feature of the first stages of inflation. In the case of certain commodities, particularly imported materials, little can be done to increase domestic supplies except through direct Government buying, reducing import duties, and encouraging substitution.

With many commodities, however, both industrial materials and farm products, adequate future supplies may be assured by systematic production planning based on estimated needs. It is the intention in this report merely to point

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out briefly a few situations in which supply shortages have already strongly affected prices, and which seem to warrant further attention as a first step toward inflation control.

Shortages of available supplies at a time of increasing demand have been largely responsible for the price upturns in each of the three basic commodities showing the largest percentage gains from their August lows - hides, wool and wheat.

Reported domestic stocks of hides at the end of August were the lowest for that month since at least 1922. In the Argentine hide markets, Russia, Japan and the United Kingdom, in addition to the United States, have recently been buying heavily. The orders from the Army for some 4,000,000 pairs of shoes, and recent heavy buying of sole leather in this country by Russia have contributed to a tight supply situation. The situation might be improved by a reduction in the 10 per cent import duty or by the increased use of lower quality hides available in Argentina.

The wool situation is dominated by (1) heavy Army orders for cloth and blankets, and (2) control by Great Britain of most of the stock of fine wools outside the United States. When pending contracts are awarded, involving mostly fine wools, the Army will have absorbed one-third or more of this year's domestic clip. The price outlook will thus depend partly upon Great Britain's willingness to dispose of her stock of fine wools. Increased utilization of the medium and coarse wools from Argentina and Uruguay, reduction of the 25 cent (approximate) import duty, and enforced mixtures of other textile fibers in certain fabrics, are possible methods of price control.

The sharp rise in wheat prices is credited chiefly to the Government loan program, which has withdrawn a substantial amount of wheat from the supply available to domestic millers - 218,000,000 bushels of this year's crop being reported under loan on October 15. Wheat does not yet present a price-control problem, however, since (1) an ample domestic supply is available, and (2) the automatic reduction in new loans and increase in repossession of wheat by growers at higher price levels tends to put a ceiling on the price advance.

Zinc presents an important bottleneck among industrial raw materials, as it did during the World War, and largely for the same reason - the unavailability of smelting capacity

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in Belgium and other German-occupied countries, which has over-loaded the smelting capacity in the United States. As a consequence of heavy demand for refined zinc, and little increase in output, the stocks at smelters have been reduced to the lowest figure since the excessively low levels of 1937, and prices have reached the speculative peaks of 1937. Production, on a daily average basis, increased 10 per cent in September, with a noticeable increase in the number of retorts operating. The smelter output, however, remains far below the present level of deliveries. In view of the vital position of zinc in the armament industries, a critical survey of present smelting capacity seems necessary, in order to provide absolute assurance of adequate future supplies.

In the copper industry, the domestic production of refined copper in August and September was lower than in the three previous months, despite a substantial rise in prices. The fact that refinery output for domestic consumption is already approximately at the peak levels of 1937, and is not increasing, may indicate that it is close to practical capacity, particularly since part of the total capacity is now being used for refining foreign copper for re-export. Copper smelting capacity, for which adequate statistical data are lacking, is also a possible bottleneck. The fact that smelter output showed less than a seasonal increase from August to September, despite urgent demand from consumers, may indicate that at the present high levels of operation further increases are difficult. A careful analysis of copper smelting and refining capacity seems needed, looking toward the building of additional plants if necessary to supply the peak armament requirements in 1941 or 1942. The possibility of reducing the 4 cent import duty, or direct purchasing of foreign copper by the Government for armament use, might also be considered.

6. Capacities in other industries may need reviewing.

With the defense program barely started, so far as the actual production of goods and the demand for raw materials is concerned, it is obvious that supply shortages among the numerous materials essential for the defense program have only begun to be uncovered. Added to the defense demand in coming months, of course, will be an expanding demand for civilian uses. It is very likely that the total demand for a long list of materials, under these conditions, will be at the highest levels ever reached. Will the capacity for producing these materials be adequate? Is it known now

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where supply shortages are likely to develop before the end of next year? Can steps be taken now to prevent these shortages? The answers to these questions will help determine whether the armament program can be carried to completion with the least possible interruption, and with the least repression of civilian industries.

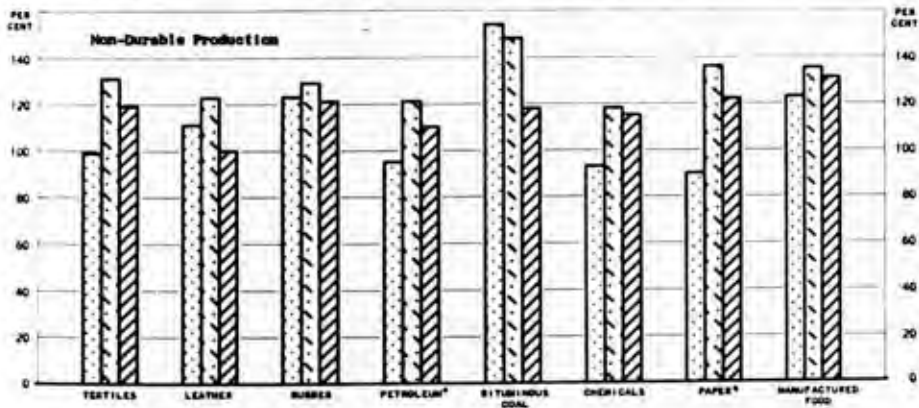
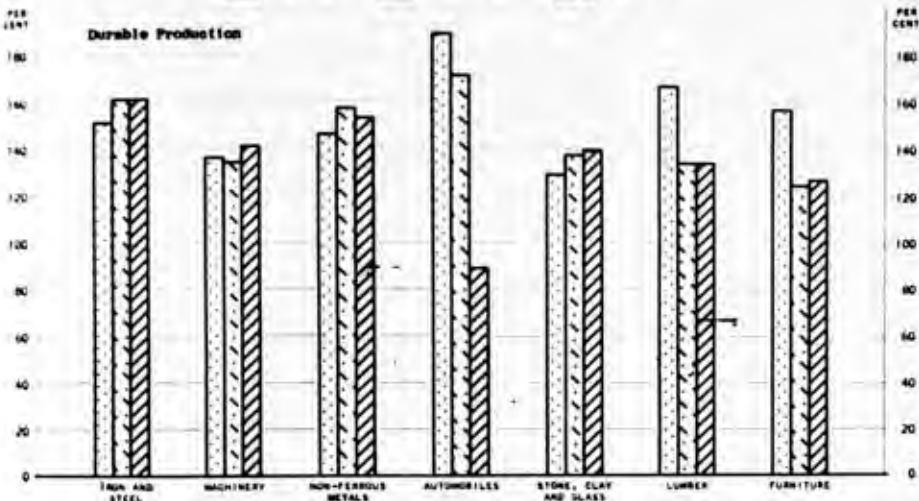
The steel industry, with its various essential subsidiary industries, any one of which might develop into a bottleneck that would slow up the entire steel output, presents the broadest capacity problem for the armament industry. It may be recalled that in the winter of 1918 a mere shortage of coke caused many blast furnaces to be banked, reduced pig iron output by 25 per cent, and seriously retarded the production of war materials.

While the steel industry believes that its ingot capacity is adequate, there seems considerable doubt as to whether their estimates make sufficient allowance for (1) a further expansion in civilian uses, which might establish new records in 1941 and 1942, (2) an excess of capacity to allow for miscalculation of armament and defense construction requirements, and to meet unforeseen emergencies, and (3) sufficient capacity in subsidiary industries (ore production, pig iron, coal, coke, etc.) to meet these maximum requirements.

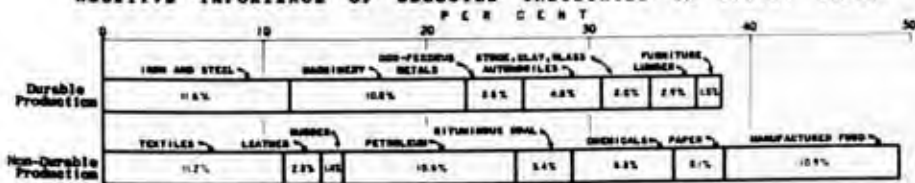
Regardless of any statistical calculations, the fact remains that steel ingot production is closer to full capacity than it was when the steep rise in steel prices began at the end of 1915, that recent increases in output have been very gradual, indicating the difficulty of further expansion, and that the larger part of the actual steel orders for defense materials are yet to be received by the mills.

F. R. B. INDUSTRIAL PRODUCTION IN SELECTED INDUSTRIES
 September 1940 Compared with Peak Month in 1929 and Peak Month in Period 1907-1926

1929 Peak 1907-1926 Peak Sept. 1940



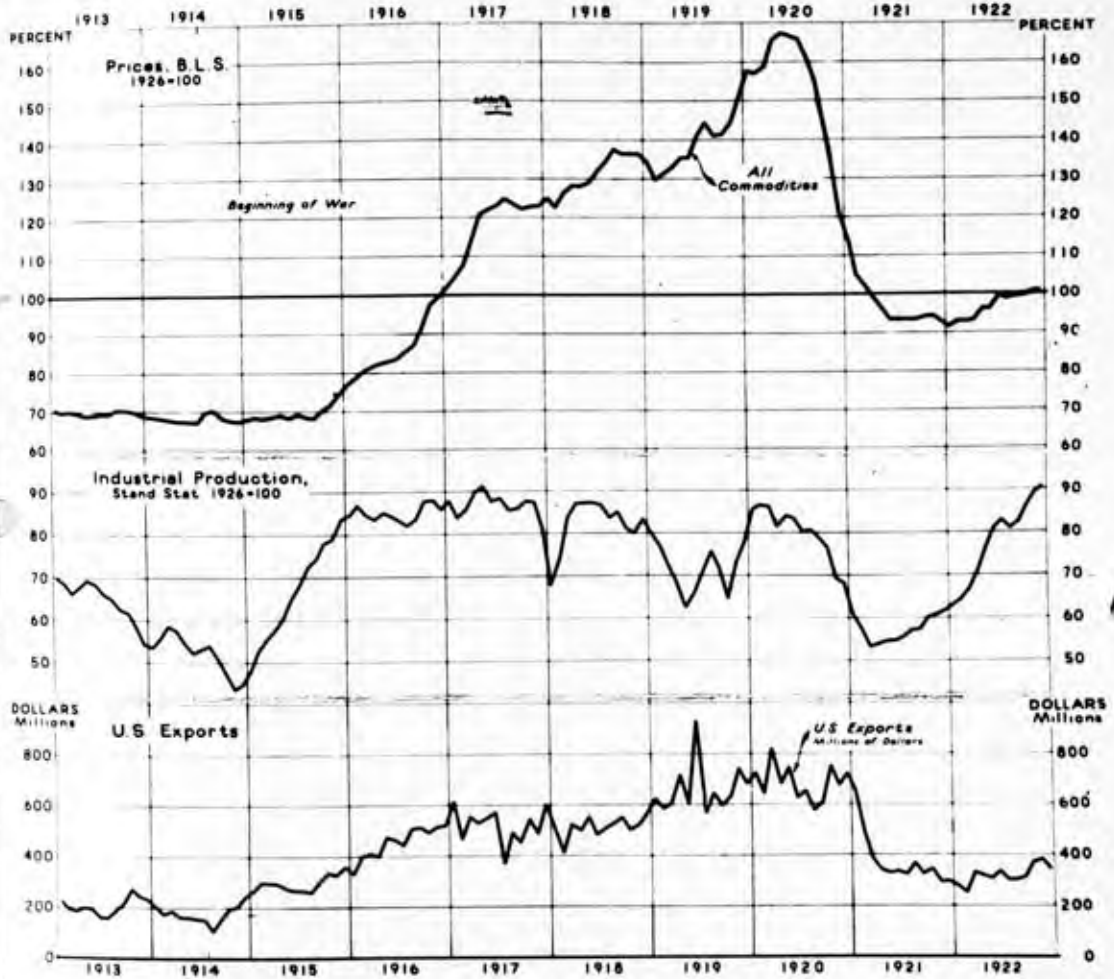
RELATIVE IMPORTANCE OF SELECTED INDUSTRIES IN F. R. B. INDEX*



* August 1940

* Percentages are the individual items including both manufacturing and primary production

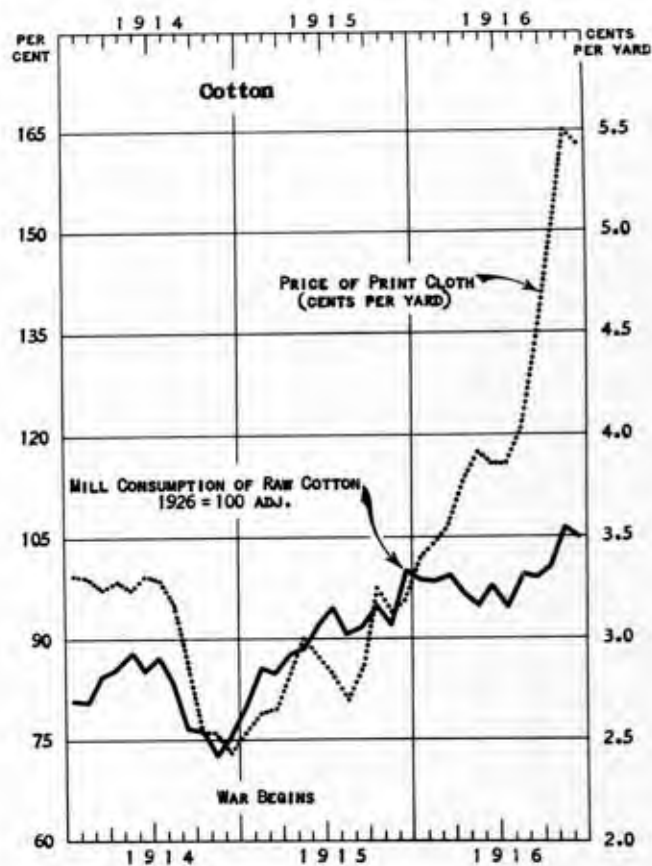
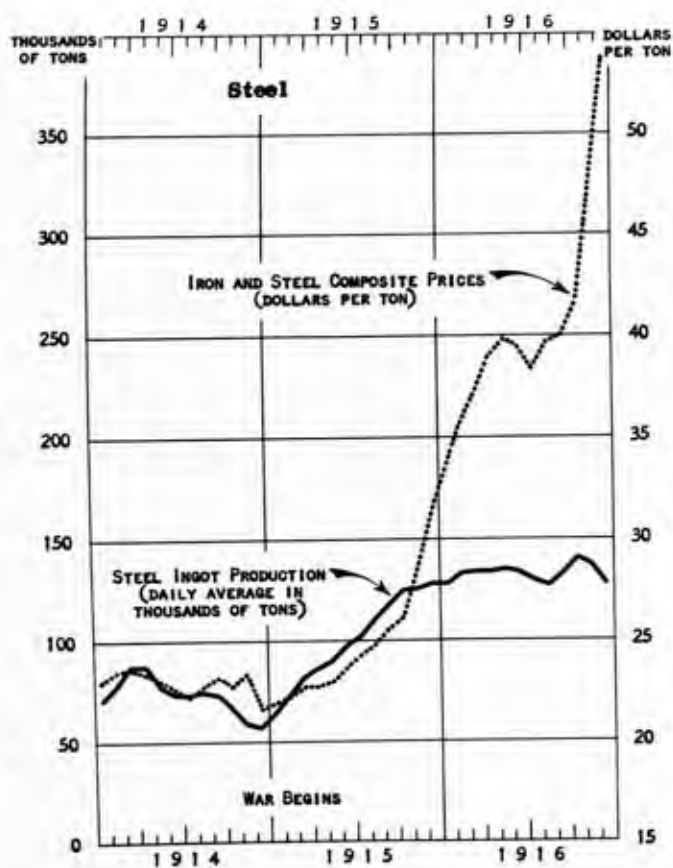
COMMODITY PRICES DURING WORLD WAR
 In Relation to Exports and Industrial Production
 1913 - 1922



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

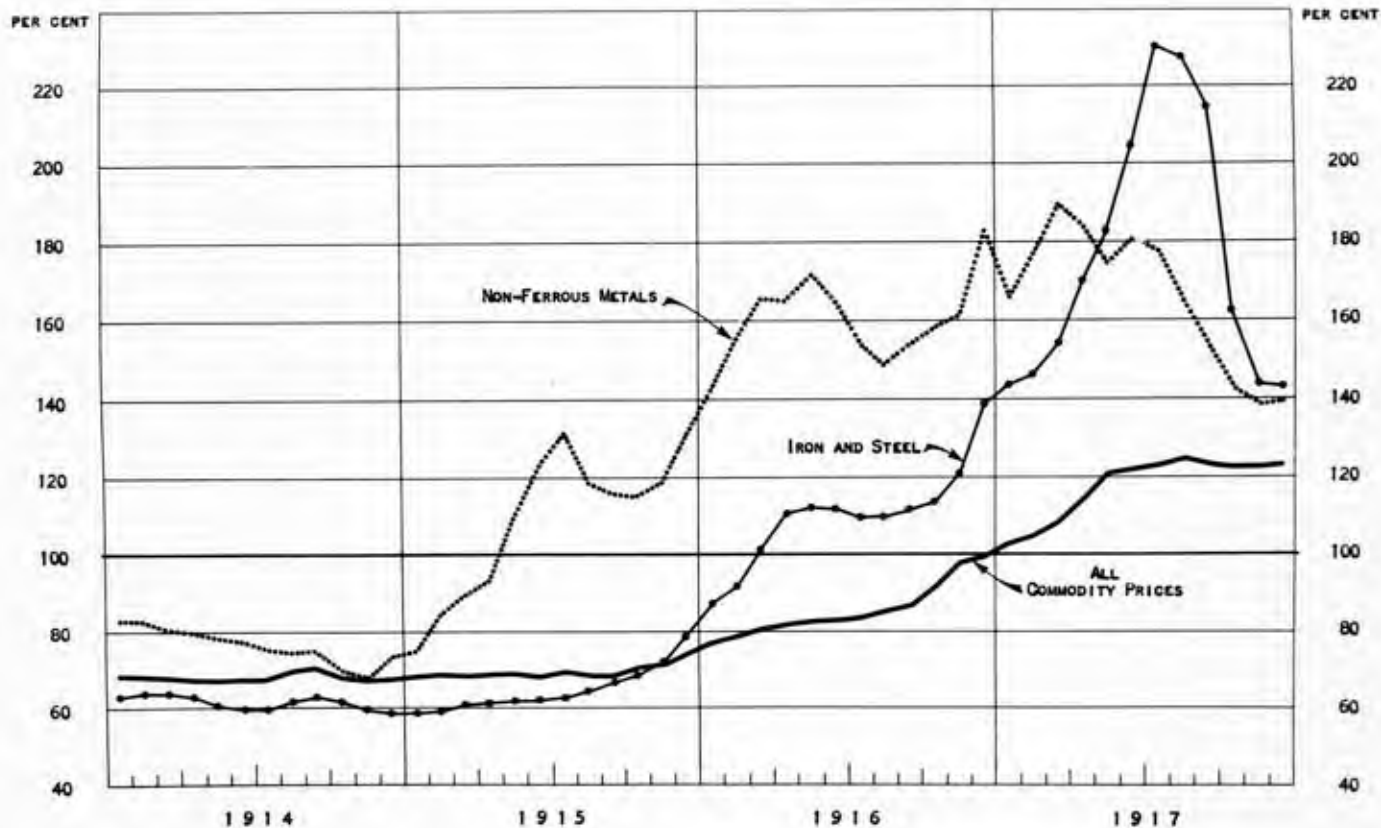
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PRODUCTION AND PRICE MOVEMENTS IN STEEL AND COTTON
1914 - 1916

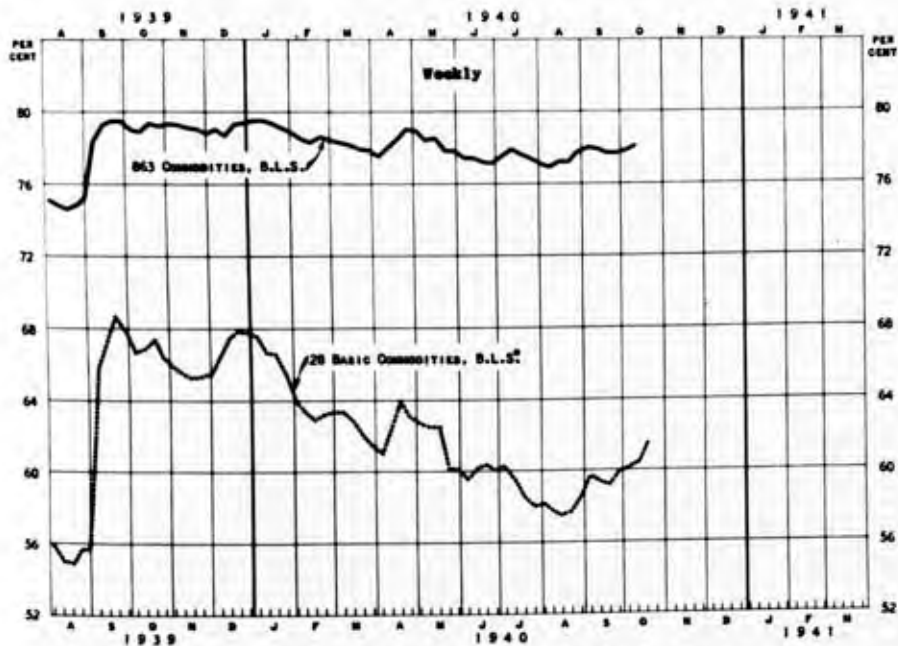


MOVEMENT OF METAL PRICES COMPARED WITH ALL COMMODITIES, 1914 - 1917

1926 = 100

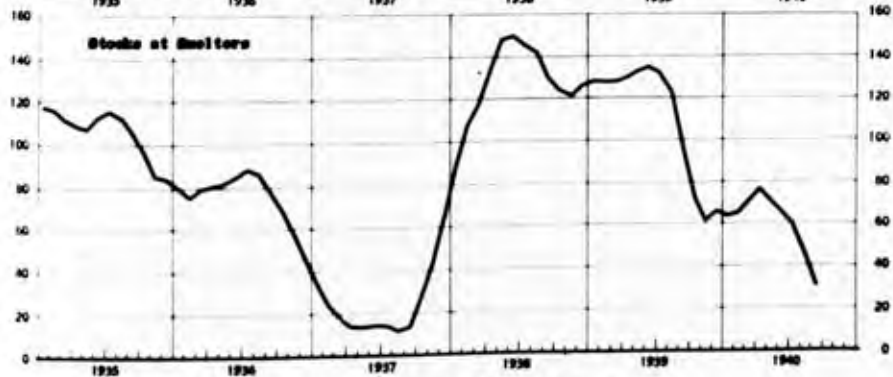
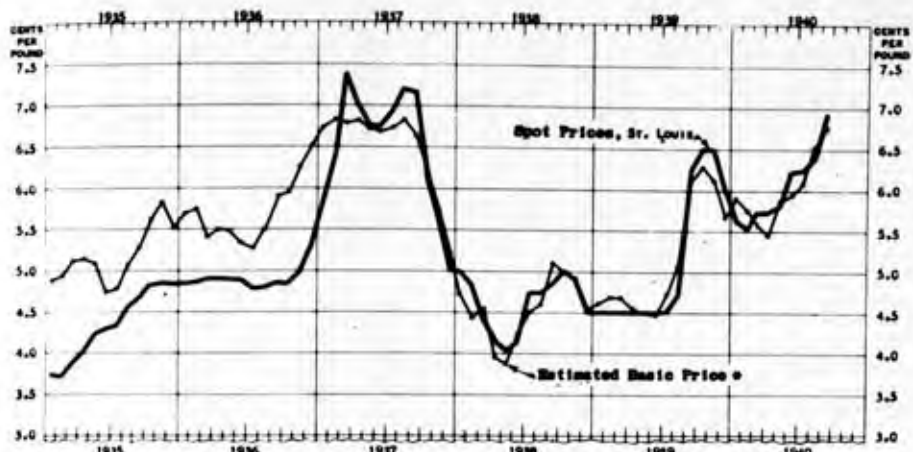


COMMODITY PRICES AND COST OF LIVING
1926 = 100



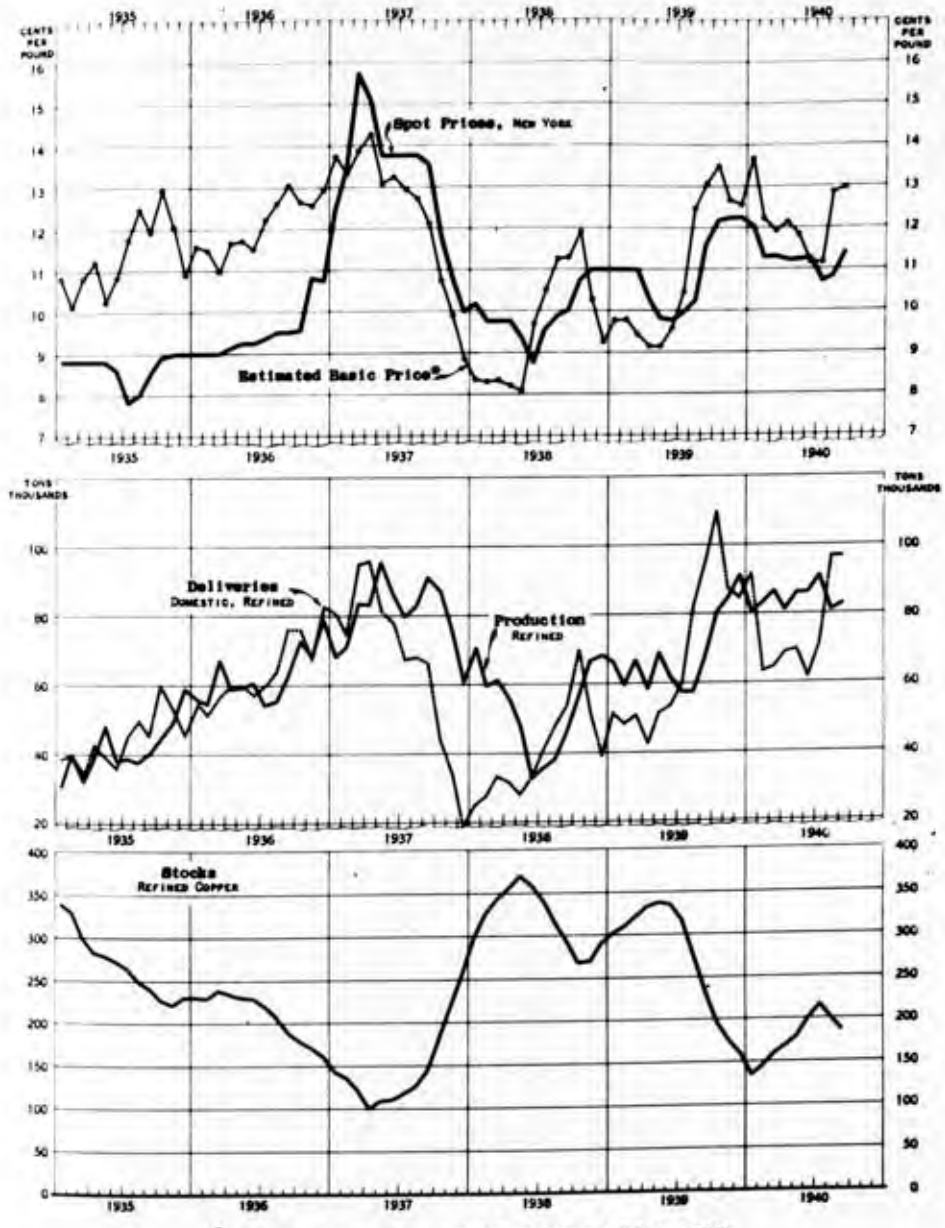
¹30 COMMODITIES PRIOR TO JANUARY 1940

ZINC PRICES, PRODUCTION, DELIVERIES AND STOCKS



* COMPUTED FROM AVERAGE RELATIONSHIP OF ZINC PRICES TO U. S. PRODUCTION, SHIPMENTS, AND STOCKS OF ZINC.

COPPER PRICES, PRODUCTION, DELIVERIES AND STOCKS



* COMPUTED FROM AVERAGE RELATIONSHIP OF COPPER PRICES TO U.S. PRODUCTION, SHIPMENTS, AND STOCKS OF COPPER.

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

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December 13, 1940:

Concerned with the mounting prices of lumber and various basic materials, the Secretary gave the President two price charts, showing trends of basic commodity prices and building material prices. Copies of the charts were also sent to Mr. Henderson with a letter expressing the Secretary's concern with these evidences of inflationary tendencies. The letter, charts, and succeeding correspondence are shown in Exhibit 4



THE SECRETARY OF THE TREASURY
WASHINGTON

December 13, 1940

Dear Leon:

I have been much concerned with the extent of the price rises that have already occurred in many important commodities, particularly in lumber and a number of other basic defense materials. Looking at a chart showing recent price changes among the 28 basic commodities in the Bureau of Labor Statistics daily price index, a copy of which is enclosed, I notice that prices of practically one-third of these commodities have risen 20 percent or more since August. Lumber prices, shown in a second chart enclosed, have had a very extensive rise, to far above the peak reached in 1937, although total stocks of lumber have not been greatly reduced.

I wonder what action has been taken with respect to the situations responsible for these price increases, and what further action, if any, ought to be taken?

Sincerely,

(signed) H. Morgenthau, Jr.

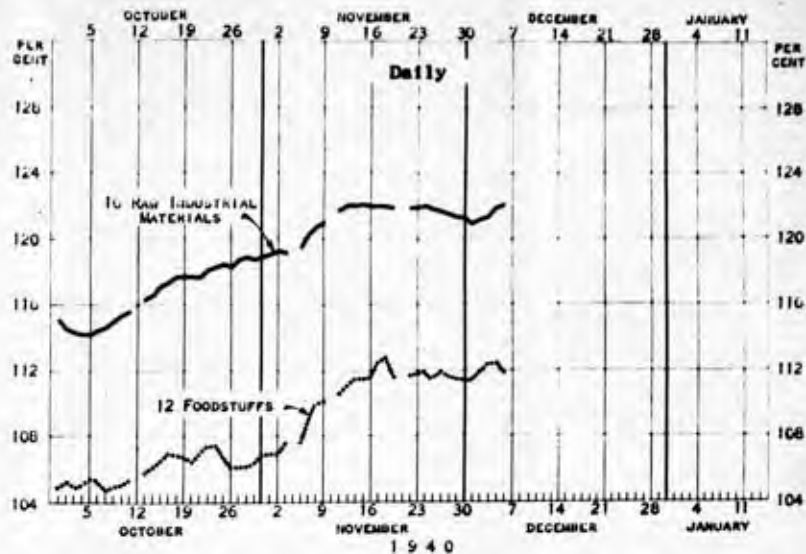
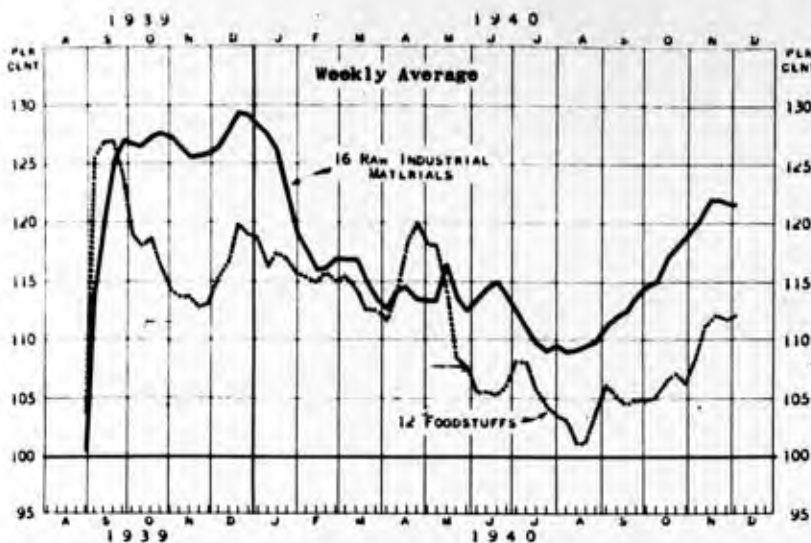
Hon. Leon Henderson,
Commissioner of Price Stabilization,
Advisory Commission on National Defense,
Federal Reserve Building,
Washington, D. C.

Enclosures

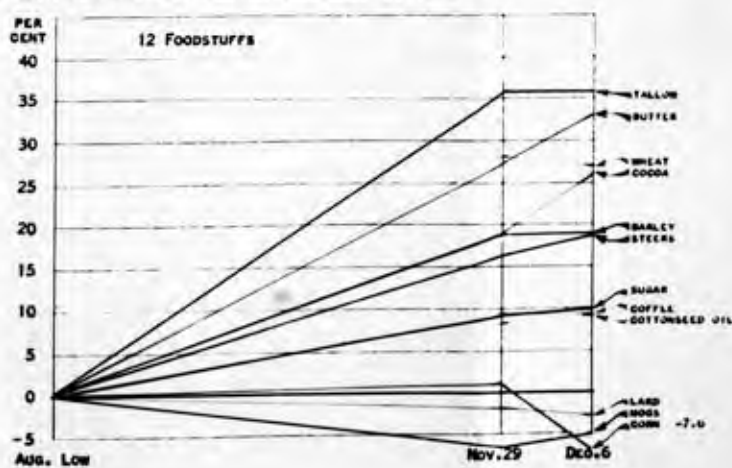
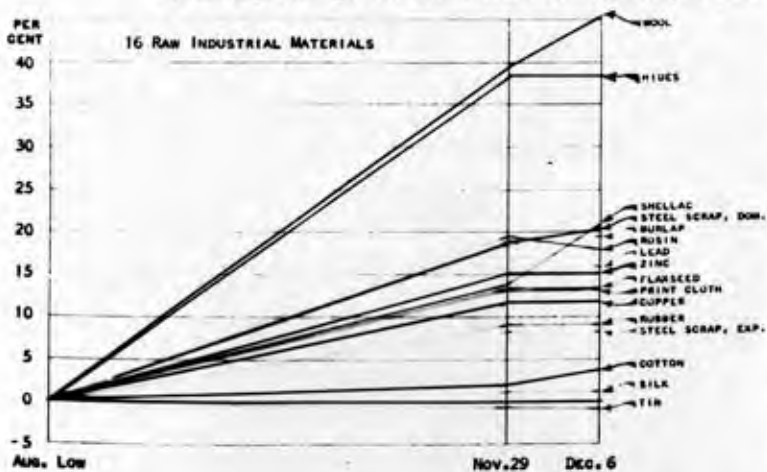
FOR DEFENSE



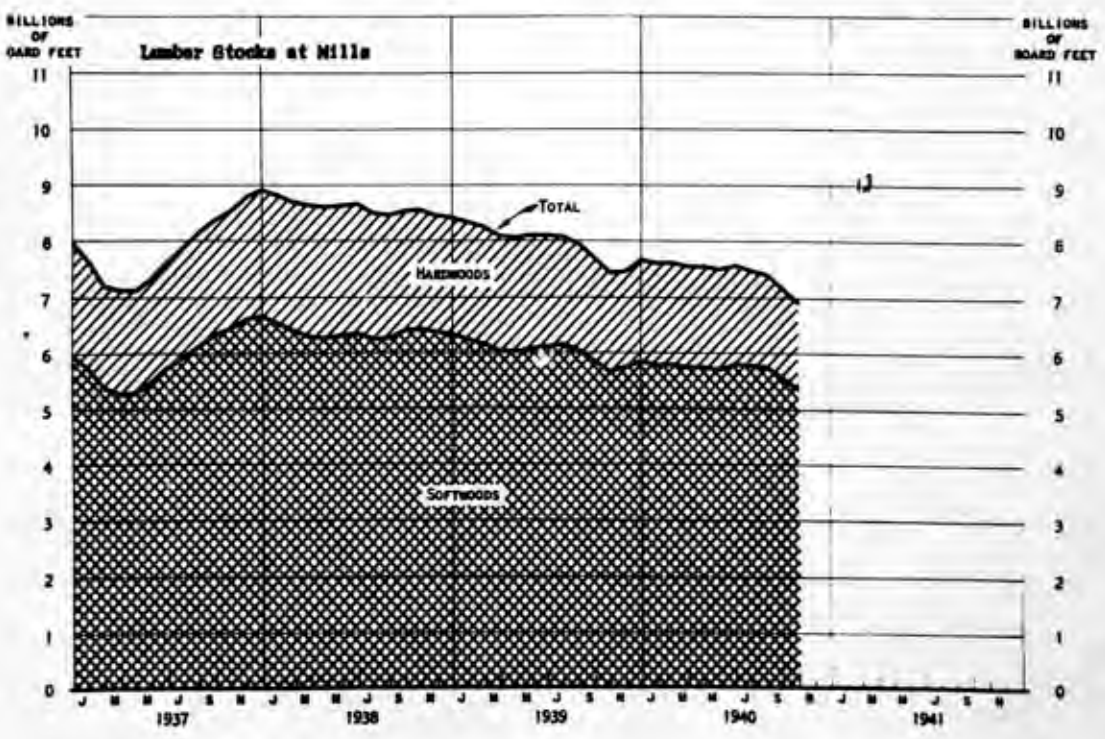
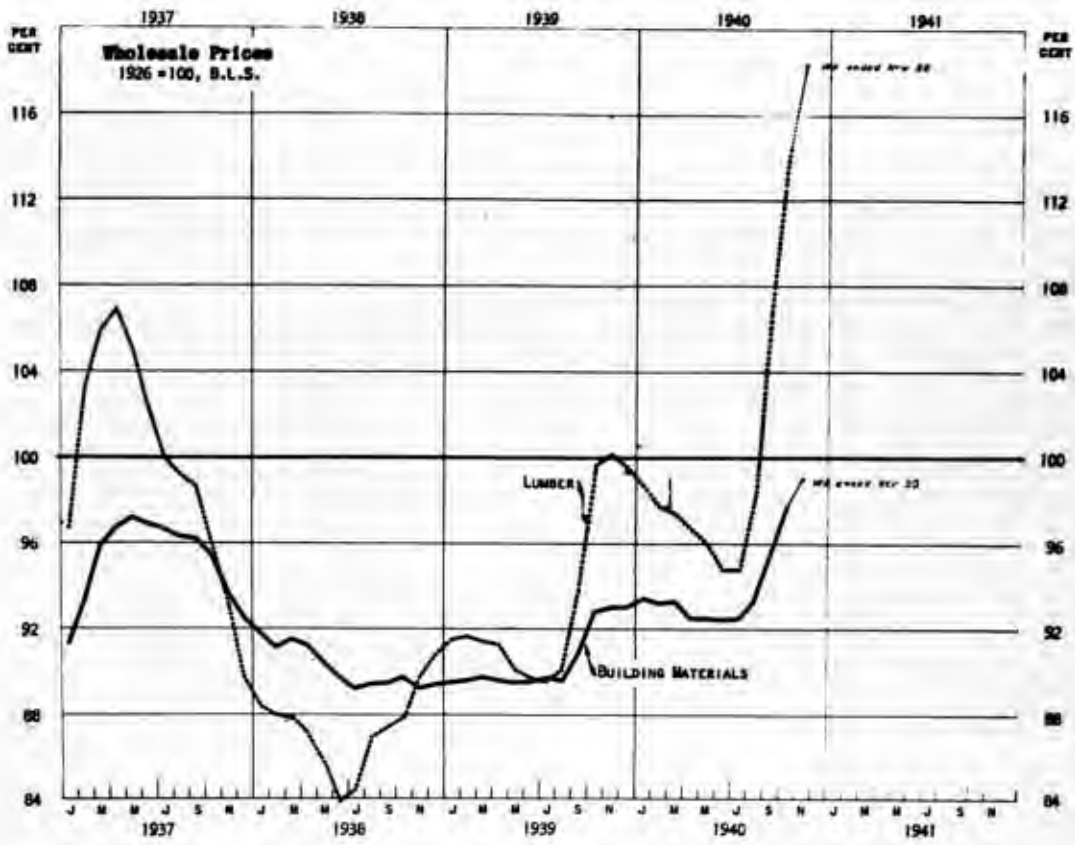
MOVEMENT OF BASIC COMMODITY PRICES
AUGUST 1939 100



Percentage Change for Individual Commodities, August Low to November 29, and to December 6, 1940



LUMBER AND BUILDING MATERIAL PRICES AND LUMBER STOCKS



THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE
Federal Reserve Building
Washington, D. C..

December 18, 1940

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

Dear Henry:

I, too, have been concerned with the price rises that have been taking place in lumber, and for the past two months have been looking into them. As you may recall, I issued a press release on September 10th in which I stated that I believed the increases were not justified on the basis of supply and demand. Since that time there has been instituted a central purchasing arrangement which has had the net result of bringing prices paid by the Government down to the extent of \$2 to \$4 a thousand.

That the industry has exercised some form of voluntary production control is evidenced by the fact that in 1929, with total shipments of 36 billion feet, stocks on hand at the end of the year amounted to 13 billion feet, while in 1940, with shipments estimated at 29 billion feet, stocks at the end of November were only 6.75 billion feet.

There are a number of things which still serve to keep the general price level high, most of which are minor matters in themselves but, combined, serve to disturb the market. One of these is the matter of grade marking, in which the Procurement Division can help. Regulations of the Procurement Division require that specifications call for grade marked lumber. This grade marking is done under the rules of the American Lumber Standards Association, which is composed of the lumber manufacturers associations. In many instances it has been found that these manufacturing associations have used their rights to issue grade marking certificates in a discriminatory manner against independents. This matter has been investigated by the Department of Justice and indictments have been procured against the West Coast Division and the Western Pine Division. However, the process of litigation can be stretched out over a very long period and we can get no immediate results from that source. I believe that if the Procurement Division changed its regulation to permit

- 2 -

acceptance of inspection certificates from independent inspection agencies approved by the Procurement Division, it would be one step toward breaking up possible control which is alleged by the Department of Justice to affect prices.

Other efforts are being made along the lines of encouraging substitutes, particularly by those agencies engaged in defense housing. We are also now investigating possible avenues of increasing supply through the Forest Service.

Sincerely yours,

(signed) Leon

Leon Henderson
Commissioner

P. S. I'm having the whole situation in lumber canvassed with a view of taking whatever action we can.



THE SECRETARY OF THE TREASURY
WASHINGTON

December 23, 1940

Dear Leon:

Replying to your letter of the 18th, I am glad to note that plans are contemplated for getting lumber prices under control. I believe, however, that you have been misinformed in concluding that grade marking requirements of the Procurement Division have been a factor in the price situation. Regulations of the Procurement Division provide complete flexibility in the basis of lumber specifications used by Government buying agencies, the only requirement being that the Division be notified of the grade ratings used if they differ from those of the Lumber Standards Association. All agencies can use independent grade ratings, if they so desire, and various agencies have been using them for some time.

Sincerely,

(signed) Henry

Hon. Leon Henderson,
Commissioner of Price Stabilization,
Advisory Commission on National Defense,
Federal Reserve Building,
Washington, D. C.

P.S. What do you propose to do about the price of lumber?



December 15, 1940:

The Secretary asked Mr. Haas, "To find out from the Army each particular item that they insist must be made of pure wool, and then we could show this list to the Institute of Cotton Manufacturers, and find out from them if this article could not be duplicated in cotton. After all, we have 8 or 10 million bales of cotton, and if we can find some way of using this up on the Army and, at the same time, keep the price of wool from going through the ceiling that would be a move in the right direction." The list submitted is shown in Exhibit 5.

December 20, 1940 103

To Secretary Morgenthau
From Mr. Haas

Attached is a list of woolen items used by the Military Service. You indicated that you wished to give such a list to the Cotton Institute, in order to secure their suggestions as to cotton substitutes.

Attachment

December 20, 1940

To Secretary Morgenthau
 From Mr. Haas
 Subject: Items purchased by the Army, Navy, and Marine Corps,
 containing wool.

In response to your request the following lists have been prepared, showing the principal items containing wool, used by the military services. These data were obtained directly from the Army, Navy, and Marine Corps.

Army

Blankets, wool, O. D., 3½ lbs., Q.M.C.
 Serge, O. D., 18 oz.
 Melton, O. D. 32 oz.
 Shirting, worsted, O. D., 10½ oz.
 Blankets, wool, O. D., 4 lbs., Med. Corps.
 Undershirts, woolen
 Drawers, woolen
 Kersey, O. D., 30-32 oz.
 Socks, woolen, heavy
 Socks, woolen, light
 Gloves, woolen, O. D., Off., W. O. & E. M.
 Serge, O. D., 13 oz.
 Blankets, Saddle, O. D.
 Suiting, O. D., 20 oz.
 Serge, O. D., Cotton & Wool Lining, 4.9 oz.
 Sweaters, O. D., Nurses
 Sweaters, O. D., Air Corps
 Bunting, wool, O. D., 4.2 oz.
 Mufflers, woolen, O. D., Nurses
 Gloves, Woolen, O. D., Nurses
 Flannel, woolen, gray, 28", lining for horse covers
 Felt, several kinds
 Cloth, lining, wool, knitted, O. D. 22.5 oz.
 Elastique, O. D., 18 oz.
 Cloth, lining, wool, 11 oz.
 Serge, O. D., 16 oz.
 Cloth, shirting flannel, 10½ oz.
 Woolen inserts, leather gloves
 Toques, worsted
 Bags, sleeping, wool filled.

Source: Lt. Col. C. A. Hardigg

Secretary Morgenthau - 2

Navy

Blankets, wool, white, crew, single
Caps, watch
Flannel, blue, 11 oz.
Gloves, woolen
Jerseys
Melton, blue, dark, 16 oz.
Socks, wool, black
Socks, wool, natural color
Undershirts, cotton-wool, mixed
Kersey, blue, dark, 30 oz.
Lining, felt, grey
Cloth, blue, dark, for officers' uniforms
(16, 20 and 28 oz.)
Cloth, maroon
Drawers, men's, cotton-wool, mixed
Serge, blue, dark (14, 15, 16 and 17 oz.)
Trunks, bathing

Source: Commander W. B. Young

Marine Corps

Underclothing
Outer clothing
Overcoats
Blankets
Saddle Blankets
Field hats
Buntings and flags.

Source: Col. L. S. Swindler

December 16, 1940:

106

The Secretary requested of Mr. Haas: "I noticed in your latest report that the price of butter is up 33 or 34 %. I wish you would let me know whether the Department of Agriculture, through any of its affiliates or subsidiaries, owns any butter, stores any butter, or is lending any money on butter." A copy of the memorandum prepared in response to this request is shown as Exhibit 6.

December 18, 1940

To Secretary Morgenthau
From Mr. Haas
Subject: Butter under loan or owned by Department of
Agriculture.

In response to your request of yesterday, I have learned that the Commodity Credit Corporation has acquired under its 1940 price stabilization program 66,000 pounds of butter, valued at approximately \$19,000, and the Surplus Marketing Administration has 25,000 pounds (chiefly 1939 butter) for relief distribution, valued at about \$8,500. This represents the total present interest of the Department in the butter market.

December 18, 1940:

108

The Secretary had insisted for some time that a shortage of steel capacity was in prospect, despite assurances from Mr. Stettinius to the President that the industry was prepared to meet all demands. On this date he sent a letter to the President expressing his serious concern over the prospective steel shortage. Exhibit 7.

Secretary of the Treasury

109

December 18, 1940

My dear Mr. President:

My interest in forestalling potential inflationary developments that would react unfavorably on the economy of the country, as well as our whole fiscal program, and in guarding against possible shortages of defense materials, leads me to express my serious concern over the growing congestion in the steel industry.

No expert knowledge is necessary to see that the steel industry will be unable to handle the volume of orders that lies ahead. In addition to the huge British orders that are now in prospect, the bulk of our defense orders are still to be placed with the steel mills, and the ordinary non-defense demand will undoubtedly be enlarged as the national income rises. As you will note on the chart which I am attaching, there is very little capacity available in any steel district for a further increase in output.

A system of priorities, applied except as a temporary expedient, would seriously hamper the program for achieving full employment of labor and resources.

I have not been greatly encouraged by recent press announcements of expansion plans by certain steel companies. In an attached table I have listed all of the proposed increases in steel ingot capacity that I know about, plus the new capacity (electric furnace) completed this year or under construction. Taken together, this amounts to a prospective increase in ingot capacity of only 2.7 per cent, the bulk of which apparently will not be completed for 12 to 18 months.

You will recall the large steel expansion that was found necessary during the World War, when the ingot capacity was increased about one-third between 1914 and 1918. In view of the increasingly urgent need for more steel, it seems to me that an immediate major expansion program for the steel industry is clearly called for.

Faithfully yours,

The President,

The White House.

New steel capacity completed, under construction
or authorized since January 1, 1940

	Net tons
Bethlehem Steel Corporation	850,000
U. S. Steel Corporation	400,000
American Rolling Mill	50,000

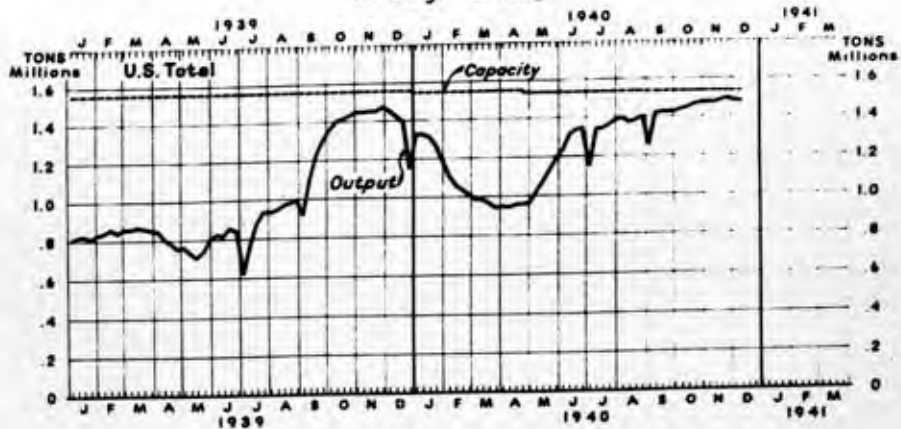
Electric furnaces

(American Iron and Steel Institute
estimate of capacity of 21 new
electric furnaces now in operation,
or expected to be in production
early in 1941)

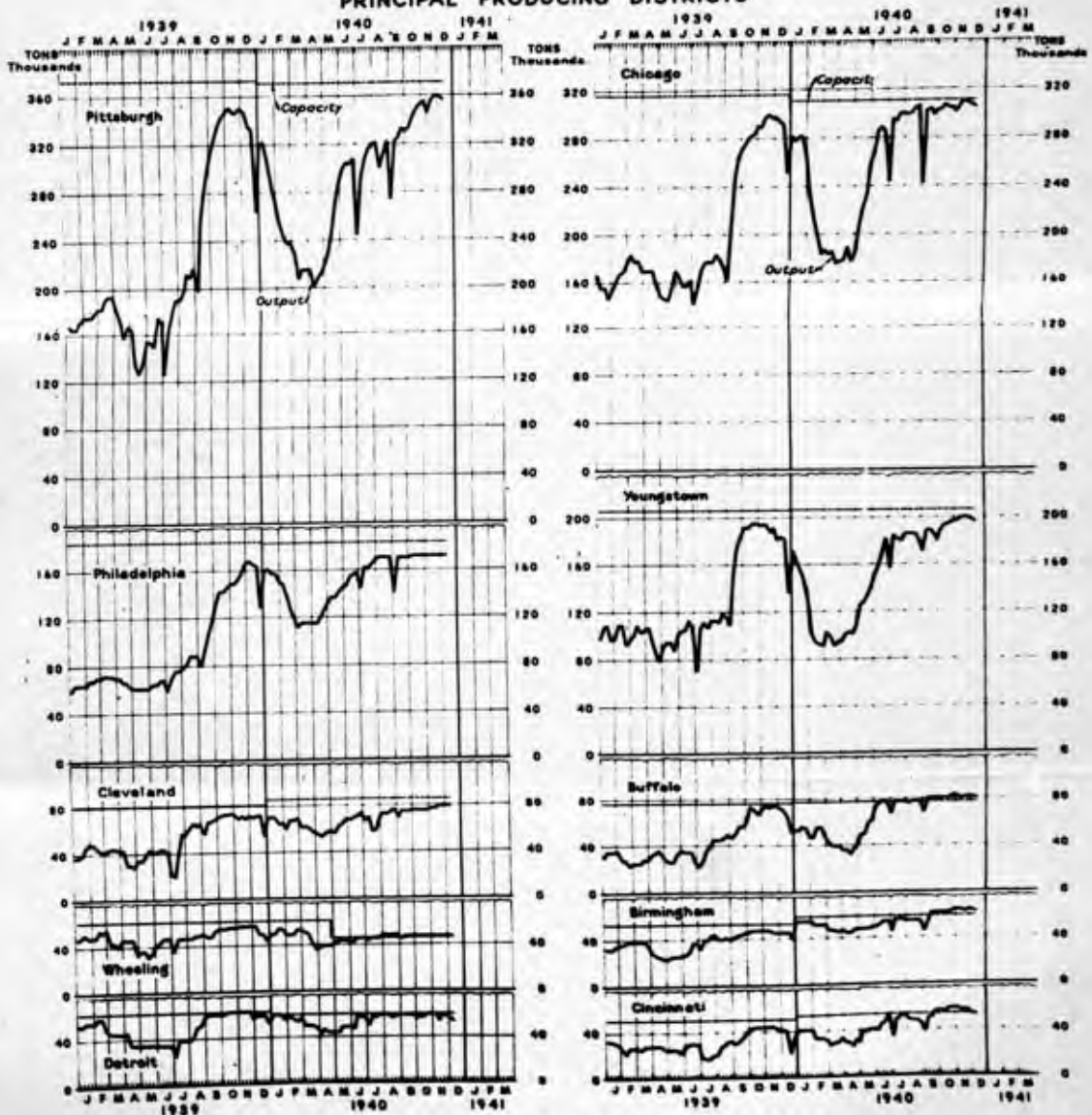
<u>900,000</u>
2,200,000

STEEL OUTPUT AND RATED CAPACITY*

Weekly Tonnage



PRINCIPAL PRODUCING DISTRICTS



*Based on Iron Age data

January 8, 1941:

112

A letter and chart were sent to the President on this date showing the increase in cost of building a 6-room frame house in St. Louis. Exhibit 8.

January 8, 1941

My dear Mr. President:

I think you may be interested in the attached chart, which shows that the cost of a 6-room frame house in the St. Louis area has increased 13 per cent since July, and shows in detail the individual cost items responsible for this increase.

Faithfully yours,

The President,

The White House.

Residential construction costs 13 per cent above July

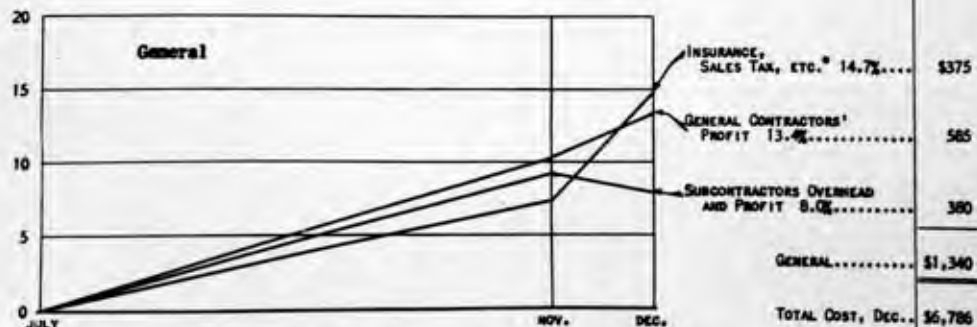
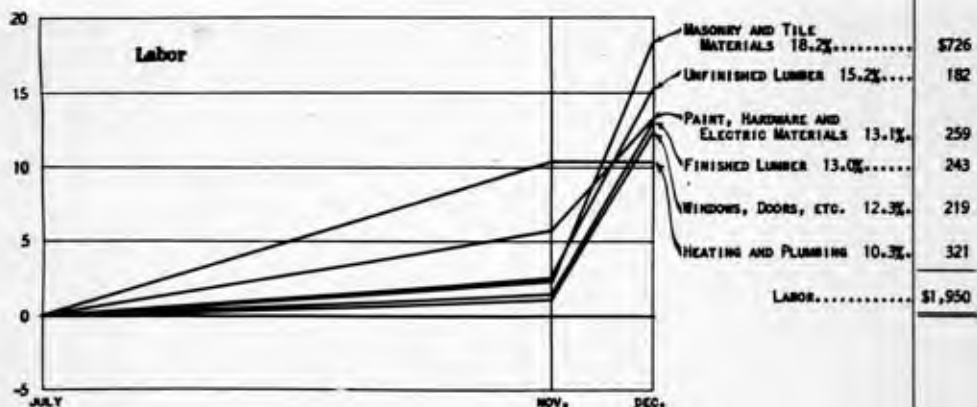
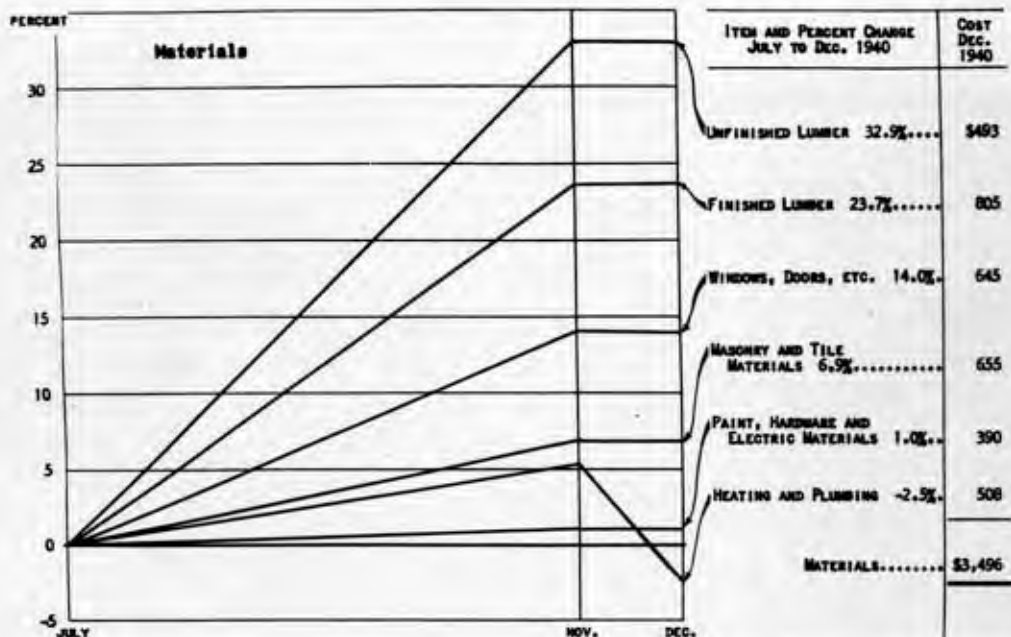
Estimated costs of construction for a standard 6-room frame house in the St. Louis district, compiled each month by the Real Estate Analyst, show an increase of 13 per cent since July. The itemized increases for materials, labor, and general costs are shown on the attached chart.

It will be noted that the largest percentage increase has been in the cost of finished and unfinished lumber. Lumber costs, however, levelled out between November and December. (The BLS figures on wholesale lumber prices also show a leveling out during the three weeks ended December 14, but in the last two weeks of December a further rise has carried them again to new highs.) The cost of heating and plumbing materials in December, according to this compilation, declined below the cost in July.

The greatest advance during the past month was in labor costs, and certain general costs have also increased. (Lower sections of chart.)

CHANGES IN COST OF CONSTRUCTION OF STANDARD
6-ROOM FRAME HOUSE, ST. LOUIS

Percentage Change, November and December over July 1940



TOTAL COST, DEC.	\$6,786
TOTAL COST, JULY	\$6,004
INCREASE.....	\$782
PERCENT.....	13.0

* MISSOURI SALES TAX (NOW 2 PER CENT ON MATERIALS), OLD AGE AND UNEMPLOYMENT TAX (FEDERAL AND STATE), LIABILITY AND EMPLOYEES' COMPENSATION INSURANCE, FIRE AND TORNADO INSURANCE, COMPLETION BOND.

SOURCE: REAL ESTATE ANALYST.

January 13, 1941:

The Associated Press quoted the Secretary as saying at his press conference that prices of wool and certain other commodities were too high, and that the danger of price inflation necessitated "every agency of the Government watching the situation every minute of the time." Exhibit 9. 116

Copy of Associated Press report of January 13, 1941, covering statement on wool prices at press conference on that date:

Secretary Henry Morgenthau Jr said today that he had been alarmed by what he called "unwarranted rises" in the prices of lumber, scrap iron and wool, but that Leon Henderson, member of the National Defense Commission had been doing a "grand job" in handling the price situation.

The Treasury head added that the danger of price inflation necessitated "every agency of the Government watching the situation every minute of the time."

In the Treasury, Mr. Morgenthau added, scarcely a day passes without some discussion of the price situation. He said that no use of tax powers to control prices appeared to be necessary at present, but that this possibility was being studied.

Mr. Morgenthau said one of the price rises which he had noticed and which he thought "unreasonable" was a 13 percent rise in the price of a six-room house in St. Louis since last July.

January 15, 1941:

118

The Associated Press statement quoting the Secretary as saying wool prices were too high brought criticism from the Secretary of the National Wool Growers' Association. Resulting correspondence is shown in Exhibit 10.

C O P Y

119

January 16, 1941

12 W
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Great Falls Mont Jan 15 1941

Hon Henry Morgenthau Jr
Secretary of the Treasury

Wiring as Secretary National Wool Growers' Association representing fifteen thousand western wool growers wish express regret publication Associated Press statement January thirteen quoting you saying have been unwarranted advance in wool prices. We feel that careful checking will convince you that statement is unwarranted and unfair to wool producing industry and misleading to consumers. Urge you consult Department Agriculture "Farm Price Figures" which show wool prices now lower than fall 1939 or 1937 and lower than average ten years following 1914. Will appreciate your wiring me Davenport Hotel Spokane saying if you were quoted correctly and if so if you will investigate and issue fair correction. Also please advise if you have complied with Section 303 Tariff Act which requires you increase duty on wool imported from Uruguay account export subsidy being paid by that Government. Will appreciate early reply.

F R Marshall

C O P Y

January 19, 1941

CA298 24 NT = Spokane Wash 19

Hon Henry L Morgenthau =

Treasury Department Wash D C

Reference my wire 15th sent as Secretary National
Wool Growers Association request you wire reply care
Davenport Hotel Spokane on two questions asked you.

F R Marshall

C O P Y

January 21, 1941

Mr. F. R. Marshall
Davenport Hotel
Spokane Washington

Your wires January 15 and 19 re wool prices Letter to you
will go forward today.

Herbert E. Gaston
Assistant Secretary Treasury

January 21, 1941.

Mr. F. R. Marshall,
Secretary, National Wool Growers' Association,
C/o Davenport Hotel,
Spokane, Washington.

Dear Mr. Marshall:

For Secretary Morgenthau I am replying to your wire of January 15, which had reference to an Associated Press report of a statement with respect to wool prices made by the Secretary at a press conference on January 13. I have before me a press clipping of an Associated Press report of that date which reads as follows: "Secretary Henry Morgenthau, Jr., said today that he had been alarmed by what he called 'unwarranted rises' in the prices of lumber, scrap iron and wool, but that Leon Henderson, member of the National Defense Commission had been doing a 'grand job' in handling the price situation."

This statement is essentially correct. The Secretary's concern over the price situation for woolen goods is shared by the Defense Commission as indicated in a newspaper article of January 6, which reads as follows: "Tomorrow, Mr. Henderson has invited representative members of the wool manufacturing industry to Washington to discuss prices on woolen piece goods. Buyers of woolen goods have complained to the Defense Commission of sharply advanced prices on fall lines and of high pressure sales methods by some sellers which tend to create an unnecessary rush to cover requirements at higher prices. It is reported that less than half of the increase in prices now being quoted can be explained on the basis of higher raw wool prices, Mr. Henderson said, adding that such unjustified increases in the cost of piece goods would inevitably be reflected in an increase in the price of retail clothing. It is hoped that this conference will draw the attention of the industry to the importance of preventing the start of an upward spiral in prices and will result in a reconsideration of any contemplated price advances at this time when buyers are covering their fall requirements, the defense commissioner said."

Secretary Morgenthau has indicated full agreement with the position taken by Commissioner Henderson and at his press conference on January 13 he referred to the experience of the Procurement Division of the Treasury Department in purchasing woolen goods for use by the Red Cross and non-military agencies of the Government.

Section 303 of the Tariff Act, to which you refer in the last sentence of your telegram of January 15, authorizes the Secretary of the Treasury to impose countervailing duties on imports of dutiable goods with respect to which it has been determined that export subsidies are being paid.

- 2 -

Information before this Department is that there exists in Uruguay a currency control, which, as administered, may favor certain exports over others. With the exception of manufactured woolen articles wool is not at this time among the favored commodities. The Department is giving intensive study to the Uruguayan control system with the provisions of Section 303 of the Tariff Act in mind.

Very truly yours,

Herbert E. Gaston
Assistant Secretary of the Treasury.

C O P Y

February 4, 1941.

Dear Mr. Marshall:

In reply to your telegram of January 31, I will say that a closer study of the wool price situation which we have recently made raises the question whether the criticism of woollen goods prices by Commissioner Henderson and Secretary Morgenthau, to which you refer, does not apply with almost equal force to wool prices.

We are much concerned, for example, with the increase in the price of cloth used in Army uniforms. The wholesale price of fine grade serge uniform suiting rose 12 per cent during 1940, from a low of \$2.426 a yard on February 27 to \$2.723 on December 24. Medium grade serge in the same period rose 18 per cent. We find that prices for certain types of wool in 1940, however, made considerably greater gains than these in a shorter time. As a measure of prices for one type of semi-manufactured wool, the price of wool tops at New York rose to \$1.44 a pound on January 31, 1941, as compared with prices below \$1.00 as recently as last August. During the highly speculative price rises of early 1937 and the fall of 1939, the highest monthly averages for wool tops were \$1.30 in January, 1937 and \$1.21 in October, 1939.

Raw wool prices have shown very extensive price gains. I note, for example, that the average monthly price of Ohio fine combing wool at Boston, as reported by the Department of Labor, rose 29 per cent in four months between August and December. Ohio fine delaine combing in the same period rose 27 per cent, and wholesale prices of various other types increased in those four months around 25 per cent.

I note that the average farm price of wool in your State of Washington, as reported by growers to the Department of Agriculture, rose from 24 cents a pound in August to 33 cents in December, an increase of $37\frac{1}{2}$ per cent.

The average farm price of wool in the United States, which rose 14 per cent between August and December, reached 31.2 cents a pound in the latter month. This was far above the Department of Agriculture's parity price of 23.2 cents in December. It is also above the peak of 28.7 cents reached in October, 1939, and is 3 per cent above the average price in 1929. In contrast, the average price received by producers of all farm products in December was 29 per cent below the 1929 average, and showed a gain of only 5 per cent in the last four months of 1940.

- 2 -

You should understand that the concern expressed by the Secretary was not so much over a level of prices at a particular moment as over rates of increase threatening violent dislocation of the price structure. From this point of view and in the light of the facts mentioned above, his position seems to have been well justified.

Sincerely yours,

Herbert E. Gaston
Assistant Secretary of the Treasury.

Mr. F. R. Marshall,
Secretary, National Wool Growers Association,
509 McCornick Building,
Salt Lake City, Utah.

January 28, 1941:

126

The Secretary asked Mr. Haas to discuss with Mr. Hamm of the OPA the problem of controlling prices in the metal markets. A resulting memorandum from Mr. Haas is shown as Exhibit 11.

January 28, 1941

To Secretary Morgenthau

From ~~Mr.~~ Mr. Haas

In accordance with your request I telephoned Mr. Ham and he explained the extreme difficulty they are having controlling prices in some of the metal markets. He mentioned in particular aluminum scrap and zinc scrap.

Taking zinc as an illustration, he said that through the efforts of Mr. Henderson's office the producers of virgin zinc have maintained a price of \$7.50, whereas because of the extreme demand for zinc, scrap zinc upon which they have no control at present is selling for \$10.50. He pointed out that new capacity, which would relieve the situation somewhat, would not come into production until sometime in June.

Mr. Ham was confident that a price situation of this kind should be handled by a system of priorities, rationing the output of the industry. He said that additional legislation would be required to grant power to the President to ration such products for civilian as well as for military uses. He spoke to Attorney General Jackson about the legislation and also raised with him the question as to who should be responsible for the priority or rationing policy. He said that Mr. Jackson suggested that he discuss the matter with you as he thought you had discussed this matter with the President at one time.

Mr. Ham said his study of the British procedure and organization for rationing clearly indicated that responsibility should be placed in the hands of one agency. He said the British experience also indicated that the best results were obtained when it was in the hands of civil service employees rather than in the hands of businessmen.

He would like to know that he had your help and backing in getting a priorities and rationing organization set up, presumably under Mr. Henderson or somewhere where the work would be conducted to their satisfaction. He considers this problem of the most vital importance in the control of prices and feels that it is very urgent. As there is to be a meeting of the Defense Commission tomorrow morning at 11 o'clock, Mr. Ham had hoped to see you, along with Mr. Ginsberg (Mr. Henderson's legal adviser in the Defense Commission), sometime this afternoon, if only for ten minutes. He said he was greatly in need of your help.

Mr. Ham said that Mr. Henderson is in Florida and may be away for a month or more.

February 17, 1941:

Following conferences at the Treasury with Messrs. Hamm and Ginsberg of Mr. Henderson's office, at which the rationing of civilian demand was discussed and an illustrative chart on zinc prepared, the Secretary wrote a letter to the President, in which the extent of cooperation between the Treasury and the Price Administrator's office is indicated. Exhibit 12.



THE SECRETARY OF THE TREASURY
WASHINGTON

129

February 17, 1941

My dear Mr. President:

Before Leon Henderson left on his vacation, he asked that I see his two principal assistants, Mr. Hamm, who is an economist, and Mr. Ginsberg, who is his attorney, in case they needed guidance.

Last week, these two gentlemen had lunch with me and brought to my attention the question of the rationing of civilian demand for various strategic commodities. I asked them to work out the case of zinc, which they did with the assistance of Mr. George Haas, of my office. I had not realized until they brought this matter to my attention how important the rationing of the civilian demand for strategic materials is.

I am enclosing a chart which clearly outlines the problem. I am also enclosing a draft of proposed legislation prepared by Mr. Henderson's office. After reading these documents, I would appreciate suggestions from you as to how to guide these two gentlemen during Mr. Henderson's absence.

I am sending a complete copy of this correspondence to the Attorney General.

Yours sincerely,

(signed) H. Morgenthau, Jr.

The President,
The White House.

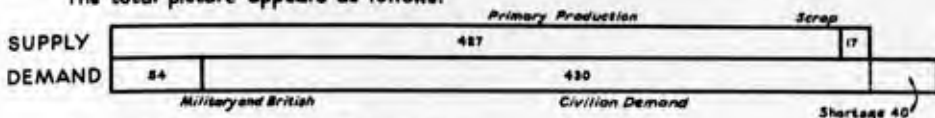


THE NEED FOR POWER TO RATION CIVILIAN DEMAND IN ORDER TO MAINTAIN PRICE STABILITY

A Specific Example

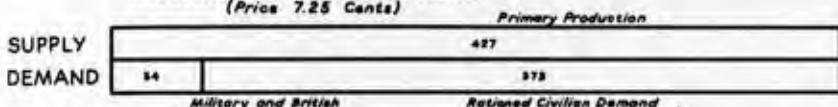
ZINC, SUPPLY AND DEMAND IN THE FIRST HALF OF 1941 (FIGURES IN THOUSANDS OF SHORT TONS)

The total picture appears as follows:



But this breaks down into two parts:

1. RATIONED MARKET - VIRGIN METAL (Price 7.25 Cents)



2. COMPETITIVE MARKET - SCRAP METAL (Price 10 Cents and up)



Primary producers are to
be asked to accept orders from
certain of their former cus-
tomers who are turning to
the secondary producers

1. The essential problem is to restore a balance either by increasing supply -- this cannot be done during the next six months -- or by reducing or otherwise controlling demand.

2. 40,000 tons of demand can be eliminated in any one of three ways:

- Let price go up until 40,000 tons of demand turns to substitutes.
- Fix the price (we think we can do it) but leave the crucial power of deciding who gets zinc and who does not to the secondary producers.

Query: are they in a position to decide how zinc can best be used in the national public interest? (Are the primary producers, who are now rationing all zinc not taken for military purposes, in any better position?)

- Fix the price and grant the rationing power to a Government agency.

This is obviously the only desirable course. Rationing is a governmental power which must be exercised in the public, not the private interest.

3. This means, in the first place, that legislation is necessary authorizing the President to ration supplies in the event of shortage. Priority for Army and Navy orders may be required under Section 2(a) of Public No. 671, but there is no similar legal authority to control and ration the residual supply for civilian purposes.

4. This power to determine the growth and survival of American industry is tremendous. It is unquestionably the most far-reaching authority which the Government will require during the defense program.

5. Where should this power be lodged? English experience indicates that military priorities and civilian rationing should be administered by a single agency. This would suggest that the rationing power should be delegated to OPM and Stettinius. English experience also indicates very definitely that these controls should not be lodged with business groups -- their function is to advise, not to control. It is questionable whether OPM and the military-business group who at present control military priorities have the breadth of economic and social vision necessary to a proper administration of a separate and equally important program of civilian rationing which will so intimately touch the morale and economic welfare of every person in this country.

February 27, 1941:

131

The Secretary requested Mr. Haas:
"Please bring to Leon Henderson's attention the fact that there is a tremendous rise in imported commodities. What are they doing about it? I want to hear from them. Have they brought it to the President's attention? If not, do they want me to bring it to the President's attention?" A letter subsequently sent to the President on this subject (March 11) is shown as Exhibit 13.



THE SECRETARY OF THE TREASURY
WASHINGTON

132

March 11, 1941

My dear Mr. President:

I should like to bring to your attention the steady increase in prices of imported materials that has been under way for a month or more. The contrast, as compared with the rather flat trend of domestic commodity prices, is shown on the attached chart made from prices of the 11 imported materials and 17 domestic materials in the Bureau of Labor Statistics daily price index of 28 basic commodities. The price index of imported materials has gained 10 per cent since the end of January, as compared with a 2 per cent average gain in prices of domestic materials.

While the increased prices are attributed in the press to the tight ocean shipping situation, an increase of one-third in prices of cocoa and shellac within five weeks would also suggest that speculative buying has been a factor. I note that the volume of trading in cocoa futures increased sharply last week. Increasing speculative activity in any group of commodities would tend to affect other groups, and would add to the difficulty of holding a general price rise in check.

Faithfully yours,

(signed) H. Morgenthau, Jr.

The President,

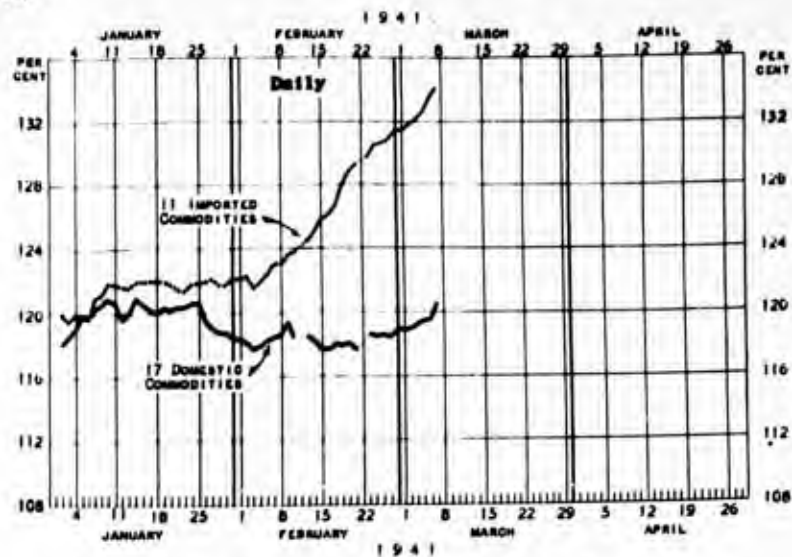
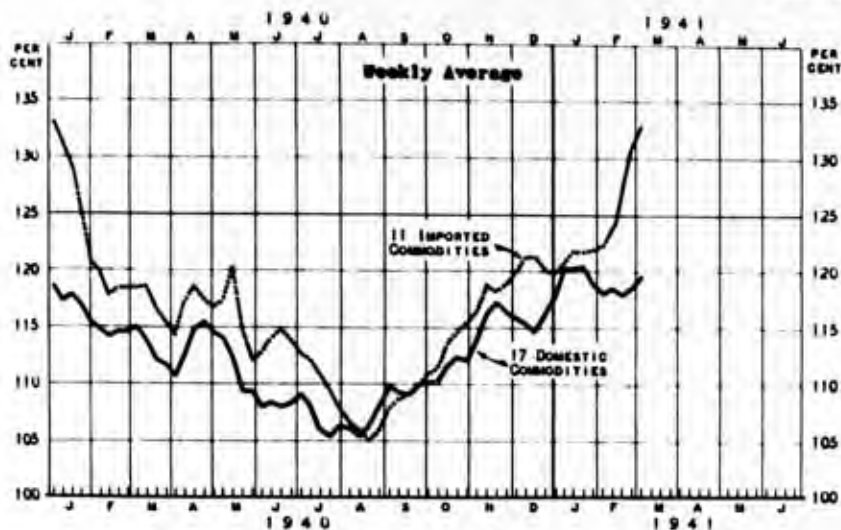
The White House.

FOR DEFENSE

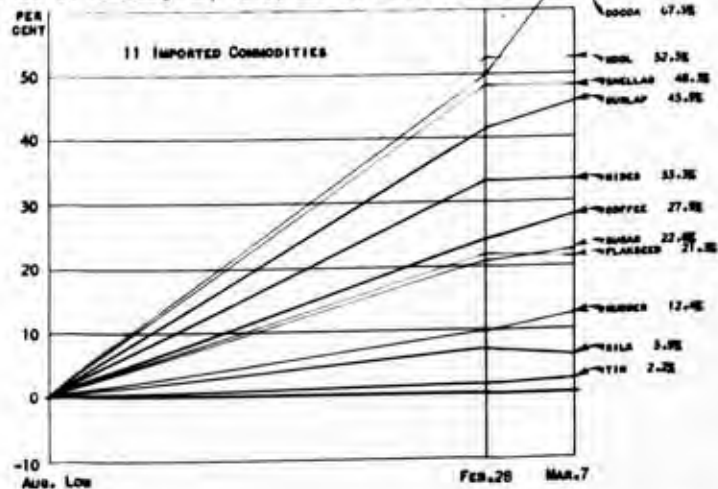
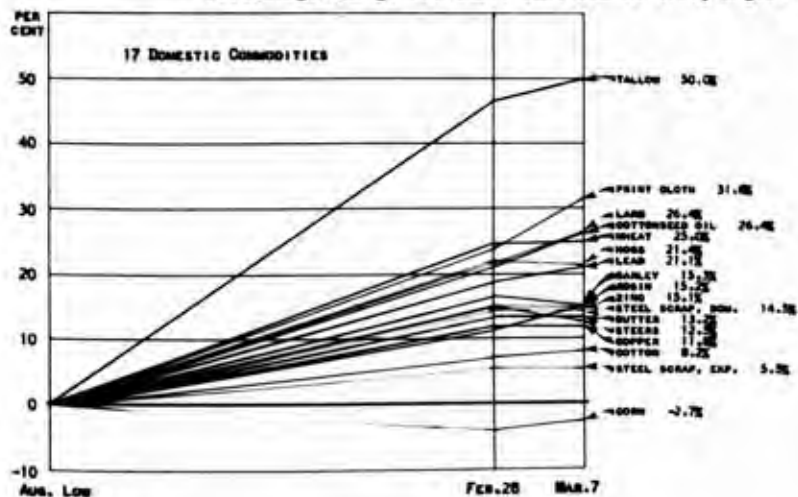


MOVEMENT OF BASIC COMMODITY PRICES Domestic and Imported

AUGUST 1939 = 100



Percentage Change for Individual Commodities, August 1940 Low to February 28, 1941, and to March 7, 1941



March 14, 1941:

134

The Gano Dunn Steel report, indicating no shortage of steel capacity, was at variance with conclusions arrived at from analyses by the Treasury and other Government agencies. A criticism of the Dunn report submitted to the Secretary, together with correspondence with Mr. Dunn, is shown in Exhibit 14.

March 14, 1941

To: Secretary Morgenthau
From: Mr. Haas
Subject: Comments on Gano Dunn steel report

I am submitting herewith, in response to your request, an analysis of the Gano Dunn report on the adequacy of our steel capacity.

This analysis, while not carried out in extensive detail, is sufficient to reveal that the apparent surplus of steel capacity indicated by the Dunn report is based on a number of unrealistic and erroneous assumptions. When allowance is made for these, it seems very likely that any surplus may be wiped out before the end of this year, and certainly by 1942.

Since the entire question of the speed of our defense effort is bound up in the adequacy of our steel capacity, it would seem that any differences of opinion should be resolved on the side of providing too much capacity rather than too little.

Attachments

Comments on the Gano Dunn Steel Report

I. The Treasury's relation to the question of steel capacity

1. For some time, concern has been felt in various quarters over the adequacy of our steel capacity. On December 18, 1940, a letter was sent to the President by the Secretary of the Treasury in which he expressed concern over this problem, saying that "no expert knowledge is necessary to see that the steel industry will be unable to handle the volume of orders that lies ahead." The need was indicated for an immediate expansion of steel capacity in order to forestall potential inflationary developments, which would react unfavorably on the economy of the country as well as on our whole fiscal program, and to guard against possible shortages of defense materials. 1/
2. The President appointed Mr. Gano Dunn to make a thorough study of the steel industry and to submit a report, comparing probable steel requirements with the capacity of the steel industry to meet those requirements. Mr. Dunn conferred with Secretary Morgenthau regarding the Treasury's interest in the subject, and was offered all information on steel requirements available in the Treasury.
3. On January 17, 1941, the Division of Research and Statistics completed a statement converting into equivalent terms of ingot steel the quantities of various commodities required by Great Britain, as listed in a secret document prepared in London and presented to Secretary Morgenthau early in January by Mr. Arthur B. Purvis, Chairman of the British Supply Council in North America. The rates of conversion used by the Treasury were very conservative, and were determined after consultation with the steel expert of the Bureau of Research and Statistics of the National Defense Commission. In line with Secretary Morgenthau's offer of assistance to Mr. Dunn, the statement was sent to him by the Secretary immediately upon completion.
4. On January 22, Mr. Philip Young sent Mr. Dunn a copy of the December monthly report of the British Iron and Steel Corporation, the purchasing agent of the United Kingdom for commercial steel in the United States. This report presented, among other things, certain figures which were stated to be estimates of the future monthly exports of commercial steel.

1/ A copy of this letter, together with other letters referred to, is attached to this report.

5. On January 27, Mr. Dunn wrote the Secretary raising certain questions about the Treasury conversions of British requirements. In the absence of the Secretary, the questions raised by Mr. Dunn were answered in a letter of Acting Secretary Gaston, dated February 3. In order that Mr. Dunn might make his own conversions into ingot steel, Mr. Gaston also enclosed for his confidential use a copy of the estimates of requirements for selected commodities shown in the "London secret document" previously referred to.

II. Some general comments on the report

1. The conclusions of the Dunn report may be briefly summarized as follows:

(a) Steel capacity is larger than calculated by the American Iron and Steel Institute because the inactive time allowed for repairs and maintenance may be reduced, and certain capacity for making steel castings may be added.

(b) The total steel requirements for defense, British, and civilian needs are sufficiently lower than capacity to indicate a surplus for the calendar year 1941 of from 10 to 14 million tons, depending upon whether national income is \$80 billions or \$77 billions. For 1942, the surplus would be from 2 to 6 million tons depending upon whether national income were \$90 billions or \$87 billions.

(c) To make the calculated steel capacities effective it would be necessary to make certain increases in blast furnace and coke capacity.

2. No comprehensive analysis of the Dunn report can be made without undertaking a lengthy project. No such analysis is necessary, however, to conclude that the position taken in Secretary Morgenthau's letter of December 18 was well advised. This may be seen by considering some of the assumptions and calculations in the report which appear to be erroneous. Most of these seem to arise as a result of what appears to be a consistent effort in the report to use every possible means to increase the indicated steel plant capacity and to decrease the indicated requirements for steel.

III. Considerations in Dunn report regarding plant capacity

1. The Dunn report exaggerates the ingot capacity of the steel industry by assuming that the industry can operate at an average of 102½ per cent of capacity, as rated by the American Iron and Steel Institute. Even allowing for additional capacity coming into production, an average rate of 102½ per cent seems an excessive expectation, particularly in 1941, for the following reasons:

(a) Since much old and obsolete capacity has been brought into production, repairs will be more frequent and a high operating rate more difficult to attain.

(b) The steel rate has not currently risen higher than 98.8 per cent of rated capacity, despite all the pressure on steel production facilities that has been exerted in recent months.

Since the first quarter of 1941 is nearly past, with the steel rate averaging only 97 per cent of capacity, the rate would have to go immediately to nearly 104½ and hold at that level for the remainder of the year to average 102½ per cent in 1941.

(c) Historical precedent provides no basis for such an expectation. Even during the World War period this rate was not reached. The Dunn report contains a chart (labelled Appendix A) and table (Appendix B) purporting to show that during the World War the output of steel reached a peak of 101.6 per cent of rated capacity in the year 1916. The figures used in this chart and table, however, do not accurately represent the rate of output, since they are based on capacity at the end of the previous year (a customary but fallacious method) which fails to take into account the effect of increases in capacity during the year. In another section of the report (page 29), Mr. Dunn recognizes the desirability of taking such increases into account, saying "If such capacities had been added as they came into operation, the percentages by which production exceeded capacity would be reduced." Using his figures (Appendix B of the report) the average rate of steel output in 1916, based on average capacity during the year, was 97.6 per cent.

2. The steel capacity figure is exaggerated by the addition of 1,320,000 tons of capacity for "outside steel castings" as of December 31, 1940 and 1,387,000 tons as of December 31, 1941. If these are included in the capacity figures, steel castings should also have been included in the estimates of steel requirements.
3. The Dunn report similarly exaggerates the pig iron capacity by assuming that blast furnaces can operate at an average of 102½ per cent of rated capacity in 1941 and 1942. In view of the fact that the pig iron rate in January 1941, as estimated by the American Iron and Steel Institute, was only 95.5 per cent of capacity, and in February only 95.2 per cent, the rate would have to rise immediately to 104 per cent of capacity and hold at that level until the end of the year to average 102½ per cent in 1941.

IV. Considerations in Dunn report regarding requirements

1. A serious understatement of steel requirements is made in presenting the estimates as for the calendar years 1941 and 1942, when in reality the essential data apply to the years ending 6 months earlier. Thus it is said (page 50) that "the estimates in this report are in terms of calendar years" and the estimates of total steel requirements are given as 77.5 million tons "for the calendar year 1941" (page 62) and 89.0 million tons "for the calendar year 1942" (page 63). Yet the figure of 61.0 million tons of steel used for civilian requirements in the estimate for calendar year 1941, for example, is the de Chazeau estimate of requirements during the year ending June 30, 1941, (not "at the end of the year" as stated in the report) and similarly for calendar year 1942. To correct this one item, it would be necessary to project the de Chazeau estimate 6 months ahead, which would add 4.5 million tons to civilian requirements in calendar year 1941.

The only possible justification for this might be that the author wished to be conservative as to national income levels. That is to say, the Dunn report may have taken the de Chazeau national income figures on a fiscal year basis as a calendar year estimate. If this be the case, the Dunn report assumes a level of national income 5 billion dollars lower in the calendar year 1941, and a correspondingly lower volume of steel requirements for civilian consumption, than is consistent with the de Chazeau basic estimates which the Dunn report claims to accept.

2. The estimates of steel required for direct defense needs of the United States are obviously too low,

(a) Because they are based only on appropriations actually made (for the Army, Navy, and Maritime Commission) as of the end of November. The actual requirements, particularly in view of the passage of the lend-lease bill, will obviously exceed appropriations as of that date.

(b) Because they are for fiscal years, and cover periods 6 months earlier than the calendar years to which the estimates of total requirements are stated to apply. A correction for this error would add 700,000 tons to direct defense requirements for the calendar year 1941, without allowance for any requirements in excess of those for which appropriations had actually been made as of the end of November.

(c) Because, except for requirements of the Bureau of Docks of the Navy, they make no allowance for the construction steel directly or indirectly required for the defense program. These requirements are not included in any other category.

3. The Dunn report does not allow for ingot steel required for American plant expansion to take care of certain projected British programs in this country. This item is mentioned in connection with British requirements for export with the explanation that it is being transferred to the classification of civilian consumption, but the amount involved has not been added to the other items included in estimates of civilian consumption in the Dunn report. The Treasury statement had included British estimates for this item as prepared by the British Purchasing Commission.

4. British requirements for steel, according to the Dunn report, are reduced considerably as compared with the figures arrived at by the Treasury through translating into ingot steel the requirements listed in the "London secret document". The reductions are achieved by various means, but all are unwarranted. In this connection, the Dunn report gives the impression that the Treasury itself estimated what the British needs were, rather than merely translating into steel ingots the specific quantities of particular items cited in the "London secret document".

The major weaknesses in this section of the Dunn report may be described briefly as follows:

(a) The figures used for commercial steel are based on exports considerably lower than were indicated as requirements in the "London secret document." The latter figures were in Mr. Dunn's hands but instead he used information taken from the monthly report of the British Iron and Steel Corporation. The commercial steel figures in the Corporation's report are not as comprehensive nor as newly estimated as those in the "London secret document."

(b) The Dunn report allows ingot steel for British ships to the amount of only 120 ships per year, whereas the "London secret document" calls for 2½ to 3 times as many. From the Treasury conversions of figures cited in the "London secret document", the Dunn report calculates that 334 ships are involved in 1941 and 300 in 1942 but deems these quantities excessive "...in view of the capacity of our yards built, building and to be built; and the large additional demands upon them for the construction of American ships."

(c) The Dunn report also reduces the Treasury conversion figure for ammunition in 1942 on grounds that the rate of conversion was too high. No change was made, however, in the Treasury figure for 1941, although exactly the same ammunition items were covered and the same conversion factor was used.

(d) To offset all these reductions, the Dunn report sets up a special allowance which is intended to appear as being generous in providing for British export, but the allowance is so small that it is only a gesture when compared with the amounts by which British requirements were written down.

(e) The Dunn report makes its figures for British export compare favorably with the Treasury figures by adjusting the Treasury figures to take out something which is not in them. The adjustment is made by taking out almost 2,000,000 tons of pig iron and scrap iron assumed to be in the Treasury figures for ingot steel, which were not so included.

5. The discussion in the Dunn report of the Treasury conversions inadvertently releases to the public important derivative information from the "London secret document." From the converted figures, it is possible by converting backwards to determine the magnitude of items listed in that highly confidential report. The Dunn report did this in the case of ships and actually cited an exact number of

ships as computed from the Treasury conversions of the secret figures. As it stands, the British stated requirements for ships is accurately portrayed in the Dunn report which has been made available for public inspection.

V. Summary and conclusions

In an apparent effort to magnify the indicated steel plant capacity and to minimize indicated requirements for steel, the Dunn report makes use of a number of unrealistic and erroneous assumptions, leading to conclusions regarding the adequacy of our steel capacity which are untenable.

1. He assumes that steel furnaces can operate at a rate 2½ per cent higher than the capacity as rated by the American Iron and Steel Institute, despite a lack of historical precedent, despite an increased number of over-age plants, and despite the evidence afforded by lower current operating rates.
2. He adds a substantial tonnage of steel casting capacity, although steel castings are not included in the estimates of requirements.
3. He under-estimates direct defense requirements by including only actual appropriations as of the end of November 1940, by using figures for fiscal years and applying them to calendar years ending six months later, and by failing to include most of the construction steel directly and indirectly involved in the defense program.
4. He under-states British steel requirements by failing to use the most comprehensive and recent of the British figures. Instead, he uses older and smaller figures for commercial steel requirements, and drastically writes down the amount involved in British ship requirements.
5. He under-states the United States civilian requirements as compared with the de Chazeau estimates, by using fiscal year estimates to apply to the calendar years ending six months later.

After allowances are made for the various erroneous assumptions underlying the estimates in the Dunn report, and particularly if provision be made for steel requirements in excess of those for which appropriations actually had been made as of November 1940, it seems very likely that the steel surplus envisaged in the Dunn report may be completely wiped out before the end of this year, and certainly by 1942.

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Since the entire question of the speed of our defense effort is bound up in the adequacy of our steel capacity, it would seem that any differences of opinion should be resolved on the side of providing too much capacity rather than too little.

THE SECRETARY OF THE TREASURY
WASHINGTON

January 17, 1941

Dear Mr. Dunn:

With reference to our conversation last week, I am sending you herewith an estimate of British Government requirements for steel in the United States, which is based upon a British Government report just recently compiled.

Sincerely,

(signed) H. Morgenthau, Jr.

Mr. Gano Dunn,
Senior Consultant,
Advisory Commission on National Defense,
Room 2807 Munitions Building,
Washington, D. C.

ESTIMATED BRITISH GOVERNMENT REQUIREMENTS FOR STEEL
IN THE UNITED STATES, IN TERMS OF INGOTS

The attached table shows the estimates which we have made on the amount of steel required by the British Government in the United States during 1941 and 1942. These estimates were made on the basis of the most recent information available concerning British requirements but they are known to represent an understatement in view of the fact that requirement figures were not available except for major items.

The total estimate for the two years is 25,000,000 tons of ingots, of which about two-thirds is for commercial steel items and one-third for steel in manufactured goods, including steel required for plant expansion purposes. The total requirements thus represent an ingot output of slightly more than 1,000,000 tons per month. This compares with a present capacity of about 7,000,000 tons of ingots per month. The British requirements would thus take up approximately 15 percent of the capacity -- assuming the demands were spread over the two years. It is probable that the actual immediate need is even larger, since the British estimate of requirements must have been framed with allowance for United States priorities and for the availability of bottoms.

It should be noted that our estimates do not include the requirements of Canada or the other Dominions, and exclude British requirements in connection with certain manufactured items for which no data are available.

Attachment

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

January 17, 1941.

ESTIMATED BRITISH GOVERNMENT REQUIREMENTS
FOR STEEL, IN TERMS OF STEEL INGOTS

(In thousands of tons)

Form of requirement	: Total :	1941 :	1942
Commercial steel	16,502	8,251	8,251
Manufactured goods			
Ships	2,857	1,504	1,353
Aircraft	347	122	225
Tanks	371	234	137
Ordnance	220	182	38
Ammunition	3,197	918	2,279
Machine tools	66	33	33
Total manufactured goods	7,058	2,993	4,065
Plant expansion	960	480	480
Total requirements	<u>24,520</u>	<u>11,724</u>	<u>12,796</u>

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

January 17, 1941

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE
Washington, D. C.

January 27, 1941

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

Dear Mr. Secretary:

I want to thank you for the estimate of British Government requirements for steel in the United States, which you sent me in your letter of January 17 and which I have carefully studied.

Since receiving your letter I have received the Monthly Program Statement of the British Iron and Steel Corporation, Ltd., giving their estimates for the coming year. There is considerable difference between these estimates, which I should like to submit for your advice as to whether they can be harmonized.

The British figures from their Institute indicate for the calendar year 1941 approximately 5 million gross tons in semi-finished and finished commercial carbon steels. If we assume (which may not be warranted) that 60% of this amount is in semi-finished steel and convertible into ingots at an inverse ratio of 85%, and if we assume that 40% is similarly convertible at an inverse ratio of 72%, it yields an annual delivery of 6,380,000 gross tons, which is equal to 7,120,000 net tons. The figure in your estimate is 8,251,000 net tons, or 1,131,000 net tons more.

In your estimate 1,504,000 net tons is set aside for ships during 1941, but I am informed that these ships, which are of a cargo type, call for 3,500 net tons of finished steel of which the ingot equivalent is approximately 4,000 net tons. At the rate of 1,504,000 net tons of requirements this would represent 376 ships, which seems way beyond what might be expected to be the right number, as it is beyond the present and future capacity of our shipyards. I am informed that the British program at present calls for only 60 ships of which only half are expected to be off the ways this year.

Would not 500,000 tons for ships seem nearer the possible requirements than 1,504,000 tons?

The estimate with which you have been kind enough to supply me gives for the calendar year 1941 918,000 net tons for ammunition. It is my understanding that a large portion of this ammunition

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steel is for demolition bombs, which are not made of ingot steel but of cast steel in foundries whose steel-making capacity is not included in the ingot capacity figures reported by the American Iron and Steel Institute for the steel industry. It would seem, if I am not in error, that a reduction by 500,000 tons to 418,000 tons would be a more likely figure for the ingot steel for ammunition.

Your estimate also gives 480,000 tons for plant expansion, but is it not true that this plant expansion is in the United States, in which case the whole of this item would be included in the figures for United States civilian consumption and should not be entered in the export requirements?

If we add together the differences so far accumulated between your estimates and the estimates of the British Iron and Steel Corporation, Ltd., they amount to 3,115,000 net tons, and if we subtract this from your figure for 1941 of 11,724,000 net tons, it leaves for British export 8,609,000 net tons instead of the 11,724,000 tons of your estimate.

If to the British export we add 1,800,000 tons for Canada and 2,000,000 tons for other exports, we will get a total export figure of 12,409,000 tons, which is considerably within the figure of 14,500,000, which up to now we have been using.

Your estimates did not indicate whether the tons were gross or net, but inquiry from your office brought the reply that they were net, excepting for possibly a few items of small amount which were gross, of which the inclusion would not materially affect the result.

Appreciating very much your help in this matter, I am

Sincerely yours,

(signed) Gano Dunn

Gano Dunn
Senior Consultant
Industrial Materials Division

THE SECRETARY OF THE TREASURY
WASHINGTON

February 3, 1941

Dear Mr. Dunn:

Receipt is acknowledged of your letter of January 27, in which you discuss the estimates of British Government requirements for steel in the United States.

The first three questions which you raise concerning the Treasury estimates submitted to you apparently arise because of a difference in the basic data considered. The Treasury estimates (except for plant expansion) were based on a secret comprehensive statement of British requirements which was recently received from Mr. Purvis. This statement showed, for selected items, the estimated quantity or dollar value required from the United States in 1941 and 1942. Naturally, in some cases, these requirements represent an amount greater than present available productive capacity in the United States. This is the case with ships. If the British are to secure the ships which they estimate they need, however, it will of course be necessary to attack the problem of increasing ship-building capacity where it is deficient, as well as supplying the steel for the ships.

For your confidential use, I am attaching a table listing the requirements of selected items referred to above. It should be noted that the figures for commercial steel have now been cleared up as to the basis of measurement, and the original Treasury estimates will have to be revised upward accordingly. Your attention is also called to the fact that no demolition bombs are included in the ammunition figures, so that the Treasury estimates do not include cast steel for their manufacture, as you suggest.

The last question that you raise concerns the amount of steel required for plant expansion in order to meet British requirements in this country. The estimate for plant expansion included in the statement of British steel requirements prepared by the Treasury was taken from data prepared by the British Purchasing Commission recently but prior to receipt of the secret comprehensive statement of British requirements referred to above. This means that the estimate was based on

Mr. Dunn - 2

a less comprehensive list of requirements than is now available, and the figure included in the Treasury table is therefore probably too low.

In any event, you suggest that steel required for plant expansion to cover British export requirements should be considered as already allowed for in estimates of civilian consumption of steel, and that, therefore, such requirements should not be considered along with the British needs for export. One question occurs to me, however, in connection with estimates made from the point of view of domestic consumption. Is it possible for such estimates of steel requirements to cover plant expansion required for British export needs beyond the orders or inquiries already known to manufacturers? On the other hand, the estimate for plant expansion in the Treasury table covered not only such orders but also programs which were in the initial stages of development.

I should like to call to your attention the fact that the attached list itself is not all-inclusive, but covers only the principal kinds of articles required. For example, no estimate is included for motor vehicles, although it is obvious that British purchases of trucks, scout cars, and the like will call for at least a small amount of steel.

Sincerely yours,

(signed) Herbert E. Gaston

Acting Secretary of the Treasury

Mr. Gano Dunn, Senior Consultant,
Industrial Materials Division,
The Advisory Commission to the
Council of National Defense,
Washington, D. C.

Attachment

April 24, 1941:

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The statement of the Secretary before the House Ways and Means Committee, in which he said that the proposed tax program was designed in part "to prevent a general rise in prices by keeping the total volume of monetary purchasing power from outrunning production," is given in Exhibit 15.

Statement of Secretary Morgenthau before the Committee
On Ways and Means of the House of Representatives,
Thursday, April 24, 1941.

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I have come before you today to discuss with you the need of producing three and a half billion dollars annually in additional revenue for the defense of our country. Such an increase is without precedent, but the situation confronting us today is also without parallel.

We are faced with a greater challenge than any in the history of the Republic. It calls for a much greater response than has yet been made. The American people are prepared to make such a response, and to make it willingly.

The Treasury is now proposing an additional diversion through taxation of $3\frac{1}{2}$ billion dollars, which is only four per cent of a rapidly rising national income, to the cause of national defense. This surely is a modest proposal in the present emergency, and with the present level of prosperity. Other countries, free and progressive countries like our own, have uncomplainingly carried far heavier defense burdens in proportion to their size and population.

We are big and rich and strong. We are economically better able to carry this load than any other people in the world. The American taxpayer stands ready to take this burden in his stride.

- 2 -

We now have a program of about thirty-nine billion dollars for defense expenditures including the Lend-Lease appropriations. Many people assume from this figure that we are going to spend most of these thirty-nine billions in the coming fiscal year. But our studies at the Treasury have shown that unless we greatly speed up our production effort, not much more than twelve billions will be spent for defense purposes in the fiscal year ending June 30, 1942.

The Treasury estimate is that at the start of the new fiscal year we shall be spending no more than 1 billion dollars a month on defense. Almost two years will have passed with the world on fire. The forces of aggression already control all the factories of continental Europe. The danger to our peace and security is mounting hour by hour. Yet we shall find ourselves spending less than fifteen per cent of our national income for the national safety.

The problem of building our defense is fundamentally a problem of production. We cannot build planes and tanks, ships and guns, merely by voting money. We build them with labor and management, with raw materials and machinery. The resources now employed in the defense industries are not enough to produce the guns and tanks and ships and planes

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that we need to carry out the program to which we are already committed. We must hasten the reemployment of our idle resources. Even this increase will not be enough. As we closely approach full employment of our resources, we must take the next step of diverting to defense production more and more of the resources now engaged in satisfying our civilian needs and wants.

The tax program before you is designed to promote these very objectives.

First of all, it presents a method of paying as we go for a reasonable proportion of our expenditures.

Secondly, it is designed so that all sections of the people shall bear their fair share of the burden.

Third, it will help to mobilize our resources for defense by reducing the amount of money that the public can spend for comparatively less important things.

And finally, it is designed to prevent a general rise in prices by keeping the total volume of monetary purchasing power from outrunning production.

There must, of course, be no stinting of our defense expenditures. But there is another set of expenditures which, as I suggested to this Committee on January 29, we should now "re-examine with a magnifying glass." These are the govern-

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ment expenditures which are neither for purposes of defense nor for purposes of relief and security from want. We are continuing to spend in these non-defense and non-relief fields as if we had no emergency defense program, as if we could superimpose our huge rearmament effort upon government as usual and business as usual. This was all right before the existing emergency and while there continued to be a large volume of available unemployed resources. But we simply cannot carry on business as usual and government as usual from now on and still take adequate care of our defense needs. It would be a tragic error to assume that we can expand our defense production on a colossal scale and still go our usual ways, whether as a Government or as individuals. It would be folly to assume that we can continue to spend now as we did in normal times.

In the past twelve months, we have completely revised our thinking on defense expenditures, as this Committee knows. We are now awake to the need for expenditures on the enlarged scale required to make this country safe and strong. We have not, however, kept pace with events in our thinking about non-defense and non-relief spending. We have remained curiously static in our conceptions of what to spend on those things not directly connected with defense.

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Ordinary traffic must now get to one side to let planes and tanks and guns have the right of way. Other traffic can be permitted only if it does not obstruct the National purpose.

Now, I don't want anyone to misunderstand me. I want to make it perfectly clear that we must continue to provide for those in want, those who face old age without means of their own, or who are otherwise in urgent need of relief.

There has been general agreement that much higher taxes are necessary; but one group may urge that new taxes be imposed on labor but not on business, while another group may urge that the rich and prosperous can afford to bear the whole load. Both kinds of advice should be disregarded. The job before us is so big that all the American people must help to carry it out, in proportion to their ability to pay. It is unsound, especially at a time like this, to proceed on the assumption that any group of our people should be penalized or that any section should be exempted from sharing the common task. We all want labor to earn fair wages, the farmer to have his proper share of the national income, and business to make a fair profit.

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Please note that I used the term "fair" profit. No business, no American, should make inordinate and excessive profits out of this national emergency. The Congress has tried to deal with the problem of defense profiteering through excess profits taxes. We all know how hard it is to devise any excess profits tax which is 100 per cent protection against defense profiteering, but I hope that the bill to be written by this Committee will be helpful in further reducing the evil. The American people do not intend that any of their number shall grow rich and fat out of this country's danger. They will, in my opinion, support any fair and workable tax that will help to keep this from occurring.

The Treasury is prepared to suggest tax revisions of which the most important features are an increase of income tax rates, a lowering of the minimum income subject to surtax, an increase in excess profits tax, and finally, new excise taxes on a number of commodities which are not essential to the defense program. Mr. Sullivan and the Treasury Staff are here to discuss these suggestions in detail.

In conclusion I should like to make one more observation. The American people, I believe, have outgrown the old idea that taxes were exactions forced upon them by their Government.

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We have come to understand, especially in recent years, that taxes are payments for services rendered. We can look about us and see highways, schools, airports, reclamation work and Government activities of all kinds which have been paid for by our own efforts. Our daily lives would be insupportable if it were not for the necessities and the conveniences which our taxes have made possible.

We are now about to pay for the greatest service of all: the safety and protection of our country. How much does it mean to the American taxpayer to have a navy guarding American shores? How much does it mean to him to have an adequate supply of airplanes and other weapons of national defense? How much is it worth to be a free man living in a free land? If we remember always the services we are receiving as individuals, the new taxes will seem a small price to pay. The American people are ready to pay that price.

- o o o -

May 6, 1941:

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Becoming concerned over the fact that Department of Agriculture price-lifting programs were being continued despite their contributing to inflationary pressure, the Secretary asked that this be called to the Department's attention. Memoranda to the Secretary on this subject are shown in Exhibit 16.

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May 7, 1941.

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To Secretary Morgenthau
From Mr. Haas

In accordance with your request of yesterday, I telephoned Mr. Carl Hamilton, Assistant to the Secretary of Agriculture, with regard to that Department's continuance of its surplus disposal programs in view of the current record level of mill consumption of raw cotton and the relative increases in the prices of cotton textiles.

I explained to him that you were, of course, apprehensive about inflationary tendencies resulting from undue price rises, and that according to a recent report we had furnished you, cotton goods had shown the most important price increase among the textile materials - the average price having risen better than 23 percent since a year ago.

Mr. Hamilton was cognizant of the price rise and said it was true that they were continuing to make subsidy payments on exports of cotton products as well as subsidies under the mattress, stamp plan, cotton bagging for cotton bales, and cotton insulating programs. He said their justification for continuing the subsidy payments was that the export markets had been largely lost and even if there were a complete crop failure this year there would be a sufficient supply of cotton on hand. He said they were running into some difficulty in the mattress program due to a shortage of ticking. He felt that the real bottleneck was in manufacturing facilities and that this bottleneck was causing the increase in prices.

Mr. Hamilton admitted, however, that their program might be aggravating the bottleneck and said he would like to have time to explore the situation and would call me again with regard to the matter.

May 8, 1941

To Secretary Morgenthau
From Mr. Haas

Mr. Carl Hamilton, Assistant to the Secretary of Agriculture, telephoned me this morning to say that he had explored further the question of the Department's continuance of its surplus disposal programs in view of the price rise in cotton textiles. The justification for continuing the programs is that foreign markets have been greatly restricted and Government stocks of cotton amount to more than 10 million bales. He said they are fully aware that something should be done, but they feel that the real bottleneck is in the manufacturing facilities and that some arrangement should therefore be made with the processors.

He told me that Milo Perkins, who is running the surplus disposal program, had talked with Donald Nelson, and it was Mr. Hamilton's understanding that Mr. Nelson intended to go into the matter thoroughly with the Agriculture people and call a meeting with the textile manufacturers. They feel that if production at the mills can be increased the problem will be solved.

Mr. Hamilton said they appreciated your calling this matter to their attention and they realized that their program as it now stands does aggravate the price rise. However they are now working on the problem, in conjunction with the other Government people concerned, and hope to be able to work out a satisfactory solution.

June 6, 1941:

A letter to the President on this date expressed the conviction of the Secretary that an immediate expansion in steel capacity was clearly called for, despite contrary conclusions presented in the second Gano Dunn report. Exhibit 17.

Secretary of the Treasury

June 6, 1941

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My dear Mr. President:

Last December 18, as you may recall, I wrote you expressing my serious concern over the capacity of the steel industry, in view of the immense volume of defense and civilian orders then in prospect. No expert knowledge seemed necessary at that time to foresee that the industry would be unable to handle the volume of orders that lay ahead, and I gave you my opinion that an immediate major expansion program seemed clearly called for, to guard against a stringency in steel supplies that would react unfavorably on our national economy and our fiscal program, as well as hinder our defense effort.

In his first report to you last February, Mr. Gano Dunn objected to increasing our steel capacity on the ground that there was no shortage of capacity, forecasting surpluses of 10 million tons this year and 2 million tons in 1942. In his second report, he admits that steel capacity will be inadequate this year and greatly inadequate in 1942; but he still recommends against increasing capacity, this time on the ground that an expansion program would take two years, and would require steel now badly needed for defense purposes.

I disagree with Mr. Dunn's arguments against increasing our steel capacity. There is no assurance that this will be a short war, as Mr. Dunn apparently visualizes; on the contrary, we must prepare for the possibility of a long war, requiring the utmost of our productive capacity. I should much prefer to see civilian consumption curtailed temporarily by an amount necessary to provide the steel for new steel plants, than to see our national economy threatened by a steel shortage for an indefinite period. I greatly doubt that two years would be needed to build new plants, if full defense-construction effort were directed toward that end.

The objection of the steel companies that an increase in capacity at this time would leave them with surplus capacity after the war seems to me particularly short-sighted. Under the world-wide competitive conditions of the post-war era, an abundant steel capacity of the most modern type should prove one of our greatest assets. To cite our experience after the World War, although steel capacity was increased from 44.5 million tons at the end of 1913 to 61.0 million tons at the end of 1918, yet each year after the Armistice saw a further expansion, with no interruption until 1932.

In view of the increasingly urgent need for more steel, I wish to repeat, as my earnest conviction, that an immediate expansion program for the steel industry seems clearly called for. The shortage of steel capacity is a fundamental problem now, and a problem which will pyramid as the defense effort expands.

Faithfully yours,

The President,

The White House

September 9, 1941:

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A copy of the Secretary's statement
on inflation before the Advertising
Club of Boston is shown as Exhibit 18.

TREASURY DEPARTMENT
Washington

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FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, September 10, 1941.

Press Service
No. 27-37

(The following address by SECRETARY MORGENTHAU before the Advertising Club of Boston is scheduled to be broadcast at 8:00 p.m. Eastern Standard Time, Tuesday, September 9, 1941, and is for release upon delivery at that time.)

Only twenty miles from here, at Lexington and Concord, the men of New England first proved that Americans could defend their homes and their freedom. Today, the people of these States are proving that they are still New Englanders. In army camps and naval stations, in hundreds of factories and shipyards from Connecticut to Maine, the men and women of New England are responding magnificently to their country's needs. I am glad to be here tonight to pay my tribute to the great work that New England is doing, like all other sections of the country, to arm America.

I am glad also that my host tonight is the Advertising Club of Boston, for the advertising profession is a mighty force in creating public understanding. We cannot make ourselves the arsenal of democracy and the defender of freedom unless our people understand the tremendous issues involved in this Battle for the World. In the same way, we at the

Treasury shall find it more difficult to accomplish our task of financing the defense program unless the public sees clearly the need for greater sacrifice and for greater effort.

In particular, I think that clear understanding is needed if we are to avoid the economic evils that might otherwise spring from a defense program as great as ours, a program that is making such enormous demands upon our productive resources. The worst of those economic evils has been constantly uppermost in my mind as Secretary of the Treasury. That is the evil of inflation and that is the subject which I should like to discuss with you tonight.

We have been talking about inflation for a long time as if it were a threat remote from our daily lives. It is a distant threat no longer. We are facing it now and we must deal with it at once.

If we are selfish or shortsighted in facing this issue, the consequences may haunt us and our children for years. But if we look at the problem with clear vision and firm resolve, we can beat this thing. If we keep always in mind the interests of our country as a whole, if we provide promptly the appropriate means and use them vigorously whenever necessary, we can prevent inflation from fastening its grip upon us.

That task calls for alertness and mental toughness on the part of everyone in the executive departments of the Government, everyone in the halls of Congress, everyone of us here in this room and everyone who may be listening to me tonight.

The word "inflation" is cold and lifeless, so cold that even you advertising men here tonight might have difficulty in making it real, but the thing it describes is treacherous and cruel. Memories are so short that I suppose many of us have forgotten what happened the last time a price inflation struck us 25 years ago. The effects of that inflation, however, lasted for many years and brought untold heartbreak and misery in their train.

Let us look at the record to see what happened a generation ago. In 1916 the cost of living began to rise sharply but there were few who saw its significance. It was only when prices had risen by 70 per cent that President Wilson recommended any steps to prevent inflation. In fact, the country was so blind to its dangers that as late as June, 1917, Congress actually hastened the rise in prices by reducing the reserve requirements for member banks of the Federal Reserve System.

The consequences were so serious for every American that there must be many housewives even today who can remember them. By 1920, a ten-pound bag of sugar cost \$2.67, a dozen eggs cost 92 cents, a ten-pound bag of flour cost 88 cents, a pound of butter cost 76 cents and a pound of pork chops cost 50 cents. By that year prices had skyrocketed to twice the level of five years earlier. The money the housewife paid for one loaf of bread in 1914 bought only half a loaf in 1920. The money she paid for a pound of bacon in 1914 bought only half a pound in 1920. The money she paid for a yard of cotton cloth was

enough to buy only 1/3 of a yard in 1920. The consumer found that food, fuel, shelter and clothing which cost a dollar in April, 1916, had risen to almost two dollars by 1920. The family with no increase in income found its purchasing power cut in half.

We have now, as we had then in 1916, a moderate rise in the cost of living, a great rise in wholesale prices, and a still greater rise in the prices of basic commodities like wheat, hogs, cotton and lumber. It is the rise in the prices of basic commodities that constitutes our red light, our warning signal, today, for such a rise is always the advance guard of an increase in the cost of living.

If we fail to use the controls at our disposal now, if we fail to do the specific things which are in our power to check inflation now, if we allow prices to go on rising as they did from 1916 to 1920, we may find that food, fuel, shelter and clothing which now cost a dollar will once more cost almost twice as much before the process has ended.

The rise in prices is by no means confined to foodstuffs and clothing. I have before me, for instance, the actual figures on the cost of constructing a standard six-room frame house in one of our typical cities. This home that could have been built a year ago for \$6,000 now costs \$7,140 to build. Here we have an increase in prices of nearly 20 per cent, and if it goes along the 1916 pattern, we are only at the beginning of the story.

Not only is the cost of building homes rising, but higher rentals are also on the way for the millions who do not own their homes. In scores of areas where industrial expansion has first taken hold, rents have already risen 10, 20, 30 per cent, and even higher.

I have brought with me tonight a pictorial chart which I wish the radio audience could see because it shows so plainly the road we traveled once, and the road which we must not travel again. The chart shows how the buying power of your dollar shrank from 1914 to 1920, how your dollar bought less food, less clothing, less shelter, less heat and light because prices were allowed to run away. It shows how your dollar is already buying less in 1941 than in 1939, and it leaves a big question mark for the space showing what your dollar may buy in 1942. The answer to that question is in our keeping as Americans, whether we are officials of the Government or private citizens. And I have written on the chart, alongside the question mark, the words: "Answer depends on us". We must decide now, this year, we in Washington and you in the country at large, whether we shall have the common sense and determination to avoid what we went through twenty-five years ago.

Let it not be said of us, as David Lloyd George said of his people in 1915, that we were "too late in moving here, too late in arriving there, too late in coming to this decision, too late in starting with enterprises, too late in preparing."

There is no excuse for us to be too late in meeting this threat of inflation that faces us. We now know, or ought to know, what is going on; that is perhaps the greatest difference between conditions today and in 1916. This time our eyes are open to the dangers that lie ahead of us. We now know that the time to do something about inflation is before it occurs, not after it has gathered momentum. We should profit by our greater knowledge and take prompt and effective action now.

There is no need for me to remind this audience in detail of the reasons why prices have already risen. The reasons are plain for everyone to see. Our economy today resembles an overloaded steam boiler. The fire under the boiler is being fed by billions of additional purchasing power in the hands of the public. The fire is growing hotter and is generating more steam than the boiler can safely hold. If we are to prevent the boiler from bursting, we must damp down the fires by diverting spending away from those articles or commodities in which there is a shortage, actual or potential. We must damp down the fires also by increasing the flow of supplies of goods available to the consumer.

We can, as I have said before, defeat this threat of inflation, just as we can defeat and destroy the forces of evil that have been let loose upon this earth. But we need to understand the issues and we need to see clearly the consequences of inaction or delay. I should like, therefore,

to point out, first, what we have done, and then, what we need to do, in order to stop prices from rising further.

In the first place, Congress is on the point of passing a huge tax bill designed to raise almost four billion dollars in additional revenue, thus withdrawing a great amount of purchasing power that competes with the defense effort.

Secondly, the Treasury in its borrowing program is trying to obtain as large a portion of its funds as possible from current consumers' income.

Through a new form of note - the tax anticipation note - it is seeking to increase the effectiveness of the income tax as a check on current purchasing power, and I am happy to report to you that more than a billion dollars' worth of these notes were sold in the month of August.

The Treasury has also begun a program of selling Defense Savings Bonds and Stamps to people of moderate and low incomes. The people have responded to a tune of a billion and a quarter dollars in four months, without coercion of any kind; and in making that response possible the advertising profession has been of truly invaluable help.

The President has recently issued an order authorizing the Board of Governors of the Federal Reserve System to control consumers installment credit.

The Congress is considering, and I hope will pass without

undue delay, a bill to limit price rises and to supplement the efforts of the Office of Price Administration to limit those rises by voluntary cooperation.

All these are useful steps to a necessary end, but they are not enough.

We shall have to tax ourselves much more heavily next year than this year, great and far-reaching as the present tax bill will be.

We shall have to invest much more widely and systematically in Defense Savings Bonds and Stamps. In particular, the rising payrolls of the past year have been a clear call to the wage earners of America to set aside a portion of their earnings each week for their own good and their country's good.

We may have to extend general controls over bank credit and create controls over selected capital expenditures.

I hope that we may extend the social security program so as to increase the flow of funds to the Treasury from current income during the emergency and increase the outflow of funds when needed in the post defense period. In addition, I have already suggested the creation of what I have called a "separation wage" -- that is, an entirely new form of contribution out of which a worker may draw a regular wage for a stated period in case he loses his job. These measures would be good and desirable in themselves, but they are especially

necessary at this time, for they should help us to decrease certain forms of purchasing now and increase them in the future when they may be needed.

We must, as I have said many times, reduce nonessential Federal expenditures. We must also appeal for economy in state and local government expenditure and a curtailment of their borrowing for nondefense purposes. The President pointed the way a month ago when he vetoed a bill calling for 320 million dollars worth of highway construction. By this action he demonstrated that there is a clear distinction nowadays between the spending that is necessary for defense and the spending that can be postponed until a later day.

The country should congratulate itself on the President's veto of this measure, and also upon the Senate's action only last week in approving the creation of a joint committee of the taxing and the appropriating agencies of Congress to study the possibilities of economy all along the line in nondefense activities. I have several times suggested the creation of such a committee, and I am very happy that my suggestion has been adopted by the Senate at last. I hope now that the House will also approve the idea, because it seems to me that such joint action is the only sensible way to proceed if we are to cut the costs of government and clear the decks for defense spending.

All of the measures I have so far suggested for combatting inflation would attack the problem by reducing the demand for goods now and by helping to build up a backlog of purchasing power for the post war world.

But we should also attack the problem from the opposite direction. We must make every effort to increase the supply of goods available to the consumer wherever this can be done without encroaching upon the defense program. Above all, we must make full use of those supplies that are available, not only in defense production, but in the provision of civilian goods which do not compete with defense output.

This is a time when we must flatten the peaks and fill up the valleys in our economic picture. If we reduce undesirable purchasing now and keep prices down now, we shall be helping to provide for the day when these vast defense expenditures will end and when our defense workers will take up the work of peace again.

The most effective way to prevent a damaging rise in prices is, quite simply, to release surpluses from storage.

I wonder if the housewife knows, when she pays fifteen per cent more than she did a year ago for a bag of flour, that our supply of wheat is the largest on record, and that 498 million bushels of several years' crops are available in our neighbor democracy of Canada. It is true that only three months ago a rigid quota was applied to the importation of

wheat from Canada with the ultimate objective of keeping up the price of wheat in this country. But it is also true that only the other day the quota on sugar from Cuba was enlarged so substantially as to absorb most of the reserve stocks in that country. It seems to me desirable and necessary that we now follow the example set in the case of Cuban sugar and permit the entry of Canadian wheat in larger volume.

Here in this country we have large reserve stocks of farm products of many kinds which should be released for consumption as fast as necessary to prevent unreasonable price rises.

The Government now holds or controls seven million bales of cotton in reserves, and cotton prices have risen from 9½ cents a pound on August 1, 1939 to over seventeen cents a pound at the present time. In spite of this rise of not far from 100 per cent in two years, Congress recently sent to the President a bill to freeze government stocks of cotton and wheat for the duration of the war, and thus to prevent the government from disposing of any of the surplus wheat and cotton it had acquired. The President promptly vetoed the bill because this measure would have aggravated the danger of inflation and might have frustrated our efforts to fight it.

We ought not to withhold cotton surpluses, or any surpluses, from the market in times like these. The housewife ought not to be made to pay a tribute to profiteers and

speculators when she buys a cotton sheet for her home or a shirt for her husband or a suit for her child.

Millions of people still go without the milk, butter and eggs which, according to the testimony of food experts and the dictates of plain common sense, are necessary to good health and good morale. Yet the reserve stocks of butter, cheese, beef and pork now held in this country are far higher than they were a year ago and far higher than the average of the past five years.

This has been historically a land of milk and honey. There is still plenty of milk and honey but too much of it is in the warehouses. Let's make it flow. If we were to let it flow to the public we would not only help in keeping prices stable but we would be doing something even more important; we would be helping to make our people healthier and happier.

It is sheer folly from the farmer's point of view to push prices up by creating scarcities in times like these. The farmers suffered cruelly for twelve long years after the collapse of the inflation of 1920 and 1921; they should not be made to suffer again.

It is sheer folly in the same way for labor leaders to seek new increases in wages every few months -- new increases which in turn produce higher manufacturing costs, higher prices, and a higher cost of living.

It is short-sighted for a landlord to charge all that the traffic will bear in defense centres where housing space is at a premium.

It is poor business, in the long run, for any businessmen to seek exorbitant profits in this period of defense spending.

It is bad banking, in the long run, for any banker to exploit the present demand for funds by seeking to charge unreasonable interest rates.

There are always selfish groups in any country which think they can profit from inflation. They are wrong.

Inflation does more than merely to rob the wage earner of a portion of his earnings. It does more than saddle the farmer with a load of debt which he cannot repay. It is more destructive of morale than any other single force. Inflation divides the country. It sets up producers against consumers, workers against employers, the people who owe money against the people to whom the money is owed.

No group in a community profits from inflation in the long run except the Three Horsemen - the Speculator, the Profiteer and the Hoarder.

These are truths that should be self-evident. They should be especially so now, in view of the fact that rising prices will only add to the cost of our defense program and make the arming of our country steadily more difficult. They should be self-evident now in the light of the experience

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that we suffered only 25 years ago.

We Americans have more than 150 years of self-government behind us. We are a mature nation, and we should be able to face up to our responsibilities as mature men and women. My plea to you tonight is that we should learn from bitter experience. My hope and my belief is that no group among us - whether farmers, working men or business men - shall be tempted by the illusion of selfish gain into allowing prices to rise unchecked.

The cost of inflation is too ruinous to producer and consumer alike for anyone in authority to tolerate it now. I can give you only this pledge - that this Administration will do everything humanly possible to prevent inflation. But in this fight the Administration must have the firm support and the clear understanding of 130 million Americans behind it. If we have that support and that understanding, I know that we shall not fail.

COST OF LIVING

Changes in Buying Power of Your Dollar

World War and Now

Total Cost of Living

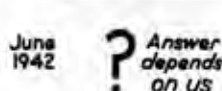
WORLD WAR —

What Your Dollar
Would Buy — 1914 Base



NOW —

What Your Dollar
Would Buy — 1914 Base



Food

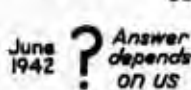
WORLD WAR —

What Your Dollar
Would Buy — 1914 Base



NOW —

What Your Dollar
Would Buy — 1914 Base



Clothing

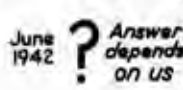
WORLD WAR —

What Your Dollar
Would Buy — 1914 Base



NOW —

What Your Dollar
Would Buy — 1914 Base



Shelter

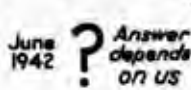
WORLD WAR —

What Your Dollar
Would Buy — 1914 Base



NOW —

What Your Dollar
Would Buy — 1914 Base



Heat and Light

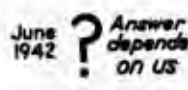
WORLD WAR —

What Your Dollar
Would Buy — 1914 Base



NOW —

What Your Dollar
Would Buy — 1914 Base



Note: All other items of Cost of Living included in total

September 12, 1941:

1 180

A suggested method by which Government holdings of farm products might be used for inflation control is contained in a memorandum to the Secretary of this date. Exhibit 19.

September 12, 1941

181

To: Secretary Morgenthau

From: Mr. Cairns
Mr. Haas

Subject: Use of farm surpluses for inflation control, within the framework of the Administration's agricultural policy.

The President has stated in his press release of May 26, 1941, approving the 85 percent of parity loans (S. J. Res. 60):

(1) "This is an effort to obtain farm prices nearer parity. It reflects the Government's objective for the past eight years."

(2) He stated that "wholly unmanageable surpluses should not accumulate in the hands of the Government. Finally, the Commodity Credit Corporation should be free to dispose in an orderly manner of many commodities acquired under the loan program."

(3) "I am approving this Joint Resolution on the distinct understanding that parity payments will be limited to the amount necessary to bring the basic commodities to parity but not beyond parity."

A method by which the Government holdings of cotton and wheat could be used to stabilize prices, consistent with the Administration's stated policy on agricultural prices, is as follows:

The President or the Secretary of Agriculture could announce that the Government stood ready to sell wheat and cotton at parity price levels. The Government has 170,000,000 bushels of wheat and 6,000,000 bales of cotton available for this purpose. It is believed that those are sufficient quantities to maintain the open market price at parity for the time being. The parity price for cotton is at approximately the present market level, and for wheat somewhat higher than present market prices.

September 24, 1941:

182

Copy of the Secretary's statement
on the Price Control bill before the House
Banking and Currency Committee is shown
as Exhibit 20.

Statement of Secretary Morgenthau
before the Committee on Banking and Currency
of the House of Representatives

183

Wednesday, September 24, 1941

I am glad to testify in behalf of this Bill not only because I am in accord with its objectives, but also because I am convinced of the terrible urgency of the problem which this Bill would help to solve.

As the President said two months ago in recommending to Congress a bill to control prices:

"Today we stand, as we did in the closing months of 1915, at the beginning of an upward sweep of the whole price structure."

In the facts and figures already presented to this Committee there has been ample demonstration of the accuracy and timeliness of the President's warning. Almost any part of the price data presented to this Committee points to the same conclusion, namely, that the pattern of price rises in the past two years is showing an alarming similarity to the price movements during the first two years of World War No. 1.

In the last war we waited too long. It was not until August, 1917, that the first step was taken to check price rises. The Lever Act empowering the President to control

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food and fuel prices was not introduced until June 11, 1917, and did not become law until August of that year.

By that time the damage had already been done. The general price level had risen more than 75 per cent and the forces making for further price rises had become so powerful that they could not be stopped.

Are we again to wait until prices have risen 75 per cent before we take bold and effective action?

The wholesale prices of farm products have risen 37 per cent in the past year, and of that rise, 6 per cent has occurred in the last month. All commodities have risen 18 per cent in the last year and 2 per cent in the last month alone. Similarly down the line: foods are up 25 per cent; hides and leather up 13 per cent; textiles up 23 per cent; building materials up 12 per cent; and chemicals up 14 per cent.

The public is amply aware of what is happening. The housewife knows that pork chops that were 29 cents a pound in January were 30 in February, 31 in April, 32 in May, 35 in June, 37 in July, 38 in August and 41 at the moment, a total rise of 40 per cent in those nine months. The housewife knows that eggs have risen more than a third since

January, that coffee is up about one-fourth in the same period, and that sugar and flour are up almost a fifth in the same period, respectively. The housewife, the business man, the wage-earner, and the Government employee all know from their daily experiences that prices are rising.

The forces at work today are the same as those that brought our inflations in previous periods of war or rearmament. Yet there is fortunately one difference in the situation which, I believe, can save us from the disaster of inflation now. This time the public and the Government are aware of what happened before and what is happening now. All of us are able, if we choose, to take positive, effective, preventive measures in time.

That is what the Congress is being asked to do today. Passage of this Bill would be one additional step forward in the war against inflation, the war on our home front, the war that must be fought and won if we are to preserve our American heritage.

It is true, of course, that price control alone will not conquer inflation. This Bill alone cannot stop price rises. Every government that has attempted to check inflation has

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found that direct price controls alone cannot hold down the lid when the income of the consuming public is increasing and the amount of goods available to the consumer is decreasing. Additional steps are necessary.

Our Government has already taken some of them:

(1) The Congress has passed, and the President has just approved, a tax bill designed to raise more than 3-1/2 billion dollars of additional revenue. This is a major accomplishment in the anti-inflation effort, for it will absorb a substantial portion of the increased incomes that are initially responsible for price rises.

(2) Secondly, the Treasury is engaged in a borrowing program designed to absorb still more of this excess income. Through the sale of Defense Savings Bonds and Stamps the Treasury is trying to borrow a large proportion of its funds from current consumer incomes, rather than from banks. In the past four months 1-1/4 billion dollars of Defense Savings Bonds and Stamps have been sold.

(3) Thirdly, a new form of borrowing - the tax anticipation note - has been introduced, with the object of absorbing consumer incomes before the date at which income taxes fall

due. During the month of August more than \$1 billion of these notes were sold, absorbing income that might otherwise be pushing up prices in the market place.

(4) Fourthly, the Board of Governors of the Federal Reserve System has recently been given the authority to control consumer installment credit and has just increased reserve requirements of member banks as a further check against inflation.

(5) Finally, the Office of Price Administration has been exerting every effort to control prices through the cooperation of producers and consumers.

Those are the more important steps that the Government is now taking to check price rises. But they are not enough.

If we are to be sure of victory in the fight against inflation, we must prepare further to increase taxes. We may have to extend the general controls over bank credits. We shall certainly have to reduce capital expenditures for non-defense needs, and widen the sale of Defense Savings Bonds and Stamps.

It would be wise to extend the social security program to absorb purchasing power now and pave the way for increased purchasing power after the emergency.

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It will also be essential for Federal, State and local governments to reduce non-defense spending as much as possible.

I am looking forward now to an early meeting of the joint committee of the taxing and appropriating agencies of Congress, a committee that has just been created to study the whole problem of non-essential Federal expenditures. I hope that this committee will receive constant support from Congress and the country at large, for it can make a vital contribution in the anti-inflationary struggle.

We must do much more than cut down purchasing power; we must attack the problem from the other side. Rising prices can also be retarded by increasing the supplies of goods which do not compete with defense needs.

We are in a position to do just that. The Government has in its warehouses vast quantities of cotton, wheat, and corn. Our granary doors should now be opened, enough at least to prevent unreasonable price rises. Such a step would be in agreement with our established agricultural policy - the ever-normal granary. Having accumulated stocks in times of low prices, they should be distributed in times of high

prices. Now is the time to draw on these supplies, both as an anti-inflationary measure and as a preparation for replenishing them if that should again become necessary.

The concept of an ever-normal granary, which calls for a control of falling farm prices, seems to me to call equally for control over rising farm prices. This Bill, however, specifically restricts the authority of the price control administration over farm prices. That is, I believe, the major defect of the Bill. I strongly recommend that this inflexibility be removed - in the interest of the attack upon inflation, in the interest of the standard of living of our people and in the long-run interests of farmers as well.

I am not disturbed by the general level of agricultural prices now prevailing, but I am deeply concerned about the danger that agricultural prices will continue to rise as they did in the World War. Such a rise would hasten general inflation, would restrict the standard of living, and would even interfere with the health and morale of our people. And it cannot be repeated too often that in the long-run the worst sufferers from inflation are farmers themselves.

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After the First World War inflation, agriculture was the hardest hit and the slowest to recover.

It has been suggested during these hearings that this price-control bill should include a ceiling over wages. I should like to go on record as not sharing this view. In free countries labor is not a commodity, human beings are not property; and they should not be treated as such.

I fully appreciate that wages affect the cost of production and the general level of prices. However, I feel very definitely that if we can on the one hand keep the cost of living from rising, and on the other hand impose adequate taxes on excessive profits, then we will have removed the major causes for demands for general wage increases. Furthermore, it is worth noting that the major portion of our defense industries today is covered by collective bargaining contracts, and only a sharp rise in the cost of living is likely to upset those contracts.

Two weeks ago I said at Boston that it was folly for labor leaders to seek continual increases in wages every few months, and that it was equally shortsighted for farmers, businessmen, landlords or bankers to seek to exploit the present abnormal situation for selfish gain.

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If we provide effective price control and adequate excess profits taxation, and if it should later develop that wage rates are not being kept within bounds, we shall have to consider other measures. As yet, however, I see no necessity for them.

Before closing, I feel it my particular responsibility as Secretary of the Treasury to point out to you the special interests of the Government and the Treasury in stopping prices from rising further.

As the nation's largest purchaser, the Government is concerned with the problem in a very direct way. Congress has already appropriated more than 50 billion dollars for defense, and the end is not yet in sight. The rise in prices which has already taken place will cost us billions of dollars. If prices are allowed to behave as they did during the World War, we may find that our defense program will cost us double without giving us a single additional gun or plane for that extra expenditure.

We not only are the nation's largest purchaser of goods, but we are the nation's largest employer. The Government now employs nearly one and a half million civilians in the Executive Departments, with a payroll now running at

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the rate of 2-1/2 billion dollars a year. A substantial rise in the cost of living will raise for us as an employer a choice of evils: to permit the real incomes of our employees to be unjustly reduced, or to increase still further the payroll that we must meet.

I fully appreciate that it requires courage on the part of Congress to pass this Bill. It always requires courage to put brakes on rising prices. But if any lesson is to be learned from the record of the past, it should be that inflation is inevitable in times like these unless all of us - Congress, the Executive Departments, and the people - fight it on all fronts and with all the strength and courage at our command.

We should gain courage from the knowledge that inflation is not only accompanied by serious evils but is followed by even greater evils. We should never lose sight of the fact that inflation is always followed by deflation and that the ride down is a lot longer and a lot harder and a lot more painful than the short intoxicating ride up.

After all, this question of inflation is one that goes to the very heart of the social aspirations of the American people. An uncontrolled price rise now would endanger the

fruits of our hard-won progress of many years. If we lack the necessary realism and courage now, we shall place multitudes of American farmers, workers and Government employees at the mercy of those whom I have called "the three horsemen -- the speculator, the profiteer and the hoarder."

Every hardworking and thrifty man and woman in the United States has a direct personal stake in the success of the battle against inflation. I regard it as vitally important for Congress to pass this bill and pass it promptly.

-oOo-

October 2, 1941:

194

A copy of the Secretary's speech
before the American Bankers' Association
on this date is shown as Exhibit 21.

(The following address by SECRETARY MORGENTHAU before the Annual Convention of the American Bankers Association in Chicago is scheduled to be delivered at 10:30 a.m., Central Standard Time, Thursday, October 2, 1941, and is for release upon delivery at that time.)

Three weeks ago, in a speech at Boston, I said that we were in the early stages of a serious price inflation, and that we must deal with the danger at once. I said then, and I should like to repeat it at the very start of this talk today, that if we do not check the spiral of rising prices, and check it now, the consequences will haunt us and our children for years to come.

I outlined then a twin program for fighting inflation, on the one hand by reducing excess purchasing power in the hands of the public, and on the other hand by increasing the supply of goods, like farm products, which do not compete with the overriding needs of our national defense effort.

I said then - and I feel very deeply about it - that it was "sheer folly" for the farmer to seek higher prices for his

crops at this time, for labor leaders to seek continual new increases in wages, or for landlords, businessmen, bankers, or any group to exploit the present emergency for selfish gain. And I asked for the understanding and support of 130 million Americans in fighting the evil of inflation by every means in our power.

There is no need to tell this audience of bankers of the need of common effort, on the part of every group and every individual in the community, if inflation is to be averted. You have shown abundantly in the past year that you are conscious of your duties and your responsibilities to the country. You have given magnificent help, and given it unselfishly and cheerfully, in the selling of Defense Savings Bonds and Stamps. You have given further help in the sale of tax anticipation notes which make it possible for every taxpayer to meet next year's heavy tax bill more easily. You have cooperated willingly with the Treasury's control of foreign funds, even though it interferes with the free handling of your business affairs and subjects you to many complicated regulations and questionnaires.

In all these and other ways you have been such real partners of the Government that I am very glad to be with you this morning, to thank you personally for all that you have done.

But the most important task of American bankers lies immediately ahead, and it is a broader and bigger task than any you have yet been called upon to perform. That is the task of doing everything in your power, not only as bankers but as influential and respected leaders in your communities, to fight this evil of inflation wherever it rears its head.

Many of you will remember, from your own experience of twenty-five years ago, that inflation is just as damaging to bankers as to farmers, wage earners or businessmen.

We now know that the doubling of bank loans and investments from 1916 to 1920, and the resulting doubling of deposits in the same five years, contributed to the great increase in prices which brought such hardship to American consumers and such disastrous after-effects to American farmers.

We now know that the inflation of a quarter-century ago, with all of its injustices and dislocations, could to some extent have been avoided if the Government of those days had acted more promptly, if it had taxed more heavily and borrowed more widely from genuine savings.

When the inevitable collapse came, no fewer than 2,910 banks with 790 million dollars of deposits were compelled to suspend operations in the five-year period from 1921 to 1925. Humpty Dumpty had fallen from the top of a very high wall, and many years of effort were needed to pick up the pieces. It is our job at the Treasury and the Federal Reserve, and yours as custodians of the people's money, to make sure that any present-day descendants of Humpty Dumpty shall not go climbing up that wall of expanded credit and higher prices again.

That is why my first plea to you as bankers is that you scrutinize closely your own lists of applications for loans. Those lists contain within them much of the ammunition of inflation. You have in your hands, therefore, one of the most effective weapons for checking inflation at its source. You are sure to find, on looking over your lists, many applications for money for non-defense projects that would involve competition for steel or copper or any of the thousand and one materials now needed so desperately for our defense effort. If you can postpone all such unnecessary loans until a later day, without waiting for the priorities to become broader, you will be doing a real and lasting service to your country.

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I hope that in the not too distant future the priority system will become so effective that the supply of practically all raw materials for all purposes will be under full control in the interests of national defense. That should mean that materials which must be used for defense purposes will not go into any unnecessary civilian projects. But until that day comes, I hope that you will constitute yourselves the sentinels of the nation, in your own bank and your own community, in guarding against any private encroachment upon the stock of resources needed for the national effort.

Another essential service which you can perform is, quite simply, to teach the people of your communities the facts about inflation and defense financing. You see in your daily work men and women from many walks of life. You are in a key position to advise them, and your advice carries as much weight as that of a family doctor to his patient or a lawyer to his client. I know that in these serious times you will give the right kind of advice, and that your influence collectively and individually will be joined with that of your Government in its efforts to keep the cost of living in check.

There is a real need of convincing the average citizen, right now, that he will have to accept far greater taxation. There is a real need of preparing him to make greater savings in his daily life to ensure the long-run survival and improvement of his standard of living. Above all, there is a real need of explaining to him that this war cannot be won quickly or cheaply or easily.

It will require all-out effort on our part to tip the scales in this war. It will require every ounce of strength that our giant industrial system can give. It will demand sweat and sacrifice on the part of producers, workers, managers and consumers alike. And it will mean the greatest public expenditure that has ever been pumped into the arteries of our economic system.

Defense expenditures have now risen slowly to more than a billion and a quarter dollars a month. They will soon be a billion and a half, but even then they will be utterly inadequate compared to the need. Perhaps "inadequate" is too mild and charitable a word. We are trying to make ourselves the arsenal of democracy by devoting only 20 per cent of our factory and mining output to defense, only 30 per cent of our

output of durable goods, only 10 per cent of our output of non-durable goods, and only 16 per cent of our national income. That, surely, is very far from total defense or all-out effort.

Nobody can emphasize too often or too strongly the magnitude of the job which we American people have set out to do. Let me give you a few simple illustrations. At present prices the cost of the total defense program as now planned will be more than 50 billion dollars. This is 10 billion dollars more than the original value of all building construction in the United States since 1927. It is twice as much as the total investment in American railways. It is twice as much as the total value of all passenger automobiles produced in this country during the past fourteen years.

Yet there is no reason whatever for us to be discouraged over the mere size of the job ahead. In spite of a slow start, we are now on the road to an expansion of production which will confound those of narrow vision and little faith who cried, "It can't be done." The capacity of America to produce over the long pull is almost limitless. We Americans can do any job that we set ourselves to do.

It is not so much the size of the undertaking as the limited time at our command which causes our economic system to heave and strain. To telescope such a vast construction or production job within, not twenty years or ten years, but within one, two or three years, is bound to affect profoundly every aspect of our economic and social life.

Under the impact of our comparatively modest defense expenditures up to now, our national income has increased by fourteen billion dollars in a year, and we are feeling all the preliminary symptoms of a serious price inflation. What will the inflationary forces be six months from now, when we shall be spending much faster and when the supplies of materials for civilian use will be smaller than they are today? Where will prices be then, if we do not act courageously to check them now?

It is imperative that we set aside a great part of that national income, and especially the increase in the national income, if we are to put an effective brake upon inflation.

One indispensable method of paying for defense without inflation is "all-out" taxation, a method that has not yet been tried in spite of the good start that Congress has made in raising \$3,500,000,000 in additional revenue. With the

help of the new Revenue Act of 1941, our tax structure will yield about fourteen billion dollars in revenue, but in my opinion it still contains many inequalities and many omissions which will have to be corrected next year.

The tax bill next year will have to be a genuinely "all-out" bill, a genuine levy upon all in accordance with their ability to pay, if it is to raise the necessary revenue, place the necessary check upon inflation, and take the profit out of war.

The second indispensable method of drawing off excess consumer purchases is by borrowing as much as possible from the genuine savings of individuals throughout the country. I know I can count on your wholehearted cooperation whenever we have to come to your banks for funds. The way to proceed now, however, is to finance our needs as far as possible without adding unnecessarily to bank deposits, to borrow instead from private investors, large and small, and thus to reduce the inflationary pressure of our swiftly rising national income.

The Defense Savings Program has now been in progress for five months. It has yielded us a billion and a half dollars from two and one-half million individual investors. The

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result so far is certainly not below our expectations, but just as certainly it falls far short of our needs. It falls short especially in that it has only begun to reach workers' payrolls. Every one of the great national labor organizations has given its endorsement to systematic saving, and voluntary payroll allotment plans are now in operation in more than five thousand companies employing between five and six million workers. Our strongest efforts must now be made in our great industrial centers, and must be directed at the good sense and patriotism of the workers themselves.

I can find no usefulness, for our present purposes, in the old Liberty Loan method of fixing money quotas for communities, trades, labor unions, school classes or individuals in this Defense Savings Program. I can see no value, either in terms of economics or of morale, in high-pressuring people to take money out of bank savings accounts or out of life insurance. But I do see a great benefit, financial and moral, in persuading spenders to set aside, systematically, week after week, a part of their current income for their own good and their country's good.

The kind of spending that the Treasury is most anxious to divert into Defense Savings Bonds is the spending produced by

pay increases and bonuses, and by increased dividend payments. I should like to offer as a suggestion, for example, that every Christmas bonus in the United States be paid in Defense Savings Bonds or Stamps this year. The banks of America can start the fashion so that it will sweep the country. The total amount of such bonuses may be small, but there could be no finer example to the public, no more striking reminder of the spirit of these times, no better safeguard for the days of economic strain that are sure to follow the war.

We at the Treasury believe that the voluntary Defense Savings Program has already awakened a greater sense of pride in America and a greater sense of participation in the national effort. We shall continue along that road of voluntary cooperation, and I am perfectly confident that we shall reach vast numbers who are willing and eager to put their savings to work for their country.

In this effort the Treasury will continue to depend greatly upon the bankers of America, not only as its agents in selling Defense Bonds but also as missionaries in spreading the gospel of savings in times like these.

There are no commissions for bankers in this work, and you have asked for none. But in order to enable you to give

wider distribution to Defense Savings Bonds, I am happy to announce to you this morning that it will no longer be necessary for you to put up collateral for the Series E bonds which you keep in stock for customers. I hope that this will relieve the banks, especially the small banks, of a real burden, and I hope that you will not hesitate to tell us at the Treasury of any similar burdens which you feel may be hampering you in the sale of these bonds.

Wider savings and greater taxes will not, of course, be enough in themselves to cope with the inflation that now confronts us.

You have seen the joint statement issued last week by the Federal Reserve System and the Treasury, dealing with the raising of bank reserve requirements to the limit of the law, and pledging full cooperation with the Office of Price Administration and the new Supply and Priorities Allocations Board.

That joint statement was a reminder of the fact that the Government already has powerful weapons of control in its hands, and that if it needs more power it will ask Congress for whatever it needs, in the fight against rising prices and falling living standards. It is now asking for additional power

through the price-control bill, which I hope will be passed by Congress without delay.

I have already suggested an extension of the social security program as a possible method of absorbing several billion dollars of next year's national income and thus building a further reserve for the future. I have already suggested, not once but repeatedly, that the Government cut down immediately on non-defense expenditure, not only as sound financial policy but as sound anti-inflationary practice.

Of course, such a combination of emergency taxes, priorities, savings and price-control will cause some inconvenience; of course it will cause some hardship, some sacrifice. We are now engaged in a world struggle that demands all our energies and all the qualities that have made America great. As a result of that effort we are compelled to fight another enemy, the enemy of inflation, on the home front. How can we hope to win unless we first throw onto the rubbish heap all ideas of business as usual, pleasures as usual and comforts as usual? In my opinion, complacency is our major source of weakness today in building our defenses, for it saps our will and clouds our minds, and blinds us to the stupendous size of the job that confronts us.

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We can conquer inflation on the home front if we act now, just as we can ensure the defeat of foreign tyranny if we rouse ourselves in time. Most Americans, I think, are beginning to see that they have a personal stake in the fight against inflation, just as most of them began long ago to see their individual stake in the destruction of the Axis war machine. I am confident about the outcome on both fronts, because I have a deep and abiding faith in the common sense of the American people.

December 6, 1941:

To organize an inter-departmental committee for the study of the "inflationary gap" and other price problems, the Secretary on this date sent letters to 9 Government agencies asking that representatives be designated to serve on this committee. A copy of the letter to Mr. Henderson is shown as Exhibit 22.



THE SECRETARY OF THE TREASURY
WASHINGTON

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December 6, 1941

Dear Mr. Henderson:

In consideration of various fiscal problems growing out of the defense program, the Treasury Department desires to establish more effective liaison with other departments on technical research work relating to national income, civilian consumption, savings and investment, defense expenditures, prices, and related matters. There is in the Treasury Department a research committee, of which Mr. George C. Haas, Director of Research and Statistics, is the chairman, working on these problems. I have asked this committee to carry on a continuous study and to furnish me, from time to time, data helpful in the determination of Treasury policy.

I should appreciate it if you would designate one or more persons from your Staff to maintain liaison with the Treasury in this connection, and to serve as members of a consultative committee to meet at Mr. Haas' call.

Sincerely,

(signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Leon Henderson,
Administrator, Office of
Price Administration,
Washington, D. C.

FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

March 3, 1942.

A copy of the Secretary's statement before the House Ways and Means Committee is shown as Exhibit 23.

Statement of Secretary Morgenthau before the
Ways and Means Committee of the
House of Representatives

March 3, 1942

I am here to offer my suggestions as to our first Revenue Act of the war. I hardly need to emphasize the seriousness of the occasion. The task before us is to decide how this desperately serious war is to be financed and how its gigantic cost is to be distributed. Economic and social conditions during and after the war will depend to a large degree upon the courage and wisdom with which we attack these problems now.

To defeat the strongest combination of enemies in our history, we shall have to spend on a scale for which there is no precedent. If we are to equip and transport fighting men in sufficient numbers to turn the tide, if we are to furnish the weapons to the men who are doing the fighting, we shall have to use every ounce of our national energy and mobilize every possible dollar of our income. The President has announced a program involving expenditures of \$59,000,000,000 in the fiscal year 1943. We shall have to tax in accordance with the magnitude of that program and in accordance with the seriousness of the position in which we stand.

The President's Budget Message in January called for the raising of \$7,000,000,000 in new revenue from taxes, together with an additional \$2,000,000,000 to be obtained from the social security program. The

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unprecedented sum of \$39,800,000,000 will have to be borrowed in the coming fiscal year, even if the new Revenue Act fulfills the President's hopes to the last dollar. I should like to urge, therefore, the adoption and attainment of the goal the President has set, not as the maximum but as the very least that the American people can afford to provide at this critical time.

Our task is more than the raising of a huge amount of new revenue. It is to make the tax program an instrument of victory. It is to frame the new Revenue Act so wisely and so soundly that it will facilitate the maximum production of war materials, hasten the mobilization of our resources, strengthen the unity of our people for the waging of total war, and prepare us for the new economic and social problems that will face us when the war is won.

This means, first, that the new Revenue Act must help to check inflation, for nothing in the economic field can interfere with the war effort as much as an uncontrolled rise in prices. An inflationary price rise is a source of grave social injustice. It undermines morale and impedes war production. It strikes at random without consideration of equity or ability to bear the hardships which it imposes. Once it has acquired momentum, inflation is extremely difficult to control, and leaves a heritage of post-war stresses and strains that will haunt us for decades.

Today we are confronted with a grave threat of inflation. Prices of food today are following precisely the trend of the first World War; prices of all commodities are rising at a somewhat slower but nevertheless disturbing rate. (A chart showing these trends is attached as Chart 1.) Unless effective preventive measures are taken by all the means at our command, we shall have a rapid general increase in prices, with a resultant rise in the cost of our war effort far beyond the figures now contemplated.

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The way to prevent inflation is to prevent people from engaging in the futile effort to buy more goods than can be produced. This requires, first of all, the continuous and willing cooperation of every man and woman. It also requires a comprehensive and integrated program of anti-inflationary measures, in which increased taxes and increased savings are essential parts. Price control, rationing, and the regulation of consumer credit are other parts of such an integrated program.

It is important for us to remember that all these controls are interrelated. The devices of price control, allocation and rationing will be more effective if taxes and savings are increased. Similarly, the effectiveness of the fiscal devices in preventing inflation will be greater if price and commodity controls are used.

We should, therefore, tax so as to withdraw the greatest possible volume of purchasing power at this time, when money incomes are high and the quantity of goods for civilian use is shrinking day by day because of the demands of our war effort.

A second obligation, second pressing duty, is the need for severe economy in the operations of Federal, State, and local governments. The anti-inflationary purposes of our taxing and savings program will be defeated if, at the same time, Federal, State or local governments indulge in unnecessary expenditure.

As you know, I recommended a few months ago the saving of at least \$1,000,000,000 in Federal expenditures which compete with war production and add unnecessarily to the volume of purchasing power in the hands of the people. I recommended especially the immediate reduction of expenditures on highway construction, rivers and harbors, non-defense vocational training and Federal subsidies to keep up the prices of agricultural products.

Since then some economies have been made, but a large field for economy remains, not only here in Washington but in the operations of State and local governments. I should like to urge once more that real and substantial economies be made as a corollary to the new tax program.

I do not mean that we should economize on the health and strength of our underprivileged, for that is no economy at all; but I do mean that we should save in subsidies to those who no longer need Government assistance, and in non-defense construction projects which can be postponed until the war is over.

I have spoken of the need of checking inflation and the need of cutting non-essential expenditures in financing the war effort; I come now to a third and most insistent need that should govern our wartime fiscal program. That is the need of holding fast to the basic principle of our tax system, namely, that taxes should be fair and non-discriminatory and imposed in accordance with ability to pay. The cost of this war will have to be borne by everyone. It will be borne willingly and cheerfully if the principle of ability to pay is followed.

In terms of the new tax program, this principle means that special privileges in our tax laws should be removed. It means that taxes which cannot be adjusted to differences in income or family responsibilities, such as general sales taxes, should be avoided. It means that undue profits should be recaptured wherever they occur. Unreasonable profits are not necessary in order to obtain maximum production with economical business management. The country will not tolerate the retention of undue profits at a time like this, when millions are pledging their very lives to save and perpetuate our freedom.

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All will be expected to bear their fair share, in the higher and lower income levels alike. The recommendations which I shall now outline to the Committee will involve progressively increased taxes throughout the whole range of individual and corporate income now covered by our tax laws.

1. Individual Income Tax

The individual income tax is the best available type of tax based upon ability to pay. Its rates and exemptions can be adjusted to the size of personal income and differing family responsibilities. Furthermore, it is a direct tax. It falls where the Congress wants it to fall.

I recommend that the individual income tax be changed to yield approximately \$3,000,000,000, or about sixty percent more revenue than will be yielded under the present law.

In recommending this amount I have had in mind the fact that the great bulk of tax increases under the social security changes will also fall on individual incomes. In accordance with the President's views, I feel that the social security program should be expanded both as to coverage and as to protection, and that taxes for this purpose should be increased by approximately \$2,000,000,000 a year. I am not making any recommendations with regard to social security taxation or benefits in connection with this bill, but changes of the magnitude indicated should be kept in mind in planning the tax program.

As for the individual income taxes themselves, I am suggesting a substantial increase in the income surtax rates throughout the scale. I should like to give you a few examples to show the effect of these increases on typical incomes.

A single person with no dependents, with a net income of \$3,000, pays \$221 tax under the present law; he would pay \$470 under the suggested schedule. A married person with two dependents, and with a net income of \$3,000, pays \$58 under the present law; he would pay \$118 under the suggested schedule.

A single person with no dependents and with a net income of \$10,000 pays \$1,493 under the present law; the suggested schedule would call for payment of \$2,720. A married person with two dependents and with net income of \$10,000 pays \$1,117 under the present law and would pay \$2,143 under the proposed schedule.

The accompanying chart and tables, which I shall now submit to the Committee, will show the rate scale and comparative effective rates of tax under the present law and under the suggested program. (Chart 2 and Tables 1,2,3,4.)

You will notice that these proposed schedules involve no further lowering of the personal exemptions, which now begin at an income of \$750 a year for a single person and \$1,500 for a married person, with a credit of \$400 for each dependent. The exemptions were lowered in the 1940 Revenue Act; they were lowered again in the 1941 Act, and their value has been reduced still further this year by the rise in the cost of living. Although single persons with less than \$15 a week and married persons with less than \$30 a week do not pay any direct taxes, they already pay a disproportionate part of their little incomes in indirect taxes of all kinds.

Moreover, a further lowering of the exemptions would yield a relatively insignificant amount of revenue from the earners of very low incomes. If I felt that the expenditures of this group added

materially to the danger of inflation, I should not hesitate to recommend the lowering of the exemptions in spite of the small amount of revenue that would be produced. Our studies at the Treasury indicate, however, that the very lowest income earners have all they can do to feed and clothe themselves and their families. Their buying habits are governed strictly by the need of maintaining nutrition and health, and I cannot recommend a direct tax upon them until we have exhausted every possible source of revenue from those who enjoy higher incomes.

Because of the threat of inflation and because of large increases suggested throughout the existing rate scale, it becomes essential to afford a more convenient method for the payment of income taxes. The best available expedient for this purpose is a provision for collecting at the source for those incomes that are paid periodically, including wages, salaries, bond interest, and dividends.

To start such a system immediately, however, might cause considerable hardship to taxpayers because of the substantial increases they are already called upon to pay during the year 1942 as a result of the Revenue Act of 1941. On the other hand, if the threat of inflation makes necessary substantial speeding up of tax collection, we cannot afford to postpone collection at the source.

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Since it is not known how soon it may become necessary to speed up tax collection to check inflationary price rises, the Secretary of the Treasury should be authorized to begin the collection of income taxes at the source, at any time and at rates within his discretion up to 10 percent of wages and salaries, with an allowance for personal exemption and credit for dependents, and up to 10 percent of the full amount of dividends and interest. This would not be a supplementary tax; it would simply be a means of collection. It would furnish needed flexibility in relating tax collections to future economic conditions.

2. Corporation Taxes

It is recommended that additional taxes be raised from corporations in the amount of \$3,000,000,000, an increase of about forty percent.

A substantial share of the increased corporation tax should fall on excess profits. Taxes paid from such profits have less disrupting effects on business than taxes which are generally applicable to all corporate earnings irrespective of the rate of return. A tax which absorbs excess profits still leaves the corporate taxpayer with a sufficient margin of income for dividends and safety.

On the other hand, a tax which dips too deeply into the incomes of low earning corporations may seriously affect their debt-paying capacity, if not their very existence.

It is suggested that the maximum rate of the excess profits tax be increased from sixty percent to seventy-five percent with corresponding increases in the lower rate brackets.

The proposed increases in the excess profits taxes have the additional virtue of recapturing undue profits on war contracts. This method is far better than imposing profit limits specifically on war contracts. The difficulties of segregating profits on war contracts are very great and involve personnel, expense, uncertainty and litigation which we can ill afford at this time. Moreover, it is almost impossible to determine what rates of profit on cost or sales would be equitable under the widely varying special circumstances confronting different industries and contractors.

With rates of this magnitude it is increasingly important to have a fair basis from which to measure the profits subject to the excess profits tax. In addition to the many provisions in existing law to adjust earnings of the base period to take account of unusual circumstances, it is suggested that further relief be afforded where the earnings of the base period were abnormally depressed.

Other changes in the excess profits tax law should also be made, some to eliminate defects which have been brought to light in the operation of the law, and others to eliminate unnecessary hardships. These changes are of a more technical character and will be presented later, at the Committee's convenience.

There should be no further increase in the corporate normal rate because any such increase would result in an undesirable windfall to the holders of partially tax-exempt Federal securities.

It is suggested that the balance of the \$3,000,000,000 in additional corporate taxes be provided by a special war surtax which would absorb the present corporate surtax and would be imposed at the rate of thirty-one percent on corporations with incomes of more than \$25,000. This tax would differ from the present surtax in that a special tax credit would be allowed when the surtax net income for the current year has dropped in comparison to the income for the pre-war period. In a further statement, the Treasury will give the Committee a detailed explanation of this proposed

war surtax and the reasons which have led the Treasury to recommend it.

There can be no fair quarrel with the imposition upon corporations of a substantial proportion of the increased load of taxation required by our national peril. We are fighting for the maintenance of the very system of free enterprise which makes corporate profits possible. At a time like this, I am confident that incorporated business will willingly pay additional taxes which will, after all, leave it in the aggregate about the same amount of income after taxes as during the years before 1940.

In the critical months ahead our patriotism will be put to the acid test. It must rise above the profit motive. National war production may be tragically inadequate if it depends upon that motive alone. This is a time when we must forget profits and concentrate upon a supreme productive effort which alone will win the war.

However, it is recognized that very high top, or so-called "marginal rates," may leave little incentive for the maintenance of efficiency in business operation. Furthermore, after the war there may well be need for a large volume of expenditure in readjusting industry and maintaining employment. For these reasons it is believed desirable that in the case of any dollar of corporate profits the receipt of which results in an increase in tax beyond perhaps eighty cents, the additional tax on such dollar shall be held by the Government to the account of the corporation and be returnable within a limited period after the war, in those cases where it is spent for new and additional capital equipment or otherwise is spent in the additional employment of labor.

The uncertainties of this period also make it important to reduce to the minimum the necessity for prophesying. The capital stock tax and the associated declared value excess profits tax are determined largely by the accuracy of guesses about future profits. It is

suggested that the revenue produced by these taxes can be more fairly and less harmfully produced by the other taxes on corporations and that accordingly the capital stock and declared value excess profits taxes be repealed.

3. Estate and Gift Taxes

The estate and gift taxes are imposed at the time of the transfer of wealth from one person to another. Many of the fortunes which are being transferred, and will be transferred in the future, were built up during a period when income tax rates were far lower than they are today. It is much more difficult now to build up large holdings of property. For this reason substantial increases in the estate and gift taxes should be imposed as a method of equalizing tax burdens. The suggested increases are indicated in attached tables. (Chart 3 and Tables 5 and 6.)

In conjunction with the rate increases, it is suggested that the existing insurance exclusion of \$40,000 be merged with the existing exemption of \$40,000, and that a single exemption of \$60,000 be allowed. This will increase the present exemption in some cases and decrease it in others, and will remove a discrimination between persons who are insured and those who are not.

It is likewise suggested that the exemption for the gift tax be reduced to \$30,000 and that the annual exclusion of gifts be made a total of \$5,000 for each donor regardless of the number of donees to whom property is given.

These changes in rates and exemptions, together with certain changes designed to prevent avoidance of the tax, should increase the annual revenue from estate and gift taxes by \$300,000,000.

4. Excise Taxes

New and increased special excise taxes on distilled spirits, gasoline, cigarettes, soft drinks, candy, and chewing gum, and other items listed in the attached

table, are suggested to raise approximately \$1.3 billion of additional revenue. (Table 7).

Although these excise taxes are in the nature of sales taxes, their effects are substantially different from the effects of general sales taxes. Some of them are imposed on commodities of which there is or will increasingly be a scarcity. Such taxes not only yield revenue but help to conserve materials needed for the war. Those excise taxes not relating to scarce commodities have been chosen so as to fall on goods which are widely used and are of a luxury or semi-luxury character. The increase in consumer incomes will keep up the demand for those commodities despite the higher taxes. Needed revenue will thus be obtained, consumer purchasing power will be tapped, the producers will not be injured, and the consumers will not be taxed on necessities of life.

These special excise taxes have the further advantage of not requiring any substantial expansion of administrative machinery.

No general sales tax is recommended, and indeed, I strongly urge that no such tax be made a part of this revenue bill. The general sales tax falls on scarce and plentiful commodities alike. It strikes at necessities and luxuries alike. As compared with the taxes proposed in this program, it bears disproportionately on the low income groups whose incomes are almost wholly spent on consumer goods. It is, therefore, regressive and encroaches harmfully upon the standard of living. It increases prices and makes price control more difficult. It stimulates demands for higher wages and adds to the parity prices of agricultural products. It is not, as many suppose, easily collected; on the contrary, its collection would require much additional administrative machinery at a time when manpower is limited.

5. Removal of Special Privileges

There are in our tax system certain provisions which grant to relatively few of our people special advantages and privileges at the expense of the great

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mass who must pay what is thereby lost. I am reluctant to recommend that the great mass of the taxpayers of the United States should pay billions of dollars of additional revenues until these defects have been removed from the tax laws. They are bad enough in time of peace -- they are intolerable in time of war.

(a) Tax Exempt Securities. An important example of such a privilege is presented by tax exempt securities. Every element in our population should bear its fair share of the burdens which war imposes. Through tax exempt securities, however, persons with large tax-paying ability find themselves in a sheltered position. For the most part they did not buy these securities at prices reflecting to any significant extent the great favor of escape from wartime burdens, and surely the States did not offer the securities on any such basis. The holders of tax exempt securities are obtaining what are essentially windfall profits in a time of national sacrifice.

For a long time Presidents, Secretaries of the Treasury, and Congressional Committees have recommended the elimination of the tax exemption of interest on future Government securities. Last year the Congress, at my recommendation, removed the exemption on interest from future issues of Federal securities. No action has been taken with respect to the interest on future or outstanding State and local securities.

In times of peace, when the strain on other elements in the population was not so heavy, there was much to be said for the gradual elimination of tax exemption through taxing future issues only. The national emergency of war makes this gradual approach unacceptable. I therefore recommend the repeal of the present exemption applicable to outstanding issues of State and local securities.

Unfortunately, tax exemption clauses appear in many of the outstanding issues of Federal securities and these promises must not be violated. In the case of State and local securities, however, there has never

been any contract or moral commitment between the Federal Government and the security holders or the State and local governmental authorities regarding Federal taxation. Since the Supreme Court decision in the case of Graves v. O'Keefe in 1939 fair-minded experts in constitutional law have had no doubt of the Federal power and moral right to tax the income from State and municipal securities.

A tax system cannot be defended which in a time of grave national emergency calls upon the great mass of our taxpayers to shoulder the heavy burden of additional taxes and yet permits persons with large tax-paying ability to pay virtually nothing in taxes. The sacrifices necessary to win a war for the benefit of all of us should be shared by all of us--including the holders of tax exempt securities. The President said in his Budget Message, "When so many Americans are contributing all their energies and even their lives to the Nation's great task, I am confident that all Americans will be proud to contribute their utmost in taxes."

Taxing the interest of future and outstanding issues of State and municipal securities would yield \$200,000,000 a year.

(b) Percentage Depletion. A second example of special privilege is the allowance for depletion. At the present time the owners of mines and oil wells are allowed to deduct so-called percentage depletion or cost depletion, whichever is higher. Percentage depletion consists of a certain percentage of gross income (27-1/2 percent in the case of persons having an economic interest in oil and gas properties), the deduction being limited to fifty percent of the net income from the property. Under this arrangement percentage depletion goes on even after one hundred percent of the cost is recovered and may substantially exceed depletion based on cost.

In 1937 the President and the Treasury recommended the elimination of percentage depletion, but no action

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was then taken. The war has intensified the necessity for eliminating any such special favor to one group of taxpayers. The removal of this special privilege would yield \$80,000,000 a year.

One of the reasons asserted in behalf of percentage depletion for oil and gas properties is that it stimulates exploration for such properties. If this is a proper objective, it would be better achieved by a special depletion allowance to those who do explore without indiscriminate extension of the same favor to all owners. At the convenience of the Committee, we shall place before it a plan directed to this purpose.

So far as minerals other than oil and gas are concerned, it is believed that an adequate stimulus for exploration would remain if the percentages allowable for depletion purposes were substantially reduced or percentage depletion were eliminated.

(c) Separate Returns by Married Persons. A third example of special favoritism in the tax laws is the option allowed married couples to file separate income tax returns. This permission has little or no significance for most taxpayers since at the present time married couples with incomes of up to \$3,500 (the amount is higher in the case of married couples with dependents) pay the same total tax whether they file joint returns or separate returns. It may make a great deal of difference in tax, however, in the case of married couples with large incomes, especially if the income is more or less evenly divided between husband and wife.

This difference in tax is unwarranted since in actual operation the family is the economic unit. Two families with the same total income will usually manage and dispose of that income in a similar fashion, regardless of whether the income is received by only one spouse or is received by both spouses.

The adoption of mandatory joint returns would remove this tax differential and would also eliminate two specific kinds of tax avoidance which are present under existing law. The first is the treatment of community income in the so-called community-property States. In

the non-community-property States the income is taxable to the spouse who earns it. In the community-property States, however, the husband who earns the income may for tax purposes attribute half the earnings to his wife, although he retains the management and control of all the earnings. The result is that married couples with high incomes in community-property States receive a ~~very~~ substantial tax advantage over those living in other States. This advantage would be removed if joint returns were made mandatory.

A second source of tax avoidance which would be eliminated by mandatory joint returns is the possibility of manipulating incomes between husband and wife. For example, if the husband receives a large amount of income from securities, he may reduce the family income tax substantially (and also reduce the amount of estate tax in case he predeceases his wife) by giving a portion of his fortune to his wife. This, and other methods of reducing taxes by married couples, would be eliminated through provision for mandatory joint returns.

Accordingly, it is suggested that the filing of joint tax returns by married couples be made mandatory, with a special allowance for the earned income of the wife or the husband.

At the present rates of individual income tax, it is estimated that the revenue from requiring the filing of joint income tax returns would be approximately \$300,000,000.

(d) Other Special Privileges. There are other examples of special privilege in our tax laws which need to be removed. They are to be found in the provisions of our present laws affecting capital gains, insurance company taxes, and pension trusts, and will be discussed in detail later in these hearings. The removal of these additional methods of avoidance would yield about \$100,000,000 a year in additional revenue.

(e) Hardships on Taxpayers. The inequities of our tax laws work in two directions. As I have said,

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some of them extend undue privileges to a favored few. Still others result in unfair burdens upon certain taxpayers. Let me give you a few examples of such inequities which need correction.

If you rent your house to tenants but are not in the real estate business, you are taxed on the rent you received but you may be denied the right to deduct your expenses in producing that income. If, as an individual, you expand your plant to produce war materials, you are denied the benefits of the amortization provision which applies to corporations. If you collect a debt which you previously charged off as worthless, the amount collected becomes part of your taxable income even though you received no tax relief when you charged it off. With rates at wartime levels it becomes urgent to correct all such defects. I, therefore, propose that we make every effort in this session of Congress to eliminate all hardships of this character so that our tax laws will cast their burden equitably upon all taxpayers.

Conclusion

The recommendations I have outlined to the Committee this morning would, if added together, produce over \$8,000,000,000 in additional revenue. Since the effects of any series of tax proposals are inter-related to some extent, we should deduct about \$1,000,000,000 from this total. That would give us the \$7,000,000,000 in new revenue which, as I said at the outset of my statement, should be regarded as the very least that we can call for at this time.

We are at war. An adequate tax program is vital to the successful prosecution of the war. The new taxes will be severe, and their impact will be felt in every American home. War is never cheap; but, as I have said before, it is a million times cheaper to win than to lose.

Chart I

PRICES, 1939 TO DATE COMPARED WITH 1914 TO 1918

July 1914=100 World War Period; Aug. 1939=100 Present Period

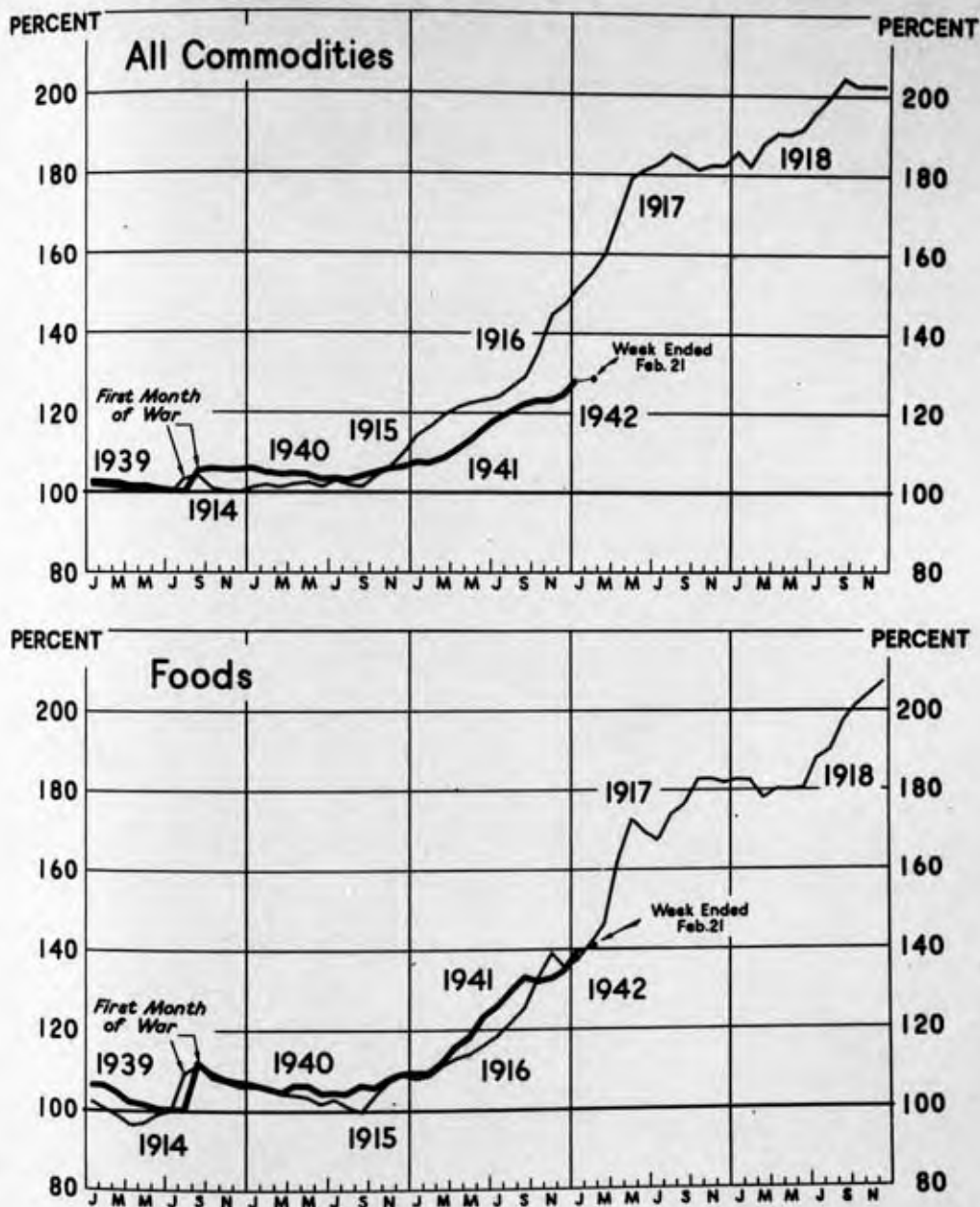


Chart 2

INDIVIDUAL INCOME TAX

Effective Rates for Married Person without Dependents
Under Present Law and Proposal

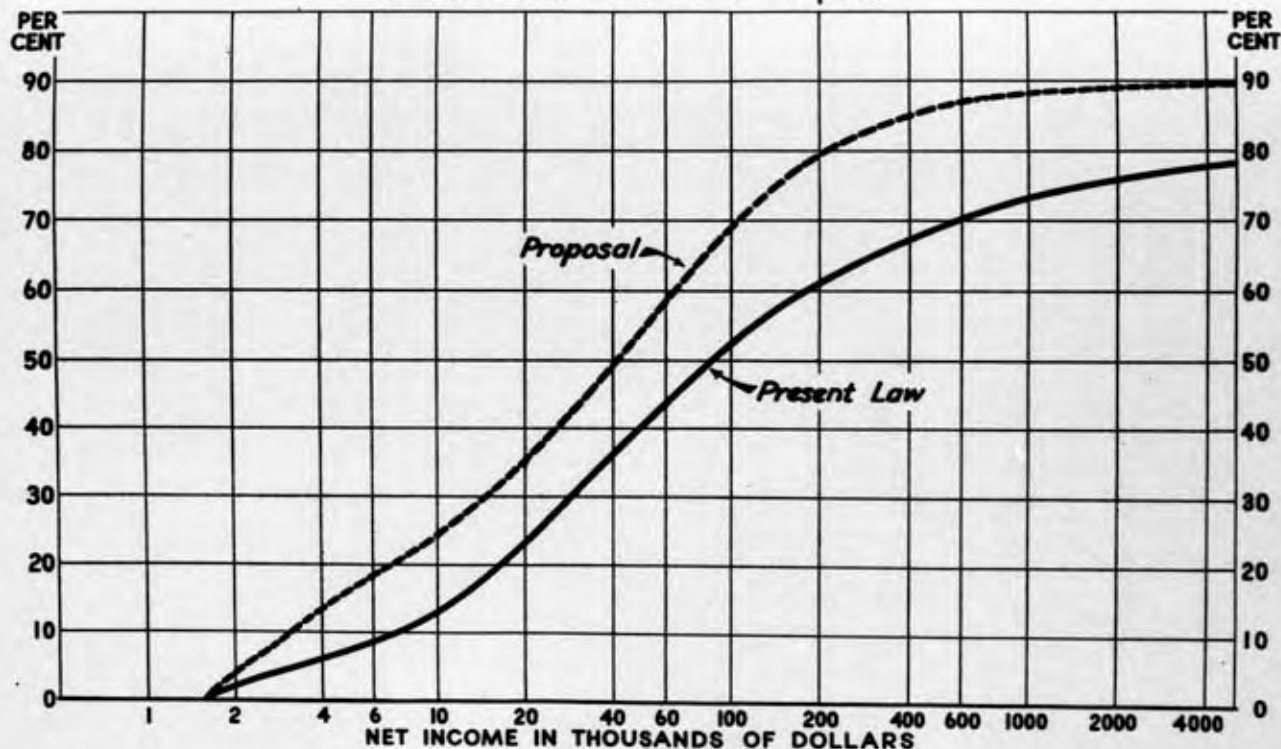


TABLE 1.

Comparison of individual surtax rate schedule under present law and proposal

Surtax net income (\$000)	Bracket rate		Total surtax, cumulative	
	Present law	Proposal	Present law	Proposal
\$ - \$.5	6%	12%	\$ 30	\$ 60
.5 - 1	6	15	60	135
1 - 1.5	6	18	90	225
1.5 - 2	6	20	120	325
2 - 3	9	22	210	545
3 - 4	9	24	300	785
4 - 6	13	27	560	1,325
6 - 8	17	30	900	1,925
8 - 10	21	34	1,320	2,605
10 - 12	25	38	1,820	3,365
12 - 14	29	42	2,400	4,205
14 - 16	32	45	3,040	5,105
16 - 18	35	48	3,740	6,065
18 - 20	38	51	4,500	7,085
20 - 22	41	54	5,320	8,165
22 - 26	44	57	7,080	10,445
26 - 32	47	60	9,900	14,045
32 - 38	50	64	12,900	17,885
38 - 44	53	68	16,080	21,965
44 - 50	55	72	19,380	26,285
50 - 60	57	76	25,080	33,885
60 - 70	59	78	30,980	41,685
70 - 80	61	80	37,080	49,685
80 - 90	63	82	43,380	57,885
90 - 100	64	84	49,780	66,285
100 - 150	65	86	82,280	109,285
150 - 200	66	86	115,280	152,285
200 - 250	67	86	148,780	195,285
250 - 300	69	86	183,280	238,285
300 - 400	71	86	254,280	324,285
400 - 500	72	86	326,280	410,285
500 - 750	73	86	508,780	625,285
750 - 1,000	74	86	693,780	840,285
1,000 - 2,000	75	86	1,443,780	1,700,285
2,000 - 5,000	76	86	3,723,780	4,280,285
5,000 and over	77	86	-	-

Table 2.

Amount of individual income taxes and effective rates
under present law and proposal

Single person - no dependents
Personal exemption \$750

Net income: before personal exemption :	Amount of tax			Effective rates		
	Present law :	Proposal :	Increase in tax :	Present law :	Proposal :	Increase in effective rates :
\$ 800	\$ 3	\$ 8	\$ 5	.4%	1.0%	.6%
900	11	24	13	1.2	2.7	1.5
1,000	21	40	19	2.1	4.0	1.9
1,100	31	56	25	2.8	5.1	2.3
1,200	40	72	32	3.3	6.0	2.7
1,500	69	128	59	4.6	8.5	3.9
1,600	79	147	68	4.9	9.2	4.3
2,000	117	230	113	5.9	11.5	5.6
2,500	165	345	180	6.6	13.8	7.2
3,000	221	470	249	7.4	15.7	8.3
4,000	347	735	388	8.7	18.4	9.7
5,000	483	1,023	540	9.7	20.5	10.8
6,000	649	1,333	684	10.8	22.2	11.4
8,000	1,031	1,990	959	12.9	24.9	12.0
10,000	1,493	2,720	1,227	14.9	27.2	12.3
12,500	2,178	3,740	1,562	17.4	29.9	12.5
15,000	2,994	4,888	1,894	20.0	32.6	12.6
20,000	4,929	7,473	2,544	24.6	37.4	12.8
25,000	7,224	10,418	3,194	28.9	41.7	12.8
50,000	20,882	27,715	6,833	41.8	55.4	13.6
75,000	36,487	48,055	11,568	48.6	64.1	15.5
100,000	53,214	69,625	16,411	53.2	69.6	16.4
500,000	345,654	429,610	83,956	69.1	85.9	16.8
1,000,000	733,139	879,610	146,471	73.3	88.0	14.7
5,000,000	3,923,124	4,479,610	556,486	78.5	89.6	11.1

Table 3

Amount of individual income taxes and effective rates
under present law and proposal

Married - no dependents
Personal exemption \$1,500

Net income before personal exemption	Amount of tax			Effective rates		
	Present law	Proposal	Increase in tax	Present law	Proposal	Increase in effective rates
\$ 1,500	-	-	-	-	-	-
1,600	\$ 6	\$ 16	\$ 10	.4%	1.0%	.6%
1,700	13	32	19	.8	1.9	1.1
1,800	23	48	25	1.3	2.7	1.4
1,900	32	64	32	1.7	3.4	1.7
2,000	42	80	38	2.1	4.0	1.9
2,100	52	99	47	2.5	4.7	2.2
2,200	61	118	57	2.8	5.4	2.6
2,300	71	137	66	3.1	6.0	2.9
2,400	80	156	76	3.3	6.5	3.2
2,500	90	175	85	3.6	7.0	3.4
3,000	138	285	147	4.6	9.5	4.9
4,000	249	535	286	6.2	13.4	7.2
5,000	375	805	430	7.5	16.1	8.6
6,000	521	1,100	579	8.7	18.3	9.6
8,000	873	1,735	862	10.9	21.7	10.8
10,000	1,305	2,435	1,130	13.1	24.4	11.3
12,500	1,960	3,425	1,465	15.7	27.4	11.7
15,000	2,739	4,535	1,796	18.3	30.2	11.9
20,000	4,614	7,060	2,446	23.1	35.3	12.2
25,000	6,864	9,960	3,096	27.5	39.8	12.3
50,000	20,439	27,145	6,706	40.9	54.3	13.4
75,000	35,999	47,425	11,426	48.0	63.2	15.2
100,000	52,704	68,965	16,261	52.7	69.0	16.3
500,000	345,084	428,935	83,851	69.0	85.8	16.8
1,000,000	732,554	878,935	146,381	73.3	87.9	14.6
5,000,000	3,922,524	4,478,935	556,411	78.5	89.6	11.1

TABLE 4.

Amount of individual income taxes and effective rates
under present law and proposal

Married person — Two dependents
Personal exemption \$1,500, dependent credit \$400

Net income before personal exemption and dependent credit	Amount of tax			Effective rates		
	Present law	Proposal	Increase in tax	Present law	Proposal	Increase in effective rates
\$ 2,300	-	-	-	-	-	-
2,400	\$ 6	\$ 16	\$ 10	.3%	0.7%	.4%
2,500	12	32	20	.5	1.3	.8
2,700	29	64	35	1.1	2.4	1.3
3,000	58	118	60	1.9	3.9	2.0
4,000	154	333	179	3.9	8.3	4.4
5,000	271	587	316	5.4	11.7	6.3
6,000	397	861	464	6.6	14.4	7.8
8,000	717	1,472	755	9.0	18.4	9.4
10,000	1,117	2,143	1,026	11.2	21.4	10.2
12,500	1,728	3,089	1,361	13.8	24.7	10.9
15,000	2,475	4,167	1,692	16.5	27.8	11.3
20,000	4,287	6,629	2,342	21.4	33.1	11.7
25,000	6,480	9,472	2,992	25.9	37.9	12.0
50,000	19,967	26,537	6,570	39.9	53.1	13.2
75,000	35,479	46,753	11,274	47.3	62.3	15.0
100,000	52,160	68,261	16,101	52.2	68.3	16.1
500,000	344,476	428,215	83,739	68.9	85.6	16.7
1,000,000	731,930	878,215	146,285	73.2	87.8	14.6
5,000,000	3,921,884	4,478,215	556,331	78.4	89.6	11.2

Chart 3
EFFECTIVE ESTATE TAX RATES
 Before Credit for State Death Taxes

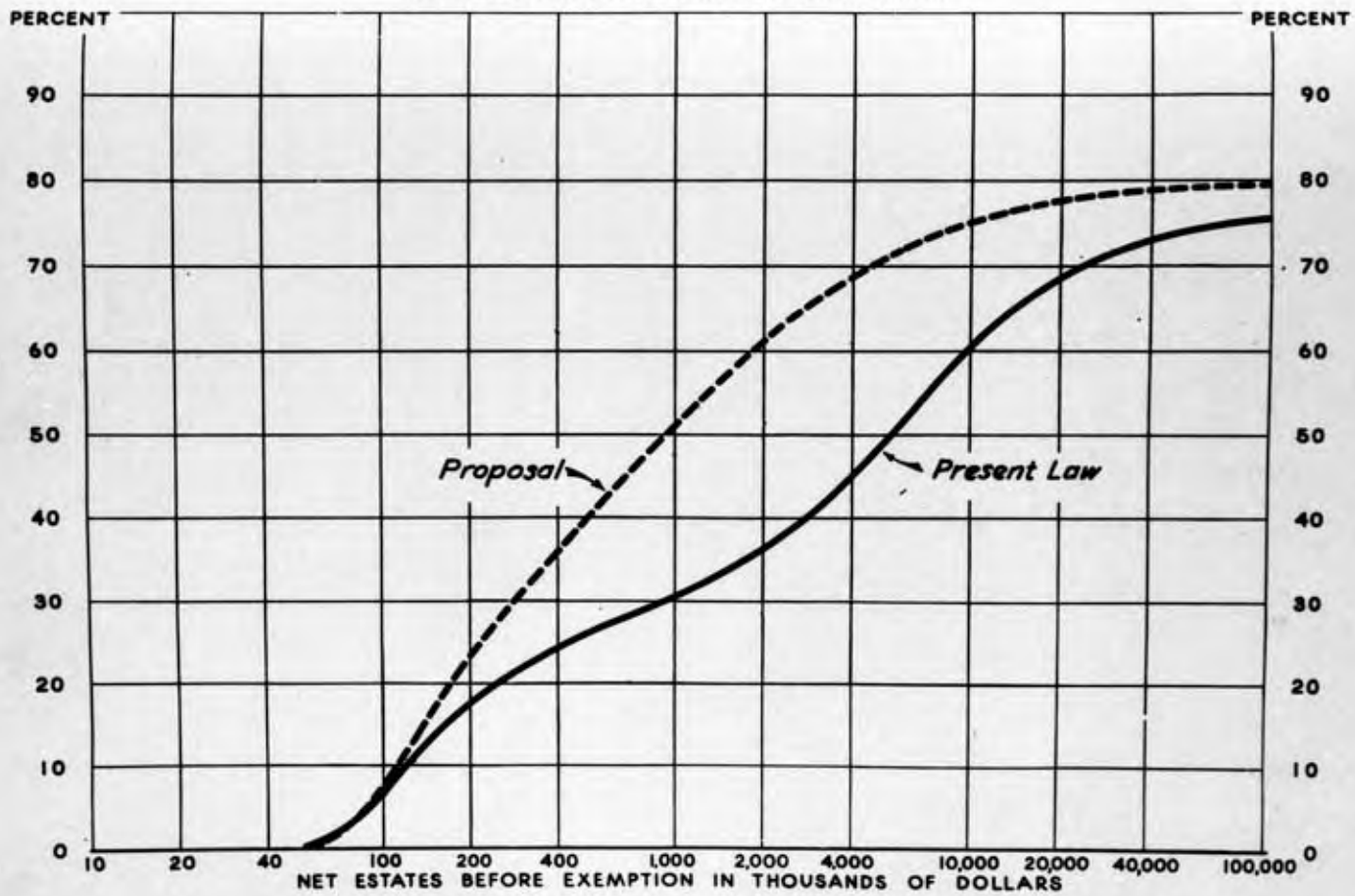


Table 5

Comparison of estate tax rate schedule
under present law and proposal

Net estate after: specific exemp- tion ^{1/} (\$000)	Bracket rate		:	Total estate tax cumulative	
	Present law	Proposal		Present law	Proposal
Under \$5	3%	8%	:	\$ 150	\$ 400
5 - 10	7	12	:	500	1,000
10 - 15	11	15	:	1,050	1,750
15 - 20	11	18	:	1,600	2,650
20 - 30	14	22	:	3,000	4,850
30 - 40	18	26	:	4,800	7,450
40 - 50	22	30	:	7,000	10,450
50 - 60	25	33	:	9,500	13,750
60 - 70	28	36	:	12,300	17,350
70 - 100	28	40	:	20,700	29,350
100 - 150	30	44	:	35,700	51,350
150 - 200	30	46	:	50,700	74,350
200 - 250	30	48	:	65,700	98,350
250 - 300	32	50	:	81,700	123,350
300 - 350	32	52	:	97,700	149,350
350 - 400	32	54	:	113,700	176,350
400 - 450	32	56	:	129,700	204,350
450 - 500	32	58	:	145,700	233,350
500 - 600	35	60	:	180,700	293,350
600 - 700	35	62	:	215,700	355,350
700 - 800	35-37	64	:	251,700	419,350
800 - 900	37	66	:	288,700	485,350
900 - 1,000	37	68	:	325,700	553,350
1,000 - 1,500	39-42	70	:	528,200	903,350
1,500 - 2,000	45	72	:	753,200	1,263,350
2,000 - 2,500	49	75	:	998,200	1,638,350
2,500 - 3,000	53	76	:	1,263,200	2,018,350
3,000 - 4,000	56-59	78	:	1,838,200	2,798,350
4,000 - 5,000	63	79	:	2,468,200	3,588,350
5,000 - 6,000	67	80	:	3,138,200	4,388,350
6,000 - 7,000	70	80	:	3,838,200	5,188,350
7,000 - 8,000	73	80	:	4,568,200	5,988,350
8,000 - 9,000	76	80	:	5,328,200	6,788,350
9,000 - 10,000	76	80	:	6,088,200	7,588,350
10,000 and over	77	80	:	-	-

^{1/} A specific exemption of \$40,000 and a life insurance exclusion of \$40,000 are allowed by the present law. The proposal would allow a single specific exemption of \$60,000 but no life insurance exclusion.

Table 6

Amount of estate taxes and effective rates
under present law and proposal

Net estate before specific exemption 1/ (\$000)	Amount of tax			Effective rate		
	Present law	Proposal	Increase in tax	Present law	Proposal	Increase in ef- fective rates
\$ 60	\$ 500	-	\$ -500	.8%	-	-.8%
70	1,600	1,000	-600	2.3	1.4%	-.9
90	4,800	4,850	50	5.3	5.4	.1
100	7,000	7,450	450	7.0	7.5	.5
150	20,700	25,350	4,650	13.8	16.9	3.1
200	35,700	46,950	11,250	17.9	23.5	5.6
400	97,700	144,150	46,450	24.4	36.0	11.6
600	163,200	257,350	94,150	27.2	42.9	15.7
800	233,200	380,950	147,750	29.2	47.6	18.4
1,000	307,200	512,550	205,350	30.7	51.3	20.6
2,000	730,700	1,220,150	489,450	36.5	61.0	24.5
4,000	1,808,700	2,751,550	942,850	45.2	68.8	23.6
6,000	3,104,700	4,340,350	1,235,650	51.7	72.3	20.6
10,000	6,050,200	7,540,350	1,490,150	60.5	75.4	14.9
20,000	13,749,700	15,540,350	1,790,650	68.7	77.7	9.0
40,000	29,149,700	31,540,350	2,390,650	72.9	78.9	6.0

1/ The amounts shown as the size of the "net estate before specific exemption" include \$10,000 of life insurance. It is assumed that none of this insurance would have been taxable under present law, which allows a \$40,000 insurance exclusion, in addition to a specific exemption of \$40,000. The proposal would eliminate the insurance exclusion and provide a single specific exemption of \$60,000. In recent years the amount of excluded insurance has averaged about \$6,000 per taxable estate.

Table 7.

Excise Tax Proposals

Article	Present tax	Recommended tax rate and base	Estimated increases in revenues ^{1/} (In millions)
1. Photographic apparatus	10% manufacturers' sales price	25% manufacturers' sales price	\$ 11.2
2. Transportation by pipe line	4 1/2% of amount paid	10% of amount paid	18.7
3. Communications:			
a. Telephone toll service	24-50¢, tax 5¢; additional 5¢ tax on each 50¢	25¢ to 39¢ 5¢ tax 40¢ " 64¢ 10¢ " 65¢ " 99¢ 15¢ " 5¢ additional tax for each 25¢ or fraction thereof	) ) ) ) ) 24.5
b. Telegraph, cable	10% of charge	15% of charge	
c. Leased wires, etc.	10% of charge	15% of charge	
d. Local telephone bill	6% of bill	10% of bill	
e. Coin-operated telephone under 25¢	Exempt	10% of service charge	
4. Gasoline	1 1/2¢ per gal.	3¢ per gal.	242.2
5. Lubricating oil	4 1/2¢ per gal.	10¢ per gal.	49.9
6. Beer	\$6 per bbl.	\$8 per bbl.	117.1

^{1/} Estimated full year effect of indicated excises at estimated fiscal year 1943 levels of business after allowing for the initial impact of the imposition of the augmented rates.

7. Wines:				
Still wines -)	
Not more than 14% alcohol	8¢ per gal.	15¢ per gal.)	
14-21% alcohol	30¢ per gal.	50¢ per gal.)	
More than 21%	65¢ per gal.	100¢ per gal.	)	25.0
Sparkling wines	7¢ per half-pint	10¢ per half-pint)	
Artificial carbonated wines	3½¢ per half-pint	5¢ per half-pint)	
Liqueurs, cordials, etc.	3½¢ per half-pint	5¢ per half-pint)	
8. Distilled spirits	\$4 per gal.	\$6 per gal.		279.7
9. Transportation of persons	5% of amount paid	15% on transportation; 20% on seats and berths		94.8
10. Carbonated soft drinks	None	a. Schedule for bottled drinks based on 1¢ per bottle re- tailing at not more than 10¢; b. 80¢ per lb. of carbonic acid gas used in unbottled drinks		146.9
11. Candy and chewing gum	None	15% manufacturers' sales price		45.3
12. Cigars	Rate schedule	New schedule <u>1/</u>		13.1
13. Smoking tobacco	18¢ per lb.	36¢ per lb.		26.8
14. Cigarettes	\$3.25 per M.	\$3.50 per M - 10-cent brands; \$4.00 per M - 15-cent brands		188.6
15. Cigarette papers and tubes	Schedule	No exemption; tax all papers and tubes 1/2¢ per 25 papers or tubes		7.8
	Total			<u>\$1,344.9</u>

1/ Class A, retail price 2-5¢, tax \$2.50 M; B, 5¢, tax \$5.00 M; C, 5.1-8¢, tax \$7.50 M; D, 8.1-10¢, tax \$10.00 M; E, 10.1-15¢, tax \$15.00 M; F, 15.1-20¢, tax \$20.00 M; G, 20.1-30¢, tax \$25.00 M; H, 30.1 and over, tax \$40.00 M

Table 8

Corporation tax plan under present law
and under the proposal

	: Present : : law :	: Proposal
1. Excess profits credit		
a. Invested capital method:		
First \$5,000,000 of invested capital	8%	8%
Over \$5,000,000 of invested capital	7	7
b. Income method:		
Portion of average earnings in base period, 1936-1939	95%	95%
c. Specific exemption	\$5,000	\$5,000
2. Excess profits tax rates		
Adjusted excess profits net income:		
First \$20,000	35	50
\$ 20,000 - 50,000	40	55
50,000 - 100,000	45	60
100,000 - 250,000	50	65
250,000 - 500,000	55	70
Over 500,000	60	75
3. Income tax		
a. Normal tax		
(1) Corporations with net income of not more than \$25,000:		
First \$5,000	15	15
\$ 5,000 - 20,000	17	17
20,000 - 25,000	19	19
(2) Corporations with net income over \$25,000:		
Flat rate	24	24
b. Surtax		
(1) Corporations with net income of not more than \$25,000:		
First \$25,000	6	16
(2) Corporations with net income over \$25,000:		
First \$25,000	6	31
Over \$25,000	7	31
(a) Relief provision: Corporations with current year surtax net income less than the average surtax net income for the base period years, 1936-1939, are allowed a tax credit of 10% of the difference, but not to exceed 20% of surtax net income. This provision applies only to corporations with net income over \$25,000.		

Table 9

Estimated revenue increase from
proposed tax program

	Increase over yield of present law ^{1/} <u>(In millions of dollars)</u>
Individual income tax	\$ 3,200
Corporation taxes	3,060
Estate and gift taxes	330
Excise taxes	1,340
Removal of special privileges, approximately	680
Eliminate exemption from income and profits taxes with respect to interest from all State and local governmental obligations	\$ 200
Percentage depletion	80
Mandatory joint returns	300
Other, approximately	100
Grand total	\$ 8,610
Less allowance for interrelated effects, approximately	1,000
Approximate increase in revenue from proposed tax program	\$ 7,610

^{1/} For a full year of operation.

March 20, 1942:

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A copy of a chart, memorandum and letter on the effect of price ceilings on Canadian prices, sent by the Secretary to the President and others on March 20, is shown as Exhibit 24.

Secretary of the Treasury

243

March 20, 1942.

Dear Mr. President:

I have recently been impressed by the fact that living costs in Canada have distinctly levelled out since the Canadian price ceiling program was put into effect, while living costs in this country have continued strongly upward. I thought you would be interested in the attached chart showing comparative price trends in the two countries and in the brief explanatory statement which accompanies it.

Faithfully,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Canadian inflation-control program.

On December 1, 1941, after previous unsuccessful attempts to control prices, Canada put into effect an overall price ceiling as part of a far-reaching program of inflation control. This 5-part program consists of (1) a general ceiling on retail prices, with limited exceptions, (2) a ceiling on wages and salaries, supplemented by cost-of-living bonuses, (3) curtailment of public spending through taxation and war savings programs, (4) a system of industrial allocations, with prospective consumer rationing, and (5) subsidies to producers of essential farm products, to maintain supplies without increasing costs to consumers.

While it is probably too early to determine the effectiveness of the Canadian program, a levelling-out of the Canadian cost-of-living index and index of retail food prices since November 1941 may be significant. The attached chart shows the official Canadian cost-of-living index and the index of retail food prices, in comparison with similar official indexes for this country. For comparability, both are converted to an August 1939 base.

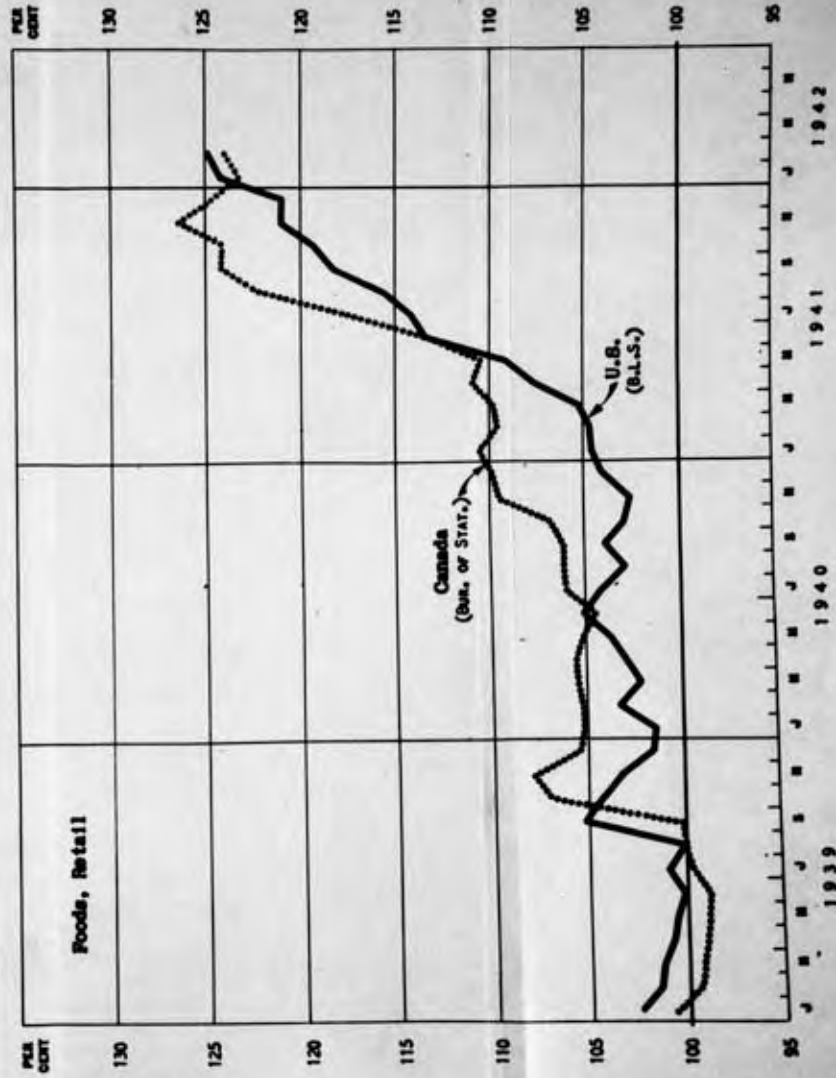
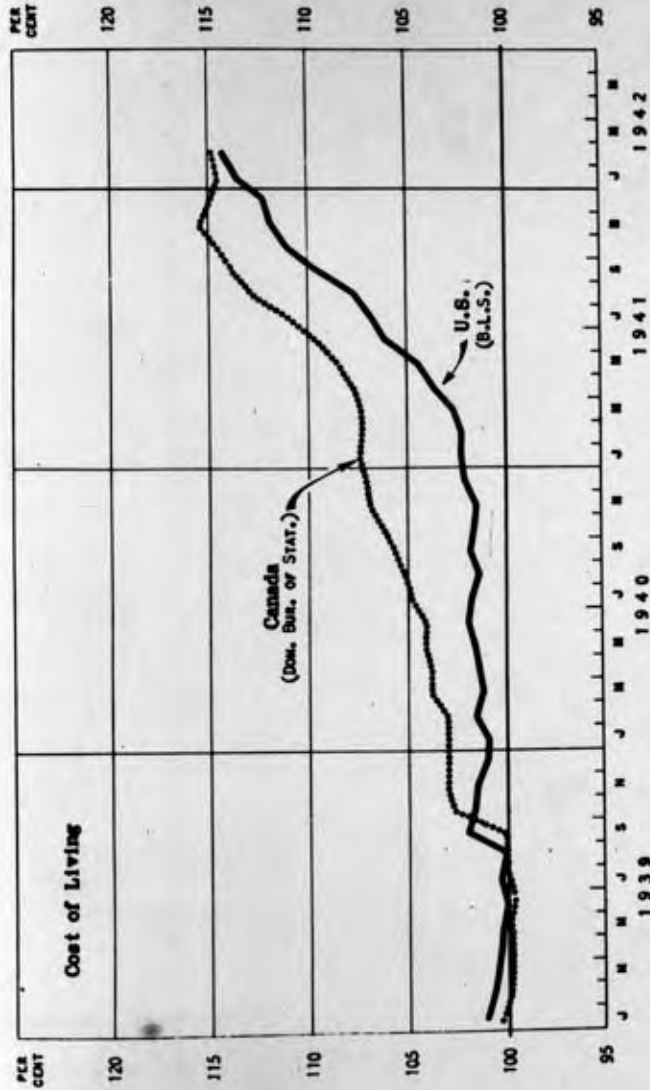
The Canadian figures (as of the 1st of each month) show that the cost-of-living index in February was 0.5 percent lower than last November, and that the index of retail food prices was 1.8 percent lower. (The Order in Council establishing ceiling prices was issued November 1, the base period for the ceilings having been announced on October 18.) Figures for the United States (as of the 15th of each month) show in the same period a rise of 2.2 percent in living costs and a rise of 3.3 percent in retail food prices.

The Canadian price ceiling is essentially a rigid ceiling on retail prices, applying to all commodities (unless specifically exempted), to twelve essential services, and to the rental of all real property. A major administrative problem is the "rolling back" of squeezes between retail prices and basic costs, which is accomplished in part by the payment of various Government subsidies.

Attachment

COST OF LIVING, U.S. AND CANADA

August 1939 = 100



5/7/42
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Comparison of individual surtax rate schedule under present law and proposal

Surtax net income (\$000)	Bracket rate		Total surtax, cumulative	
	Present law	Proposal 1/	Present law	Proposal 1/
\$.5 - \$.5	6%	12%	\$ 30	\$ 60
1 - 1.5	6	15	60	135
1.5 - 2	6	18	90	225
2 - 3	9	20	120	325
3 - 4	9	22	210	545
4 - 6	13	24	300	785
6 - 8	17	27	560	1,325
8 - 10	21	30	900	1,925
10 - 12	25	34	1,320	2,605
12 - 14	29	38	1,820	3,365
14 - 16	32	42	2,400	4,205
16 - 18	35	45	3,040	5,105
18 - 20	38	48	3,740	6,065
20 - 22	41	51	4,500	7,085
22 - 26	44	54	5,320	8,165
26 - 32	47	57	7,080	10,445
32 - 38	50	60	9,900	14,045
38 - 44	53	64	12,900	17,885
44 - 50	55	68	16,080	21,965
50 - 60	57	72	19,380	26,285
60 - 70	59	76	25,080	33,885
70 - 80	61	78	30,980	41,685
80 - 90	63	80	37,080	49,685
90 - 100	64	82	43,380	57,885
100 - 150	65	84	49,780	66,285
150 - 200	66	86	82,280	109,285
200 - 250	67	86	115,280	152,285
250 - 300	69	86	148,780	195,285
300 - 400	71	86	183,280	238,285
400 - 500	72	86	254,280	324,285
500 - 750	73	86	326,280	410,285
750 - 1,000	74	86	508,780	625,285
1,000 - 2,000	75	86	693,780	840,285
2,000 - 5,000	76	86	1,423,780	1,700,285
5,000 and over	77	86	3,723,780	4,280,285

Treasury Department, Division of Tax Research

May 7, 1942

1/ As proposed by Secretary Morgenthau, March 3, 1942.

Amount of individual income taxes and effective rates
under present law and proposal

Single person - no dependents
Personal exemption, present law \$750

Net income before personal exemption	Amount of tax				Effective rates			
	Present law		Treasury proposals 1/ with personal exemptions of		Present law		Treasury proposals 1/ with personal exemptions of	
			\$750	\$600			\$750	\$600
		<i>march 3</i>		<i>may 1</i>				
\$ 600	-	-	-	\$ 16	-	-	-	2.3%
700	3	8	8	32	.4%	1.0%	4.0	4.0
900	11	24	24	48	1.2	2.7	5.3	5.3
1,000	21	40	40	64	2.1	4.0	6.4	6.4
1,200	40	72	72	99	3.3	6.0	8.3	8.3
1,500	69	128	128	156	4.6	8.5	10.4	10.4
2,000	117	230	230	263	5.9	11.5	13.2	13.2
2,500	165	345	345	381	6.6	13.8	15.2	15.2
3,000	221	470	470	509	7.4	15.7	17.0	17.0
4,000	347	735	735	777	8.7	18.4	19.4	19.4
5,000	483	1,023	1,069	1,069	9.7	20.5	21.4	21.4
6,000	649	1,333	1,379	1,379	10.8	22.2	23.0	23.0
8,000	1,031	1,990	2,041	2,041	12.9	24.9	25.5	25.5
10,000	1,493	2,720	2,777	2,777	14.9	27.2	27.8	27.8
12,500	2,178	3,740	3,803	3,803	17.4	29.9	30.4	30.4
15,000	2,994	4,888	4,961	4,961	20.0	32.6	33.1	33.1
20,000	4,929	7,473	7,555	7,555	24.6	37.4	37.8	37.8
25,000	7,224	10,418	10,509	10,509	28.9	41.7	42.0	42.0
50,000	20,882	27,715	27,829	27,829	41.8	55.4	55.7	55.7
75,000	36,487	48,055	48,181	48,181	48.6	64.1	64.2	64.2
100,000	53,214	69,625	69,757	69,757	53.2	69.6	69.8	69.8
500,000	345,654	429,610	429,745	429,745	69.1	85.9	85.9	85.9
1,000,000	733,139	879,610	879,745	879,745	73.3	88.0	88.0	88.0
5,000,000	3,923,124	4,479,610	4,479,745	4,479,745	78.5	89.6	89.6	89.6

Treasury Department, Division of Tax Research

May 7, 1942

1/ Surtax rate scale as proposed by Secretary Morgenthau, March 3, 1942.

Amount of individual income taxes and effective rates
under present law and proposal

Married person - no dependents

Personal exemption, present law - \$1,500

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Net income before personal exemption	Amount of tax				Effective rates			
	Present law	Treasury proposals with personal ex- emption of	Treasury proposals with personal ex- emption of	Treasury proposals with personal ex- emption of	Present law	Treasury proposals with personal ex- emption of	Treasury proposals with personal ex- emption of	Treasury proposals with personal ex- emption of
		\$1,500	\$1,200			\$1,500	\$1,200	
\$ 1,200	-	16	16	-	-	-	-	1.2%
1,300	-	32	32	-	-	-	-	2.3
1,400	-	48	48	-	-	-	-	3.2
1,500	-	80	80	.8%	1.9%	-	-	4.7
1,700	\$ 13	32	80	2.1	4.0	-	-	6.9
2,000	42	80	137	3.6	7.0	-	-	9.6
2,500	90	175	241	4.6	9.5	-	-	11.9
3,000	138	285	357	6.2	13.4	-	-	15.3
4,000	249	535	613	7.5	16.1	-	-	17.8
5,000	375	805	889	8.7	18.3	-	-	19.9
6,000	521	1,100	1,193	10.9	21.7	-	-	23.0
8,000	873	1,735	1,837	13.1	24.4	-	-	25.5
10,000	1,305	2,435	2,549	15.7	27.4	-	-	28.4
12,500	1,960	3,425	3,551	18.3	30.2	-	-	31.2
15,000	2,739	4,535	4,673	23.1	35.3	-	-	36.1
20,000	4,614	7,060	7,225	27.5	39.8	-	-	40.6
25,000	6,864	9,960	10,143	40.9	54.3	-	-	54.7
50,000	20,439	27,145	27,373	48.0	63.2	-	-	63.6
75,000	35,999	47,425	47,677	52.7	69.0	-	-	69.2
100,000	52,704	68,965	69,229	69.0	85.8	-	-	85.8
500,000	345,084	428,935	429,205	73.3	87.9	-	-	87.9
1,000,000	732,554	878,935	879,205	78.5	89.6	-	-	89.6
5,000,000	3,922,524	4,478,935	4,479,205					

Treasury Department, Division of Tax Research

May 7, 1942

1/ Surtax rate scale as proposed by Secretary Morgenthau, March 3, 1942.

**Amount of individual income taxes and effective rates
under present law and proposal**

Married person — Two dependents

Personal exemption, present law - \$1,500

Dependent credit, present law - \$ 400

Net income before personal exemption and dependent credit	Amount of tax				Effective rates	
	Present law	Treasury proposals ^{1/} with personal exemp- tion and dependent credit of	Present law	Treasury proposals ^{1/} with personal exemp- tion and dependent credit of	Present law	Treasury proposals ^{1/} with personal exemp- tion and dependent credit of
	\$1,500	\$1,200	\$1,500	\$1,200		
	400	300	400	300		
\$ 1,900	-	-	\$ 16	-	-	.8%
2,000	-	-	32	-	-	1.6
2,300	-	-	80	-	-	3.5
2,500	\$ 12	\$ 32	118	.5%	1.3%	4.7
3,000	58	118	219	1.9	3.9	7.3
4,000	154	333	457	3.9	8.3	11.4
5,000	271	587	721	5.4	11.7	14.4
6,000	397	861	1,007	6.6	14.4	16.8
8,000	717	1,472	1,633	9.0	18.4	20.4
10,000	1,117	2,143	2,321	11.2	21.4	23.2
12,500	1,728	3,089	3,299	13.8	24.7	26.4
15,000	2,475	4,167	4,397	16.5	27.8	29.3
20,000	4,287	6,629	6,895	21.4	33.1	34.5
25,000	6,480	9,472	9,777	25.9	37.9	39.1
50,000	19,967	26,537	26,917	39.9	53.1	53.8
75,000	35,479	46,753	47,173	47.3	62.3	62.9
100,000	52,160	68,261	68,701	52.2	68.3	68.7
500,000	344,476	428,215	428,665	68.9	85.6	85.7
1,000,000	731,930	878,215	878,665	73.2	87.8	87.9
5,000,000	3,921,834	4,478,215	4,478,665	78.4	89.6	89.6

Treasury Department, Division of Tax Research

May 7, 1942

^{1/} Surtax rate scale as proposed by Secretary Morgenthau, March 3, 1942.

Comparison of individual surtax rate schedule under present law and proposal

Surtax net income (\$000)	Bracket rate		Total surtax, cumulative	
	Present law	Proposal ^{1/}	Present law	Proposal ^{1/}
\$.5 - \$.5	6%	12%	\$ 30	\$ 60
1 - 1.5	6	15	60	135
1.5 - 2	6	18	90	225
2 - 3	6	20	120	325
3 - 4	9	22	210	545
4 - 6	9	24	300	785
6 - 8	13	27	560	1,325
8 - 10	17	30	900	1,925
10 - 12	21	34	1,320	2,605
12 - 14	25	38	1,820	3,565
14 - 16	29	42	2,400	4,205
16 - 18	32	45	3,040	5,105
18 - 20	35	48	3,740	6,065
20 - 22	38	51	4,500	7,085
22 - 26	41	54	5,320	8,165
26 - 32	44	57	7,080	10,445
32 - 38	47	60	9,900	14,045
38 - 44	50	64	12,900	17,885
44 - 50	53	68	16,080	21,965
50 - 60	55	72	19,380	26,285
60 - 70	57	76	25,080	33,885
70 - 80	59	78	30,980	41,685
80 - 90	61	80	37,080	49,685
90 - 100	63	82	43,380	57,885
100 - 150	64	84	49,780	66,285
150 - 200	65	86	82,280	109,285
200 - 250	66	86	115,280	152,285
250 - 300	67	86	148,780	195,285
300 - 400	69	86	183,280	238,285
400 - 500	71	86	254,280	324,285
500 - 750	72	86	326,280	410,285
750 - 1,000	73	86	508,780	625,285
1,000 - 2,000	74	86	693,780	840,285
2,000 - 5,000	75	86	1,443,780	1,700,285
5,000 and over	76	86	3,723,780	4,280,285
	77	86	-	-

Treasury Department, Division of Tax Research

May 7, 1942

^{1/} As proposed by Secretary Morgenthau, March 3, 1942.

Amount of individual income taxes and effective rates
under present law and proposal

Single person - no dependents
Personal exemption, present law \$750

Net income before personal exemption :	Amount of tax :				Effective rates :			
	Present law :		Treasury proposals ^{1/} with personal exemptions of :		Present law :		Treasury proposals ^{1/} with personal exemptions of :	
	\$750	\$600	\$750	\$600	\$750	\$600	\$750	\$600
\$ 700	-	-	\$ 16	-	-	2.3%		
800	\$ 3	\$ 8	32	.4%	1.0%	4.0		
900	11	24	48	1.2	2.7	5.3		
1,000	21	40	64	2.1	4.0	6.4		
1,200	40	72	99	3.3	6.0	8.3		
1,500	69	128	156	4.6	8.5	10.4		
2,000	117	230	263	5.9	11.5	13.2		
2,500	165	345	381	6.6	13.8	15.2		
3,000	221	470	509	7.4	15.7	17.0		
4,000	347	735	777	8.7	18.4	19.4		
5,000	483	1,023	1,069	9.7	20.5	21.4		
6,000	649	1,333	1,379	10.8	22.2	23.0		
8,000	1,031	1,990	2,041	12.9	24.9	25.5		
10,000	1,493	2,720	2,777	14.9	27.2	27.8		
12,500	2,178	3,740	3,803	17.4	29.9	30.4		
15,000	2,994	4,888	4,961	20.0	32.6	33.1		
20,000	4,929	7,473	7,555	24.6	37.4	37.8		
25,000	7,224	10,418	10,509	28.9	41.7	42.0		
50,000	20,882	27,715	27,829	41.8	55.4	55.7		
75,000	36,487	48,055	48,181	48.6	64.1	64.2		
100,000	53,214	69,625	69,757	53.2	69.6	69.8		
500,000	345,654	429,610	429,745	69.1	85.9	85.9		
1,000,000	733,139	879,610	879,745	73.3	88.0	88.0		
5,000,000	3,923,124	4,479,610	4,479,745	78.5	89.6	89.6		

Treasury Department, Division of Tax Research

May 7, 1942

^{1/} Surtax rate scale as proposed by Secretary Morgenthau, March 3, 1942.

Amount of individual income taxes and effective rates
under present law and proposal

Married person - no dependents

Personal exemption, present law - \$1,500

Net income before personal exemption	Amount of tax				Effective rates	
	Present law	Treasury proposals <u>1/</u> with personal ex- emption of	Present law	Treasury proposals <u>1/</u> with personal ex- emption of	Present law	Treasury proposals <u>1/</u> with personal ex- emption of
		\$1,500	\$1,200		\$1,500	\$1,200
\$ 1,300	-	-	\$ 16	-	-	1.2%
1,400	-	-	32	-	-	2.3
1,500	-	-	48	-	-	3.2
1,700	\$ 13	\$ 32	80	.8%	1.9%	4.7
2,000	42	80	137	2.1	4.0	6.9
2,500	90	175	241	3.6	7.0	9.6
3,000	138	285	357	4.6	9.5	11.9
4,000	249	535	613	6.2	13.4	15.3
5,000	375	805	889	7.5	16.1	17.8
6,000	521	1,100	1,193	8.7	18.3	19.9
8,000	873	1,735	1,837	10.9	21.7	23.0
10,000	1,305	2,435	2,549	13.1	24.4	25.5
12,500	1,960	3,425	3,551	15.7	27.4	28.4
15,000	2,739	4,535	4,673	18.3	30.2	31.2
20,000	4,614	7,060	7,225	23.1	35.3	36.1
25,000	6,864	9,960	10,143	27.5	39.8	40.6
50,000	20,439	27,145	27,373	40.9	54.3	54.7
75,000	35,999	47,425	47,677	48.0	63.2	63.6
100,000	52,704	68,965	69,229	52.7	69.0	69.2
500,000	345,084	428,935	429,205	69.0	85.8	85.8
1,000,000	732,554	878,935	879,205	73.3	87.9	87.9
5,000,000	3,922,524	4,478,935	4,479,205	78.5	89.6	89.6

Treasury Department, Division of Tax Research

May 7, 1942

1/ Surtax rate scale as proposed by Secretary Morgenthau, March 3, 1942.

Amount of individual income taxes and effective rates
under present law and proposal

Married person — Two dependents

Personal exemption, present law — \$1,500
Dependent credit, present law — \$ 400

Net income : before personal exemption and dependont credit	Amount of tax				Effective rates			
	Present law		Treasury proposals ^{1/} with personal exemp- tion and dependent credit of		Present law		Treasury proposals ^{1/} with personal exemp- tion and dependent credit of	
		\$1,500	\$1,200			\$1,500	\$1,200	
		400	300			400	300	
\$ 1,900	-	-	\$ 16	-	-	-	-	.8%
2,000	-	-	32	-	-	-	-	1.6
2,300	-	-	80	-	-	-	-	3.5
2,500	\$ 12	\$ 32	118	.5%	1.3%			4.7
3,000	58	118	219	1.9	3.9			7.3
4,000	154	333	457	3.9	8.3			11.4
5,000	271	587	721	5.4	11.7			14.4
6,000	397	861	1,007	6.6	14.4			16.8
8,000	717	1,472	1,633	9.0	18.4			20.4
10,000	1,117	2,143	2,321	11.2	21.4			23.2
12,500	1,728	3,089	3,299	13.8	24.7			26.4
15,000	2,475	4,167	4,397	16.5	27.8			29.3
20,000	4,287	6,629	6,895	21.4	33.1			34.5
25,000	6,480	9,472	9,777	25.9	37.9			39.1
50,000	19,967	26,537	26,917	39.9	53.1			53.8
75,000	35,479	46,753	47,173	47.3	62.3			62.9
100,000	52,160	68,261	68,701	52.2	68.3			68.7
500,000	344,476	428,215	428,665	68.9	85.6			85.7
1,000,000	731,930	878,215	878,665	73.2	87.8			87.9
5,000,000	3,921,834	4,478,215	4,478,665	78.4	89.6			89.6

Treasury Department, Division of Tax Research

May 7, 1942

^{1/} Surtax rate scale as proposed by Secretary Morgenthau, March 3, 1942.

Exhibit 63.—Amount of individual income taxes and effective rates under present law and Treasury proposal

Single person—no dependents
Personal exemption \$750

Net income before personal exemption	Amount of tax			Effective rates		
	Present law	Treasury proposal	Increase in tax	Present law	Treasury proposal	Increase in effective rates
				Percent	Percent	Percent
\$800	\$3	\$8	\$5	0.4	1.0	0.6
\$900	11	24	13	1.2	2.7	1.5
\$1,000	21	40	19	2.1	4.0	1.9
\$1,100	31	56	25	2.8	5.1	2.3
\$1,200	40	72	32	3.3	6.0	2.7
\$1,500	69	128	59	4.6	8.5	3.9
\$1,600	79	147	68	4.9	9.2	4.3
\$2,000	117	230	113	5.9	11.5	5.6
\$2,500	165	345	180	6.6	13.8	7.2
\$3,000	221	470	249	7.4	15.7	8.3
\$4,000	347	735	388	8.7	18.4	9.7
\$5,000	483	1,023	540	9.7	20.5	10.8
\$6,000	649	1,333	684	10.8	22.2	11.4
\$8,000	1,031	1,990	959	12.9	24.9	12.0
\$10,000	1,493	2,720	1,227	14.9	27.2	12.3
\$12,500	2,178	3,740	1,562	17.4	29.9	12.5
\$15,000	2,994	4,888	1,894	20.0	32.6	12.6
\$20,000	4,929	7,473	2,544	24.6	37.4	12.8
\$25,000	7,224	10,418	3,194	28.9	41.7	12.8
\$50,000	20,882	27,715	6,833	41.8	55.4	13.6
\$75,000	36,487	48,055	11,568	48.6	64.1	15.5
\$100,000	53,214	69,625	16,411	53.2	69.6	16.4
\$500,000	345,654	429,610	83,956	69.1	85.9	16.8
\$1,000,000	733,139	879,610	146,471	73.3	88.0	14.7
\$5,000,000	3,923,124	4,479,610	556,486	78.5	89.6	11.1

MARRIED—NO DEPENDENTS
PERSONAL EXEMPTION \$1,600

\$1,500						
\$1,600	\$6	\$16	\$10	0.4	1.0	0.6
\$1,700	13	32	19	.8	1.9	1.1
\$1,800	23	48	25	1.3	2.7	1.4
\$1,900	32	64	32	1.7	3.4	1.7
\$2,000	42	80	38	2.1	4.0	1.9
\$2,100	52	99	47	2.5	4.7	2.2
\$2,200	61	118	57	2.8	5.4	2.6
\$2,300	71	137	66	3.1	6.0	2.9
\$2,400	80	156	76	3.3	6.5	3.2
\$2,500	90	175	85	3.6	7.0	3.4
\$3,000	138	285	147	4.6	9.5	4.9
\$4,000	249	535	286	6.2	13.4	7.2
\$5,000	375	805	430	7.5	16.1	8.6
\$6,000	521	1,100	579	8.7	18.3	9.6
\$8,000	873	1,735	862	10.9	21.7	10.8
\$10,000	1,305	2,435	1,130	13.1	24.4	11.3
\$12,500	1,960	3,425	1,465	15.7	27.4	11.7
\$15,000	2,739	4,535	1,796	18.3	30.2	11.9
\$20,000	4,614	7,060	2,446	23.1	35.3	12.2
\$25,000	6,864	9,960	3,096	27.5	39.8	12.3
\$50,000	20,439	27,145	6,706	40.9	54.3	13.4
\$75,000	35,999	47,425	11,426	48.0	63.2	15.2
\$100,000	52,704	68,965	16,261	52.7	69.0	16.3
\$500,000	345,084	428,935	83,851	69.0	85.8	16.8
\$1,000,000	732,554	878,935	146,381	73.3	87.9	14.6
\$5,000,000	3,922,524	4,478,935	556,411	78.5	89.6	11.1

Exhibit 63.—Amount of individual income taxes and effective rates under present law and Treasury proposal—Continued

MARRIED PERSON—TWO DEPENDENTS
PERSONAL EXEMPTION \$1,600, DEPENDENT CREDIT \$400

Net income before personal exemption and dependent credit	Amount of tax			Effective rates		
	Present law	Treasury proposal	Increase in tax	Present law	Treasury proposal	Increase in effective rates
				Percent	Percent	Percent
\$2,300						
\$2,400	\$6	\$16	\$10	0.3	0.7	0.4
\$2,500	12	32	20	.5	1.3	.8
\$2,700	29	64	35	1.1	2.4	1.3
\$3,000	58	118	60	1.9	3.9	2.0
\$4,000	154	333	179	3.9	8.3	4.4
\$5,000	271	587	316	5.4	11.7	6.3
\$6,000	397	861	464	6.6	14.4	7.8
\$8,000	717	1,472	755	9.0	18.4	9.4
\$10,000	1,117	2,143	1,026	11.2	21.4	10.2
\$12,500	1,728	3,089	1,361	13.8	24.7	10.9
\$15,000	2,475	4,167	1,692	16.5	27.8	11.3
\$20,000	4,287	6,629	2,342	21.4	33.1	11.7
\$25,000	6,480	9,472	2,992	25.9	37.9	12.0
\$50,000	19,967	26,537	6,570	39.9	53.1	13.2
\$75,000	35,479	46,753	11,274	47.3	62.3	15.0
\$100,000	52,160	68,261	16,101	52.2	68.3	16.1
\$500,000	344,476	428,215	83,739	68.9	85.6	16.7
\$1,000,000	731,930	878,215	146,285	73.2	87.8	14.6
\$5,000,000	3,921,884	4,478,215	556,331	78.4	89.6	11.2

Exhibit 64.—Individual income tax—Effective rates for married person without dependents, under present law and Treasury proposal

(CHART TO BE INSERTED LATER)

Exhibit 65.—Individual income tax—United States, United Kingdom, and Canada, effective rates for married person without dependents

(CHART TO BE INSERTED LATER)

Exhibit 66.—Net income required to leave \$10,000, \$25,000, \$50,000, and \$100,000 after Federal tax, under present law and the Treasury proposal

Net income after Federal tax and family status	Net income before Federal tax	
	Present law	Treasury proposal
\$10,000:		
Single, no dependents.....	\$12,049	\$14,674
Married, no dependents.....	11,748	14,630
Married, 2 dependents.....	11,474	13,422
\$25,000:		
Single, no dependents.....	40,178	63,722
Married, no dependents.....	39,204	60,422
Married, 2 dependents.....	38,265	57,222
\$50,000:		
Single, no dependents.....	110,344	295,540
Married, no dependents.....	108,674	288,790
Married, 2 dependents.....	106,894	281,590
\$100,000:		
Single, no dependents.....	280,283	795,540
Married, no dependents.....	278,256	788,790
Married, 2 dependents.....	276,093	781,590

Source: Treasury Department, Division of Tax Research, Apr. 30, 1942.

Section 6. INDIVIDUAL INCOME TAX BASES AND YIELDS

Exhibit 67. Number of taxable returns, net income, normal tax net income, and surtax net income, by net income classes, under Treasury proposal at calendar year 1942 levels of income¹

Net income classes	Number of taxable returns	Net income	Normal tax net income	Surtax net income
	Thousands	Billions	Billions	Billions
Under \$5,000.....	19,294	\$37.4	\$13.3	\$13.3
\$5,000 to \$25,000.....	1,181	9.8	7.8	7.9
Over \$25,000.....	84	4.4	4.2	4.2
Total.....	20,559	51.6	25.3	25.4

¹ Without mandatory joint returns.

Source: Treasury Department, Division of Research and Statistics, May 1, 1942.

Exhibit 68.—Number of taxable returns and estimated yield of present law and Treasury proposal, by net-income classes, at calendar year 1942 levels of income¹

Net income classes	Number of returns		Estimated yield		Increase in yield from Treasury proposal
	Present law	Treasury proposal	Present law	Treasury proposal	
	Thousands	Thousands	Millions	Millions	Millions
\$0 to \$1,000.....	2,493	2,493	\$15.7	\$16.7	\$1.0
\$1,000 to \$2,000.....	7,765	8,783	304.5	557.8	253.3
\$2,000 to \$3,000.....	5,697	5,445	434.4	634.4	200.0
\$3,000 to \$4,000.....	1,877	1,779	279.7	483.1	203.4
\$4,000 to \$5,000.....	804	794	221.2	430.0	208.8
\$5,000 to \$6,000.....	356	356	141.5	281.1	139.6
\$6,000 to \$7,000.....	221	221	124.8	241.6	116.7
\$7,000 to \$8,000.....	139	139	101.7	192.1	90.4
\$8,000 to \$9,000.....	96	96	90.2	163.3	73.0
\$9,000 to \$10,000.....	70	70	80.1	141.1	61.0
\$10,000 to \$25,000.....	300	300	810.4	1,198.5	388.1
Over \$25,000.....	84	84	2,440.3	2,610.6	170.3
Total ²	19,902	20,559	5,044.8	6,950.5	1,905.7

¹ Without mandatory joint returns.

² The figures are rounded and will not necessarily add to totals.

Source: Treasury Department, Division of Research and Statistics, May 1, 1942.

Exhibit 69.—Estimated number of individuals affected and yield if individual incomes were limited to \$25,000 after tax, at calendar year 1942 levels of income¹

Number of individuals affected:	
Present law.....	38,235
Treasury proposal.....	17,000
Increase in yield:	
Present law.....	\$716.5
Treasury proposal.....	174.3

¹ Without mandatory joint returns.

² Includes 2,000 marginal returns yielding nominal net increase.

Source: Treasury Department, Division of Research and Statistics, May 1, 1942.

Exhibit 70.—Estimated increase in revenue from a 100-percent tax on net incomes (before taxes) in excess of \$5,000, at the estimated level and distribution of income of the calendar year 1942, and assuming a full year of collections

[In millions of dollars]

	Under present rates	Under Treasury proposed rates ¹
1. Net incomes in excess of \$5,000 before deducting exemptions.....	15,300	15,300
2. First \$5,000 of item 1.....	6,300	6,300
3. Balance in excess of \$5,000 net income.....	9,000	9,000
4. Tax liabilities.....	3,800	5,600
5. Increase in liabilities from a 100-percent tax on net incomes in excess of \$5,000.....	5,200	3,400

¹ Without allowing for the proposed mandatory joint returns but allowing for the proposed elimination of the earned income deduction. Corporation tax rates are assumed unchanged from the Revenue Act of 1941.

Source: Treasury Department, Division of Research and Statistics, Apr. 7, 1942.

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DATA ON PROPOSED REVENUE BILL OF 1942

SUBMITTED TO THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
BY THE
TREASURY DEPARTMENT

No. 6

MAY 4, 1942

C. Corporation Taxes—Continued.

D. Individual Income Tax—Continued.

Section 5. Treasury Individual Income
Tax Proposal.

Section 6. Individual Income Tax Bases
and Yields.

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1942

DATA ON PROPOSED REVENUE BILL OF 1942

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
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C. CORPORATION TAXES—Continued

Exhibit 60.—Estimates of the revenue effects of the Ways and Means Committee's tentative action of May 1, 1942, with reference to changes in the corporation tax law¹

[In millions of dollars]

	Increase (+), decrease (-) over yield of present law		Effect of repeal of capital stock tax as compared to annual redeclaration ²
	Allow annual redeclaration of capital stock value	Repeal cap-ital stock and declared value excess profits taxes	
Income taxes:			
Normal.....	-746.5	-722.2	+24.3
Surtax.....	+631.7	+647.4	+15.7
Total income taxes.....	-114.8	-74.8	+40.0
Excess profits tax.....	+2,715.2	+2,871.8	+156.6
Declared value excess profits tax.....	-58.5	-107.5	-49.0
Total income and excess profits taxes.....	+2,541.9	+2,689.5	+147.6
Capital stock tax.....	-51.5	-290.0	-238.5
Total.....	+2,490.4	+2,399.5	-90.9

(Blough) + 2,525

-125 (Blough)

¹ Assuming that the 16 percent war surtax for corporations with surtax net incomes in excess of \$25,000 will be accompanied by the recommended war surtax of 10 percent on incomes of corporations with surtax net incomes of less than \$25,000.

² At income and excess profits tax rates recommended by the committee.

NOTE.—Proposed changes in corporation income and excess profits taxes, common to all estimates shown above, are:

- (a) Retain present law normal tax rates.
- (b) Increase surtax rates to 10 percent on corporations with net incomes of \$25,000 or less and to 16 percent on corporations with net incomes in excess of \$25,000.
- (c) 1. Reduce invested capital credit to:
 - 8 percent on first \$5,000,000.
 - 7 percent on next \$5,000,000.
 - 6 percent on next \$190,000,000.
 - 5 percent on balance.
- 2. Allow specific credit of \$10,000.
- 3. Allow entire adjusted excess profits tax net income as deduction in computing normal tax and surtax net income.
- 4. Impose flat rate of 94 percent on entire adjusted excess profits tax net income.

Source: Treasury Department, Division of Research and Statistics, May 2, 1942.

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7 rate on surtax would replace annual declaration
11.25 rate on surtax would replace whole capital stock
 REP, 4/11/42

Net after indiv. income tax
 Present law 73.9
 Trans. prop 68.9
 Of repeal capital stock tax & annual redeclaration

D. INDIVIDUAL INCOME TAX—Continued

Section 5. TREASURY INDIVIDUAL INCOME TAX PROPOSAL

Exhibit 61.—Summary of Treasury's proposals with respect to individual income tax

1. *Rates.*—Normal tax—continue present 4 percent rate. Surtax—adopt rate scale in exhibit —.
2. *Exemptions.*—Retain present exemptions of \$750 for a single person, \$1,500 for a married person, and \$400 for each dependent.
3. *Earned income credit.*—Eliminate present earned income credit.
4. *Collection at the source.*—Authorize the Secretary of the Treasury to begin collection of income taxes at source at any time and at rates within his discretion up to 10 percent of wages and salaries, with an allowance for personal exemption and credit for dependents, and up to 10 percent of the full amount of dividends and bond interest.
5. *Payment of taxes.*—Require payment of one-half of the 1942 tax liability on March 15, 1943, and the remaining one-half in installments thereafter. The one-half due on March 15, 1943, could be paid either in cash or in the form of a credit for taxes collected at source.

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Exhibit 62.—Comparison of individual surtax rate schedule under present law and Treasury proposal

Surtax net income	Bracket rate		Total surtax, cumulative	
	Present law	Treasury proposal	Present law	Treasury proposal
	Percent	Percent		
\$0 to \$500.....	6	12	\$30	\$60
\$500 to \$1,000.....	6	15	60	135
\$1,000 to \$1,500.....	6	18	90	225
\$1,500 to \$2,000.....	6	20	120	325
\$2,000 to \$3,000.....	9	22	210	545
\$3,000 to \$4,000.....	9	24	300	785
\$4,000 to \$6,000.....	13	27	560	1,325
\$6,000 to \$8,000.....	17	30	900	1,925
\$8,000 to \$10,000.....	21	34	1,320	2,605
\$10,000 to \$12,000.....	25	38	1,820	3,365
\$12,000 to \$14,000.....	29	42	2,400	4,205
\$14,000 to \$16,000.....	32	45	3,040	5,105
\$16,000 to \$18,000.....	35	48	3,740	6,065
\$18,000 to \$20,000.....	38	51	4,500	7,085
\$20,000 to \$22,000.....	41	54	5,320	8,165
\$22,000 to \$26,000.....	44	57	7,080	10,445
\$26,000 to \$32,000.....	47	60	9,900	14,045
\$32,000 to \$38,000.....	50	64	12,900	17,885
\$38,000 to \$44,000.....	53	68	16,080	21,965
\$44,000 to \$50,000.....	55	72	19,380	26,285
\$50,000 to \$60,000.....	57	76	25,080	33,885
\$60,000 to \$70,000.....	59	78	30,980	41,685
\$70,000 to \$80,000.....	61	80	37,080	49,685
\$80,000 to \$90,000.....	63	82	43,380	57,885
\$90,000 to \$100,000.....	64	84	49,780	66,285
\$100,000 to \$150,000.....	65	86	82,280	109,285
\$150,000 to \$200,000.....	66	86	115,280	152,285
\$200,000 to \$250,000.....	67	86	148,780	195,285
\$250,000 to \$300,000.....	69	86	183,280	238,285
\$300,000 to \$400,000.....	71	86	254,280	324,285
\$400,000 to \$500,000.....	72	86	326,280	410,285
\$500,000 to \$750,000.....	73	86	508,780	625,285
\$750,000 to \$1,000,000.....	74	86	693,780	840,285
\$1,000,000 to \$2,000,000.....	75	86	1,443,780	1,700,285
\$2,000,000 to \$5,000,000.....	76	86	3,723,780	4,280,285
\$5,000,000 and over.....	77	86		

DATA ON PROPOSED
REVENUE BILL OF 1942

SUBMITTED TO THE
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BY THE
TREASURY DEPARTMENT

No. 6

MAY 4, 1942

- C. Corporation Taxes—Continued.
D. Individual Income Tax—Continued.
Section 5. Treasury Individual Income
Tax Proposal.
Section 6. Individual Income Tax Bases
and Yields.

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C. CORPORATION TAXES—Continued

Exhibit 60.—Estimates of the revenue effects of the Ways and Means Committee's tentative action of May 1, 1942, with reference to changes in the corporation tax law¹

[In millions of dollars]

	Increase (+), decrease (-) over yield of <u>present law</u>		Effect of repeal of capital stock tax as compared to annual redeclaration ²
	Allow annual redeclaration of capital stock value	Repeal capital stock and declared value excess profits taxes	
Income taxes:			
Normal.....	-746.5	-722.2	+24.3
Surtax.....	+631.7	+647.4	+15.7
Total income taxes.....	-114.8	-74.8	+40.0
Excess profits tax.....	+2,715.2	+2,871.8	+156.6
Declared value excess profits tax.....	-58.5	-107.5	-49.0
Total income and excess profits taxes.....	+2,541.9	+2,689.5	+147.6
Capital stock tax.....	-51.5	-290.0	-238.5
Total.....	+2,490.4	+2,399.5	-90.9

*(Blough)
+ 2,525*

*(Blough)
-125*

¹ Assuming that the 16 percent war surtax for corporations with surtax net incomes in excess of \$25,000 will be accompanied by the recommended war surtax of 10 percent on incomes of corporations with surtax net incomes of less than \$25,000.

² At income and excess profits tax rates recommended by the committee.

NOTE.—Proposed changes in corporation income and excess profits taxes, common to all estimates shown above, are:

- Retain present law normal tax rates.
- Increase surtax rates to 10 percent on corporations with net incomes of \$25,000 or less and to 16 percent on corporations with net incomes in excess of \$25,000.
1. Reduce invested capital credit to:
 - 8 percent on first \$5,000,000.
 - 7 percent on next \$5,000,000.
 - 6 percent on next \$190,000,000.
 - 5 percent on balance.
2. Allow specific credit of \$10,000.
3. Allow entire adjusted excess profits tax net income as deduction in computing normal tax and surtax net income.
4. Impose flat rate of 94 percent on entire adjusted excess profits tax net income.

Source: Treasury Department, Division of Research and Statistics, May 2, 1942.

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Net after ind. inc. tax

*Present law 73.9
Trans. prop. 68.9*

*Of repeal capital stock tax
vs annual redeclaration*

*.7 note on surtax would replace annual redeclaration
1.25 note on surtax would replace whole cap. stock*

REP, 4My'42

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D. INDIVIDUAL INCOME TAX—Continued

Section 5. TREASURY INDIVIDUAL INCOME TAX PROPOSAL

Exhibit 61.—Summary of Treasury's proposals with respect to individual income tax

1. *Rates.*—Normal tax—continue present 4 percent rate. Surtax—adopt rate scale in exhibit —.
2. *Exemptions.*—Retain present exemptions of \$750 for a single person, \$1,500 for a married person, and \$400 for each dependent.
3. *Earned income credit.*—Eliminate present earned income credit.
4. *Collection at the source.*—Authorize the Secretary of the Treasury to begin collection of income taxes at source at any time and at rates within his discretion up to 10 percent of wages and salaries, with an allowance for personal exemption and credit for dependents, and up to 10 percent of the full amount of dividends and bond interest.
5. *Payment of taxes.*—Require payment of one-half of the 1942 tax liability on March 15, 1943, and the remaining one-half in installments thereafter. The one-half due on March 15, 1943, could be paid either in cash or in the form of a credit for taxes collected at source.

(153)

Exhibit 62.—Comparison of individual surtax rate schedule under present law and Treasury proposal

Surtax net income	Bracket rate		Total surtax, cumulative	
	Present law	Treasury proposal	Present law	Treasury proposal
	<i>Percent</i>	<i>Percent</i>		
\$0 to \$500.....	6	12	\$30	\$60
\$500 to \$1,000.....	6	15	60	135
\$1,000 to \$1,500.....	6	18	90	225
\$1,500 to \$2,000.....	6	20	120	325
\$2,000 to \$3,000.....	9	22	210	545
\$3,000 to \$4,000.....	9	24	300	785
\$4,000 to \$6,000.....	13	27	560	1,325
\$6,000 to \$8,000.....	17	30	900	1,925
\$8,000 to \$10,000.....	21	34	1,320	2,605
\$10,000 to \$12,000.....	25	38	1,820	3,365
\$12,000 to \$14,000.....	29	42	2,400	4,205
\$14,000 to \$16,000.....	32	45	3,040	5,105
\$16,000 to \$18,000.....	35	48	3,740	6,065
\$18,000 to \$20,000.....	38	51	4,500	7,085
\$20,000 to \$22,000.....	41	54	5,320	8,165
\$22,000 to \$26,000.....	44	57	7,080	10,445
\$26,000 to \$32,000.....	47	60	9,900	14,045
\$32,000 to \$38,000.....	50	64	12,900	17,885
\$38,000 to \$44,000.....	53	68	16,080	21,965
\$44,000 to \$50,000.....	55	72	19,380	26,285
\$50,000 to \$60,000.....	57	76	25,080	33,885
\$60,000 to \$70,000.....	59	78	30,980	41,685
\$70,000 to \$80,000.....	61	80	37,080	49,685
\$80,000 to \$90,000.....	63	82	43,380	57,885
\$90,000 to \$100,000.....	64	84	49,780	66,285
\$100,000 to \$150,000.....	65	86	82,280	109,285
\$150,000 to \$200,000.....	66	86	115,280	152,285
\$200,000 to \$250,000.....	67	86	148,780	195,285
\$250,000 to \$300,000.....	69	86	183,280	238,285
\$300,000 to \$400,000.....	71	86	254,280	324,285
\$400,000 to \$500,000.....	72	86	326,280	410,285
\$500,000 to \$750,000.....	73	86	508,780	625,285
\$750,000 to \$1,000,000.....	74	86	693,780	840,285
\$1,000,000 to \$2,000,000.....	75	86	1,443,780	1,700,285
\$2,000,000 to \$5,000,000.....	76	86	3,723,780	4,280,285
\$5,000,000 and over.....	77	86		

Exhibit 63.—Amount of individual income taxes and effective rates under present law and Treasury proposal
Single person—no dependents
Personal exemption \$750

Net income before personal exemption	Amount of tax			Effective rates		
	Present law	Treasury proposal	Increase in tax	Present law	Treasury proposal	Increase in effective rates
				Percent	Percent	Percent
\$800.....	\$3	\$8	\$5	0.4	1.0	0.6
\$900.....	11	24	13	1.2	2.7	1.5
\$1,000.....	21	40	19	2.1	4.0	1.9
\$1,100.....	31	56	25	2.8	5.1	2.3
\$1,200.....	40	72	32	3.3	6.0	2.7
\$1,500.....	69	128	59	4.6	8.5	3.9
\$1,600.....	79	147	68	4.9	9.2	4.3
\$2,000.....	117	230	113	5.9	11.5	5.6
\$2,500.....	165	345	180	6.6	13.8	7.2
\$3,000.....	221	470	249	7.4	15.7	8.3
\$4,000.....	347	735	388	8.7	18.4	9.7
\$5,000.....	483	1,023	540	9.7	20.5	10.8
\$6,000.....	649	1,333	684	10.8	22.2	11.4
\$8,000.....	1,031	1,990	959	12.9	24.9	12.0
\$10,000.....	1,493	2,720	1,227	14.9	27.2	12.3
\$12,500.....	2,178	3,740	1,562	17.4	29.9	12.5
\$15,000.....	2,994	4,888	1,894	20.0	32.6	12.6
\$20,000.....	4,929	7,473	2,544	24.6	37.4	12.8
\$25,000.....	7,224	10,418	3,194	28.9	41.7	12.8
\$50,000.....	20,882	27,715	6,833	41.8	55.4	13.6
\$75,000.....	36,487	48,055	11,568	48.6	64.1	15.5
\$100,000.....	53,214	69,625	16,411	53.2	69.6	16.4
\$500,000.....	345,654	429,610	83,956	69.1	85.9	16.8
\$1,000,000.....	733,139	879,610	146,471	73.3	88.0	14.7
\$5,000,000.....	3,923,124	4,479,610	556,486	78.5	89.6	11.1

MARRIED—NO DEPENDENTS
PERSONAL EXEMPTION \$1,000

\$1,500.....						
\$1,600.....	\$6	\$16	\$10	0.4	1.0	0.6
\$1,700.....	13	32	19	.8	1.9	1.1
\$1,800.....	23	48	25	1.3	2.7	1.4
\$1,900.....	32	64	32	1.7	3.4	1.7
\$2,000.....	42	80	38	2.1	4.0	1.9
\$2,100.....	52	99	47	2.5	4.7	2.2
\$2,200.....	61	118	57	2.8	5.4	2.6
\$2,300.....	71	137	66	3.1	6.0	2.9
\$2,400.....	80	156	76	3.3	6.5	3.2
\$2,500.....	90	175	85	3.6	7.0	3.4
\$3,000.....	138	285	147	4.6	9.5	4.9
\$4,000.....	249	535	286	6.2	13.4	7.2
\$5,000.....	375	805	403	7.5	16.1	8.6
\$6,000.....	521	1,100	579	8.7	18.3	9.6
\$8,000.....	873	1,735	862	10.9	21.7	10.8
\$10,000.....	1,305	2,435	1,130	13.1	24.4	11.3
\$12,500.....	1,960	3,425	1,465	15.7	27.4	11.7
\$15,000.....	2,739	4,535	1,796	18.3	30.2	11.9
\$20,000.....	4,614	7,060	2,446	23.1	35.3	12.2
\$25,000.....	6,864	9,960	3,096	27.5	39.8	12.3
\$50,000.....	20,439	27,145	6,706	40.9	54.3	13.4
\$75,000.....	35,999	47,425	11,426	48.0	63.2	15.2
\$100,000.....	52,704	68,965	16,261	52.7	69.0	16.3
\$500,000.....	345,084	428,935	83,851	69.0	85.8	16.8
\$1,000,000.....	732,554	878,935	146,381	73.3	87.9	14.6
\$5,000,000.....	3,922,524	4,478,935	556,411	78.5	89.6	11.1

Exhibit 63.—Amount of individual income taxes and effective rates under present law and Treasury proposal—Continued

MARRIED PERSON—TWO DEPENDENTS
PERSONAL EXEMPTION \$1,500, DEPENDENT CREDIT \$400

Net income before personal exemption and dependent credit	Amount of tax			Effective rates		
	Present law	Treasury proposal	Increase in tax	Present law	Treasury proposal	Increase in effective rates
				Percent	Percent	Percent
\$2,300.....						
\$2,400.....	\$6	\$16	\$10	0.3	0.7	0.4
\$2,500.....	12	32	20	.5	1.3	.8
\$2,700.....	29	64	35	1.1	2.4	1.3
\$3,000.....	58	118	60	1.9	3.9	2.0
\$4,000.....	154	333	179	3.9	8.3	4.4
\$5,000.....	271	587	316	5.4	11.7	6.3
\$6,000.....	397	861	464	6.6	14.4	7.8
\$8,000.....	717	1,472	755	9.0	18.4	9.4
\$10,000.....	1,117	2,143	1,026	11.2	21.4	10.2
\$12,500.....	1,728	3,089	1,361	13.8	24.7	10.9
\$15,000.....	2,475	4,167	1,692	16.5	27.8	11.3
\$20,000.....	4,287	6,629	2,342	21.4	33.1	11.7
\$25,000.....	6,480	9,472	2,992	25.9	37.9	12.0
\$50,000.....	19,967	26,537	6,570	39.9	53.1	13.2
\$75,000.....	35,479	46,753	11,274	47.3	62.3	15.0
\$100,000.....	52,160	68,261	16,101	52.2	68.3	16.1
\$500,000.....	344,476	428,215	83,739	68.9	85.6	16.7
\$1,000,000.....	731,930	878,215	146,285	73.2	87.8	14.6
\$5,000,000.....	3,921,884	4,478,215	556,331	78.4	89.6	11.2

Exhibit 64.—Individual income tax—Effective rates for married person without dependents, under present law and Treasury proposal

(CHART TO BE INSERTED LATER)

Exhibit 65.—Individual income tax—United States, United Kingdom, and Canada, effective rates for married person without dependents

(CHART TO BE INSERTED LATER)

Exhibit 66.—Net income required to leave \$10,000, \$25,000, \$50,000, and \$100,000 after Federal tax, under present law and the Treasury proposal

Net income after Federal tax and family status	Net income before Federal tax	
	Present law	Treasury proposal
\$10,000:		
Single, no dependents.....	\$12,049	\$14,674
Married, no dependents.....	11,748	12,025
Married, 2 dependents.....	11,474	13,422
\$25,000:		
Single, no dependents.....	40,178	63,722
Married, no dependents.....	39,204	60,425
Married, 2 dependents.....	38,265	57,225
\$50,000:		
Single, no dependents.....	110,344	295,540
Married, no dependents.....	108,674	288,790
Married, 2 dependents.....	106,894	281,590
\$100,000:		
Single, no dependents.....	280,283	795,540
Married, no dependents.....	278,256	788,790
Married, 2 dependents.....	276,093	781,590

Source: Treasury Department, Division of Tax Research, Apr. 30, 1942.

Section 6. INDIVIDUAL INCOME TAX BASES AND YIELDS

Exhibit 67. Number of taxable returns, net income, normal tax net income, and surtax net income, by net income classes, under Treasury proposal at calendar year 1942 levels of income¹

Net income classes	Number of taxable returns		Net income	Normal tax net income	Surtax net income
	Thousands	Billions	Billions	Billions	Billions
Under \$5,000.....	19,294	\$37.4	\$13.3	\$13.3	
\$5,000 to \$25,000.....	1,181	9.8	7.8	7.9	
Over \$25,000.....	84	4.4	4.2	4.2	
Total.....	20,559	51.6	25.3	25.4	

¹ Without mandatory joint returns.

Source: Treasury Department, Division of Research and Statistics, May 1, 1942.

Exhibit 68.—Number of taxable returns and estimated yield of present law and Treasury proposal, by net-income classes, at calendar year 1942 levels of income¹

Net income classes	Number of returns		Estimated yield		Increase in yield from Treasury proposal
	Present law	Treasury proposal	Present law	Treasury proposal	
\$0 to \$1,000.....	2,493	2,493	\$15.7	\$16.7	\$1.0
\$1,000 to \$2,000.....	7,765	8,783	304.5	557.8	253.3
\$2,000 to \$3,000.....	5,697	5,445	434.4	634.4	200.0
\$3,000 to \$4,000.....	1,877	1,779	279.7	483.1	203.4
\$4,000 to \$5,000.....	804	794	221.2	430.0	208.8
\$5,000 to \$6,000.....	356	356	141.5	281.1	139.6
\$6,000 to \$7,000.....	221	221	124.8	241.6	116.7
\$7,000 to \$8,000.....	139	139	101.7	192.1	90.4
\$8,000 to \$9,000.....	96	96	90.2	163.3	73.0
\$9,000 to \$10,000.....	70	70	80.1	141.1	61.0
\$10,000 to \$25,000.....	300	300	\$10.4	1,198.5	388.1
Over \$25,000.....	84	84	2,440.3	2,610.6	170.3
Total ²	19,902	20,559	5,044.8	6,950.5	1,905.7

¹ Without mandatory joint returns.

² The figures are rounded and will not necessarily add to totals.

Source: Treasury Department, Division of Research and Statistics, May 1, 1942.

Exhibit 69.—Estimated number of individuals affected and yield if individual incomes were limited to \$25,000 after tax, at calendar year 1942 levels of income¹

Number of individuals affected:		
Present law.....	.....	38,235
Treasury proposal.....	.....	17,000
Increase in yield:		In millions
Present law.....	.....	\$716.5
Treasury proposal.....	.....	174.3

¹ Without mandatory joint returns.

² Includes 2,000 marginal returns yielding nominal net increase.

Source: Treasury Department, Division of Research and Statistics, May 1, 1942.

Exhibit 70.—Estimated increase in revenue from a 100-percent tax on net incomes (before taxes) in excess of \$5,000, at the estimated level and distribution of income of the calendar year 1942, and assuming a full year of collections

(In millions of dollars)

	Under present rates	Under Treasury proposed rates ¹
1. Net incomes in excess of \$5,000 before deducting exemptions.....	15,300	15,300
2. First \$5,000 of item 1.....	6,300	6,300
3. Balance in excess of \$5,000 net income.....	9,000	9,000
4. Tax liabilities.....	3,800	5,600
5. Increase in liabilities from a 100-percent tax on net incomes in excess of \$5,000.....	5,200	3,400

¹ Without allowing for the proposed mandatory joint returns but allowing for the proposed elimination of the earned income deduction. Corporation tax rates are assumed unchanged from the Revenue Act of 1941.

Source: Treasury Department, Division of Research and Statistics, Apr. 7, 1942.

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Comparison of individual surtax rate schedule
under present law and new proposal

Surtax net income (\$000)	Bracket rate		Total surtax cumulative	
	Present	Proposal	Present	Proposal
	law		law	
\$ - \$.5	6%	12%	\$ 30	\$ 60
.5 - 1	6	15	60	135
1 - 1.5	6	18	90	225
1.5 - 2	6	20	120	325
2 - 3	9	22	210	545
3 - 4	9	24	300	785
4 - 6	13	27	560	1,325
6 - 8	17	30	900	1,925
8 - 10	21	34	1,320	2,605
10 - 12	25	38	1,820	3,365
12 - 14	29	42	2,400	4,205
14 - 16	32	45	3,040	5,105
16 - 18	35	48	3,740	6,065
18 - 20	38	51	4,500	7,085
20 - 22	41	54	5,320	8,165
22 - 26	44	57	7,080	10,445
26 - 32	47	60	9,900	14,045
32 - 38	50	64	12,900	17,885
38 - 44	53	68	16,080	22,085
44 - 50	55	72	19,380	26,705
50 - 60	57	76	25,080	35,305
60 - 70	59	78	30,980	43,905
70 - 80	61	80	37,080	52,505
80 - 90	63	82	43,380	61,105
90 - 100	64	84	49,780	69,705
100 - 150	65	86	82,280	112,705
150 - 200	66	86	115,280	155,705
200 - 250	67	86	148,780	198,705
250 - 300	69	86	183,280	241,705
300 - 400	71	86	254,280	327,705
400 - 500	72	86	326,280	413,705
500 - 750	73	86	508,780	628,705
750 - 1,000	74	86	693,780	843,705
1,000 - 2,000	75	86	1,443,780	1,703,705
2,000 - 5,000	76	86	3,723,780	4,283,705
Over 5,000	77	86	-	-

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UNITED STATES BUREAU OF LABOR STATISTICS

Preliminary FiguresAverage Money Plus Nonmoney Income
Estimates for City Families and Single Persons

Money Income Class in 1941	1941	First Quarter of 1942	Annual Rate
Under \$500	\$ 415	\$ 145	3580
\$500 and under \$1,000	793	256	1024
\$1,000 and under \$1,500	1,273	375	1500
\$1,500 and under \$2,000	1,802	494	1976
\$2,000 and under \$3,000	2,595	654	2616
\$3,000 and under \$5,000	3,889	919	3676
\$5,000 and under \$10,000	5,626	1,275	5100

Cost of Living Division
May 6, 1942

U. S. BUREAU OF LABOR STATISTICS

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Preliminary Figures

Money Expenditures, Tax Payments, Net Saving or Deficit, and Government Bond Purchases
Estimates for City Families and Single Persons

1941

Money income class in 1941	Average total money income	Average total money expenditures ^{1/}	Average Direct Tax Payments	Average Net Saving or Deficit	Average total amount spent for purchase of Government Bonds
Average amount in dollars					
Under \$500	\$ 323	426	0	-99	6
500 and under \$750	625	723	1	-80	5
750 and under \$1,000	875	946	2	-49	8
1,000 and under \$1,250	1125	1170	3	-19	12
1,250 and under \$1,500	1375	1393	4	+11	15
1,500 and under \$2,000	1731	1689	4	+63	26
2,000 and under \$3,000	2527	2429	15	+115	41
3,000 and under \$5,000	3828	3426	21	+428	73
5,000 and under \$10,000	5578	4702	27	+920	119

Percent of total money income

Under \$500	131.89	0	-30.65	1.86
500 and under \$750	115.68	.16	-12.80	.80
750 and under \$1,000	108.11	.23	- 5.60	.91
1,000 and under \$1,250	104.00	.27	- 1.69	1.07
1,250 and under \$1,500	101.31	.29	.80	1.09
1,500 and under \$2,000	97.57	.23	3.64	1.50
2,000 and under \$3,000	96.12	.59	4.55	1.62
3,000 and under \$5,000	89.50	.55	11.18	1.91
5,000 and under \$10,000	84.30	.48	16.49	2.13

Including expenditures for current consumption, gifts and contributions, and direct taxes
but does not include expenditures for bonds.

of Living Division
7 6, 1942

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Money Expenditures, Tax Payments, Net Saving or Deficit, and Government Bond Purchases
 Estimates for City Families and Single Persons
 First Quarter of 1942

Money Income Class in 1941	Average Total Money Income	Average Total Money Expendi- tures ^{1/}	Average Direct Tax Payments	Average Net Saving or Deficit	Average Total Amount Spent for Purchase of Government Bonds
Average amount in dollars					
Under \$500	112	108	2/	4	39
\$500 and under \$750	183	174	2/	8	35
\$750 and under \$1,000	245	233	1	12	33
\$1,000 and under \$1,250	307	291	1	16	30
\$1,250 and under \$1,500	370	350	2	20	28
\$1,500 and under \$2,000	469	445	4	25	23
\$2,000 and under \$3,000	667	619	22	47	19
\$3,000 and under \$5,000	922	791	42	132	22
\$5,000 and under \$10,000	1252	985	68	268	31
Percent of total money income					
Under \$500	100.0	96.4	3/	3.6	34.8
\$500 and under \$750	100.0	95.1	3/	4.4	19.1
\$750 and under \$1,000	100.0	95.1	0.4	4.9	13.5
\$1,000 and under \$1,250	100.0	94.8	0.3	5.2	9.8
\$1,250 and under \$1,500	100.0	94.6	0.5	5.4	7.6
\$1,500 and under \$2,000	100.0	94.9	0.9	5.3	4.9
\$2,000 and under \$3,000	100.0	92.8	3.3	7.0	2.8
\$3,000 and under \$5,000	100.0	85.8	4.6	14.3	2.4
\$5,000 and under \$10,000	100.0	78.7	5.4	21.4	2.5

Including expenditures for current consumption, gifts and contributions and direct taxes.
 Less than \$0.50 3/ Less than 0.1 percent

of Living Division
 1942

U. S. BUREAU OF LABOR STATISTICS

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Preliminary Figures

Average Income and Outlay

Estimates for City Families and Single Persons

1941

Money Income Class in 1941	Total Money Income	Money Expenditures for Current Consumption	Money Expenditures for Gifts and Contributions	Direct Tax Payments	Net Saving or Deficit
Average amount in dollars					
Under \$500	\$323	\$381	\$ 41	0	-99
\$500 and under \$1,000	749	784	31	1	-67
\$1,000 and under \$1,500	1243	1211	37	3	-8 ✓
\$1,500 and under \$2,000	1753	1623	63	4	+63
\$2,000 and under \$3,000	2544	2283	131	15	115
\$3,000 and under \$5,000	3854	3247	158	21	428
\$5,000 and under \$10,000	5621	4507	167	37	920

Percent of total money income

Under \$500	100.0	118.0	12.7	0	-30.7
\$500 and under \$1,000	100.0	104.7	4.1	0.1	-8.9
\$1,000 and under \$1,500	100.0	97.4	3.0	0.2	-0.6
\$1,500 and under \$2,000	100.0	92.6	3.6	0.2	3.6
\$2,000 and under \$3,000	100.0	89.7	5.2	0.6	4.5
\$3,000 and under \$5,000	100.0	84.3	4.1	0.5	11.1
\$5,000 and under \$10,000	100.0	80.1	3.0	0.5	16.4

Note the savings of families with incomes of \$1,250³ - \$1,500 shown in the following table.
 Bureau of Living Division
 6, 1942

U. S. DEPARTMENT OF LABOR

Preliminary Figures

Money Expenditures for Current Consumption
 Estimates for City Families and Single Persons
 1941

Money income class in 1941	Total	Food	Housing, fuel, light, and refrige- ration	Other house- hold opera- tion	Fur- nish- ings and equip- ment	Cloth- ing	Auto- mo- bile	Other trans- porta- tion	Per- sonal care	Medi- cal care	Recrea- tion	To- bacco	Read- ing	For- mal educa- tion	Other items
Average amount in dollars															
Under \$500	381	154	116	18	14	17	28	3	6	14	4	3	3	0	1
\$500 and under \$1,000	784	302	190	26	24	79	46	20	17	28	16	22	8	2	5
\$1,000 and under \$1,500	1,211	440	266	41	49	135	76	33	28	50	31	36	13	4	9
\$1,500 and under \$2,000	1,623	559	341	61	90	178	109	43	37	81	47	45	18	2	12
\$2,000 and under \$3,000	2,283	700	453	97	172	265	162	54	49	133	64	54	24	19	27
\$3,000 and under \$5,000	3,247	960	526	168	225	387	429	59	70	142	110	75	30	21	45
\$5,000 and under \$10,000	4,507	1,315	681	270	269	547	862	61	98	147	135	106	36	10	70

Percentage of total money expenditures (for current consumption)															
Under \$500	100.0	40.4	30.4	4.7	3.7	4.5	7.3	.8	1.6	3.7	1.0	.8	.8	.0	.3
\$500 and under \$1,000	100.0	38.5	24.2	3.3	3.1	10.1	6.7	2.6	2.2	3.6	2.0	2.8	1.0	.3	.6
\$1,000 and under \$1,500	100.0	36.3	22.0	3.4	4.0	11.2	6.5	2.7	2.3	4.1	2.6	3.0	1.1	.5	.7
\$1,500 and under \$2,000	100.0	34.4	21.0	3.8	5.5	11.0	6.7	2.6	2.3	5.0	2.9	2.8	1.1	.1	.8
\$2,000 and under \$3,000	100.0	30.7	19.8	4.2	7.5	11.6	7.1	2.4	2.2	5.4	3.7	2.4	1.0	.8	1.2
\$3,000 and under \$5,000	100.0	29.6	16.2	5.2	6.9	11.9	13.2	1.8	2.2	4.4	3.4	2.3	.9	.6	1.4
\$5,000 and under \$10,000	100.0	29.2	12.9	6.0	6.0	12.1	19.1	1.4	2.2	3.3	3.0	2.3	.8	.2	1.5

U. S. BUREAU OF LABOR STATISTICS

Preliminary FiguresAverage Income and Outlay
Estimates for City Families and Single Persons
First Quarter of 1942

Money Income Class in 1941	Total Money Income	Money Expenditures for Current Consumption	Money Expenditures for Gifts and Contributions	Direct Tax Payments	Net Saving
Average amount in dollars					
Under \$500	\$ 112	\$ 103	\$ 5	\$ 1/	4
\$500 and under \$1,000	241	225	4	1/	12
\$1,000 and under \$1,500	365	337	6	2	20
\$1,500 and under \$2,000	469	431	9	4	25
\$2,000 and under \$3,000	667	571	27	22	47
\$3,000 and under \$5,000	922	715	33	42	132
\$5,000 and under \$10,000	1,252	879	37	68	268
Percent of total money income					
Under \$500	100.0	91.9	4.5	2/	3.6
\$500 and under \$1,000	100.0	93.3	1.7	2/	5.0
\$1,000 and under \$1,500	100.0	92.3	1.7	.5	5.5
\$1,500 and under \$2,000	100.0	91.9	1.9	.9	5.3
\$2,000 and under \$3,000	100.0	85.6	4.0	3.3	7.1
\$3,000 and under \$5,000	100.0	77.5	3.6	4.6	11.3
\$5,000 and under \$10,000	100.0	70.2	3.0	5.4	21.4

/ Less than \$0.50.
/ Less than 0.1 percent.

of Living Division
6, 1942

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Money Expenditures for Current Consumption

Estimates for City Families and Single Persons

First Quarter of 1942

Money income class in 1941	Total	Food	Housing, fuel, light, and re- frigeration	Other House- hold oper- ation	Fur- nish- ings and equip- ment	Cloth- ing	Auto- mo- bile	Other trans- porta- tion	Per- sonal care	Medi- cal care	Recre- ation	To- bacco	Read- ing	For- mal educa- tion	Other items
Average amount in dollars															
Under \$500	103	44	30	5	3	5	2	2	3	5	1	2	1	1/	1/
\$500 and under \$1,000	225	84	52	7	5	28	10	7	5	9	5	7	2	2/	2/
\$1,000 and under \$1,500	337	119	72	11	9	44	18	11	7	16	10	10	4	3	3
\$1,500 and under \$2,000	431	147	89	16	15	52	26	13	9	28	13	13	5	3	2
\$2,000 and under \$3,000	571	185	112	23	25	73	39	13	12	40	24	12	6	4	3
\$3,000 and under \$5,000	715	227	130	35	40	86	56	16	16	37	34	16	7	6	9
\$5,000 and under \$10,000	879	275	148	53	59	98	79	21	21	22	45	22	7	8	21
Percentage of total money expenditures for current consumption															
Under \$500	100.0	42.7	29.1	4.9	2.9	4.9	1.9	1.9	2.9	4.9	1.0	1.9	1.0	2/	2/
\$500 and under \$1,000	100.0	37.4	23.1	3.1	2.2	12.5	4.4	3.1	2.2	4.0	2.2	3.1	.9	.9	.5/
\$1,000 and under \$1,500	100.0	35.3	21.3	3.3	2.7	13.0	5.3	3.3	2.1	4.7	3.0	3.0	1.2	.9	.5
\$1,500 and under \$2,000	100.0	34.1	20.6	3.7	3.5	12.1	6.0	3.0	2.1	6.5	3.0	3.0	1.2	.7	.5
\$2,000 and under \$3,000	100.0	32.4	19.6	4.0	4.4	12.8	6.8	2.3	2.1	7.0	4.2	2.1	1.1	.7	.5
\$3,000 and under \$5,000	100.0	31.8	18.2	4.9	5.6	12.0	7.8	2.2	2.2	5.2	4.8	2.2	1.0	.8	1.3
\$5,000 and under \$10,000	100.0	31.3	16.9	6.0	6.7	11.1	9.0	2.4	2.4	2.5	5.1	2.5	.8	.9	2.4

1/ Less than \$0.50

2/ Less than 0.1 percent

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Average Change in Specified Types of Assets Compared with Net Change in Assets and in Liabilities

Estimates for City Families and Single Persons

1 9 4 1

Money income class in 1941	U.S. Government Bonds and Defense Stamps		Tax savings notes Purchased	Net change in money in savings accounts	Net change in money in checking accounts	Net Change in Assets	Net ^{1/} Change in Liabili- ties	Net Saving or Deficit
	Amount spent for purchase	Amount received from sale						
Under \$500	\$ 6	\$ 0	\$ 0	\$ -119	\$ -3	\$ -84	\$ +15	\$ -99
\$500 and under \$1,000	6	0	0	-33	-5	-31	+36	-67
\$1,000 and under \$1,500	13	0	0	+11	-3	+38	+46	-8
\$1,500 and under \$2,000	26	0	0	-13	+10	+118	+55	+63
\$2,000 and under \$3,000	41	0	0	-10	-54	+116	+22	+115
\$3,000 and under \$5,000	73	0	5	+11	+143	+453	+25	+428
\$5,000 and under \$10,000	119	0	0	+52	+508	+1010	+90	+920

^{1/} Plus (+) means an increase in liabilities, minus (-) means a decrease in liabilities.

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Average Change in Specified Types of Assets Compared with Net Change in Assets and in Liabilities
 Estimates for City Families and Single Persons
 First Quarter of 1942

Money income class in 1941	U.S. Government Bonds and Defense Stamps		Tax Savings Notes		Net change in money in savings accounts	Net change in money in checking accounts	Net change in Assets	Net Change in Liabilities ^{1/}	Net Saving or Deficit
	Amount spent for purchase	Amount received from sale	Amount spent for purchase	Amount used for tax payments					
Under \$500	\$ 39	\$ --	\$ --	\$ --	\$ - 2	\$ 2/	\$ 1	\$ - 3	\$ 4
\$500 and under \$1,000	33	--	--	--	- 21	- 1	14	/ 2	12
\$1,000 and under \$1,500	28	--	--	--	- 26	/ 2	25	/ 5	20
\$1,500 and under \$2,000	23	--	--	--	- 19	/ 12	32	/ 7	25
\$2,000 and under \$3,000	19	--	--	--	/ 13	- 6	50	/ 3	47
\$3,000 and under \$5,000	22	--	--	--	- 8	/ 28	109	- 23	132
\$5,000 and under \$10,000	31	--	--	--	- 64	/ 91	202	- 66	268

^{1/} Plus (+) means an increase in liabilities; minus (-) means a decrease in liabilities
^{2/} Less than \$0.50

Cost of Living Division
 May 6, 1942

U. S. BUREAU OF LABOR STATISTICS

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Preliminary Figures

Estimated Average Number of Persons Per Family

City Families ^{1/}

1941

Money income class in 1941	Average total family size	Average No. of persons per family	
		18 years and over	under 18 years
Under \$500	1.3	1.2	.1
\$500 and under \$1,000	2.6	1.8	.8
\$1,000 and under \$1,500	2.5	1.8	.7
\$1,500 and under \$2,000	3.1	2.3	.8
\$2,000 and under \$3,000	3.1	2.3	.8
\$3,000 and under \$5,000	3.5	2.8	.7
\$5,000 and under \$10,000	3.8	2.8	1.0
\$10,000 and over	3.8	3.1	.7

^{1/} Including one-person familiesCost of Living Division
May 6, 1942

UNITED STATES BUREAU OF LABOR STATISTICS

Preliminary Figures

Average Money Plus Nonmoney Income
Estimates for City Families and Single Persons

Money Income Class in 1941	1941	First Quarter of 1942	Annual Rate
Under \$500	\$ 415	\$ 145	\$ 580
\$500 and under \$1,000	793	256	1024
\$1,000 and under \$1,500	1,273	375	1500
\$1,500 and under \$2,000	1,802	494	1976
\$2,000 and under \$3,000	2,595	654	2616
\$3,000 and under \$5,000	3,889	919	3676
\$5,000 and under \$10,000	5,626	1,275	5100

Cost of Living Division
May 6, 1942

U. S. BUREAU OF LABOR STATISTICS

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Preliminary FiguresMoney Expenditures, Tax Payments, Net Saving or Deficit, and Government Bond Purchases
Estimates for City Families and Single Persons

1941

Money income class in 1941	Average total money income	Average total money expenditures ^{1/}	Average Direct Tax Payments	Average Net Saving or Deficit	Average total amount spent for purchase of Government Bonds
Average amount in dollars					
Under \$500	\$ 323	426	0	-99	6
\$500 and under \$750	625	723	1	+80	5
\$750 and under \$1,000	875	946	2	+49	8
\$1,000 and under \$1,250	1125	1170	3	-19	12
\$1,250 and under \$1,500	1375	1393	4	+11	15
\$1,500 and under \$2,000	1731	1689	4	+63	26
\$2,000 and under \$3,000	2527	2429	15	+115	41
\$3,000 and under \$5,000	3828	3426	21	+428	73
\$5,000 and under \$10,000	5578	4702	27	+920	119

Percent of total money income

Under \$500	131.89	0	-30.65	1.86
\$500 and under \$750	115.68	.16	-12.80	.80
\$750 and under \$1,000	108.11	.23	- 5.60	.91
\$1,000 and under \$1,250	104.00	.27	- 1.69	1.07
\$1,250 and under \$1,500	101.31	.29	.80	1.09
\$1,500 and under \$2,000	97.57	.23	3.64	1.50
\$2,000 and under \$3,000	96.12	.59	4.55	1.62
\$3,000 and under \$5,000	89.50	.55	11.18	1.91
\$5,000 and under \$10,000	84.30	.48	16.49	2.13

^{1/} Including expenditures for current consumption, gifts and contributions, and direct taxes but does not include expenditures for bonds.

U. S. Bureau of Living Division
May 6, 1942

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Average Income and Outlay

Estimates for City Families and Single Persons

1941

Money Income Class in 1941	Total Money Income	Money Expenditures for Current Consumption	Money Expenditures for Gifts and Contributions	Direct Tax Payments	Net Saving or Deficit
Average amount in dollars					
Under \$500	\$323	\$381	\$ 41	0	-99
500 and under \$1,000	749	784	31	1	-67
1,000 and under \$1,500	1243	1211	37	3	-8 ✓
1,500 and under \$2,000	1753	1623	63	4	+63
2,000 and under \$3,000	2544	2283	131	15	115
3,000 and under \$5,000	3854	3247	158	21	428
5,000 and under \$10,000	5621	4507	167	37	920

Percent of total money income

Under \$500	100.0	118.0	12.7	0	-30.7
500 and under \$1,000	100.0	104.7	4.1	0.1	-8.9
1,000 and under \$1,500	100.0	97.4	3.0	0.2	-0.6
1,500 and under \$2,000	100.0	92.6	3.6	0.2	3.6
2,000 and under \$3,000	100.0	89.7	5.2	0.6	4.5
3,000 and under \$5,000	100.0	84.3	4.1	0.5	11.1
5,000 and under \$10,000	100.0	80.1	3.0	0.5	16.4

Note the savings of families with incomes of \$1,250-\$1,500 shown in the following table.
 Dept of Living Division
 May 6, 1942

U. S. DEPARTMENT OF LABOR

Preliminary FiguresMoney Expenditures for Current Consumption
Estimates for City Families and Single Persons

1941

Money income class in 1941	Total	Food	Housing, fuel, light, and refrige- ration	Other house- hold opera- tion	Fur- nish- ings and equip- ment	Cloth- ing	Auto- mo- bile	Other trans- porta- tion	Per- sonal care	Medi- cal care	Recrea- tion	To- bacco	Read- ing	For- mal educa- tion	Other items
Average amount in dollars															
Under \$500	381	154	116	18	14	17	28	5	6	14	4	5	3	0	1
\$500 and under \$1,000	784	302	190	28	24	79	45	20	17	28	18	22	6	2	6
\$1,000 and under \$1,500	1,211	440	266	41	49	136	76	33	28	50	31	36	13	4	9
\$1,500 and under \$2,000	1,623	559	341	61	90	178	109	43	37	61	47	45	18	2	12
\$2,000 and under \$3,000	2,283	700	453	97	172	265	162	54	49	123	84	54	24	19	27
\$3,000 and under \$5,000	3,247	960	526	168	225	387	429	69	70	142	110	75	30	21	45
\$5,000 and under \$10,000	4,607	1,316	681	270	269	547	662	61	98	147	135	106	36	10	70
Percentage of total money expenditures (for current consumption)															
Under \$500	100.0	40.4	30.4	4.7	3.7	4.5	7.3	.8	1.6	3.7	1.0	.8	.8	.0	.3
\$500 and under \$1,000	100.0	38.6	24.2	3.3	3.1	10.1	5.7	2.6	2.2	3.6	2.0	2.8	1.0	.5	.6
\$1,000 and under \$1,500	100.0	36.3	22.0	3.4	4.0	11.2	6.3	2.7	2.3	4.1	2.6	3.0	1.1	.5	.7
\$1,500 and under \$2,000	100.0	34.4	21.0	3.8	5.6	11.0	6.7	2.6	2.3	5.0	2.9	2.8	1.1	.1	.8
\$2,000 and under \$3,000	100.0	30.7	19.8	4.2	7.6	11.6	7.1	2.4	2.2	5.4	3.7	2.4	1.0	.8	1.2
\$3,000 and under \$5,000	100.0	29.6	16.2	5.2	6.9	11.9	13.2	1.8	2.2	4.4	3.4	2.3	.9	.6	1.4
\$5,000 and under \$10,000	100.0	29.2	12.9	6.0	6.0	12.1	19.1	1.4	2.2	3.3	3.0	2.3	.8	.2	1.5

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Average Income and Outlay

Estimates for City Families and Single Persons

First Quarter of 1942

Money Income Class in 1941	Total Money Income	Money Expenditures for Current Consumption	Money Expenditures for Gifts and Contributions	Direct Tax Payments	Net Saving
Average amount in dollars					
Under \$500	\$ 112	\$ 103	\$ 5	\$ 1/	\$ 4
\$500 and under \$1,000	211	225	4	1/	12
\$1,000 and under \$1,500	365	337	6	2	20
\$1,500 and under \$2,000	469	431	9	4	25
\$2,000 and under \$3,000	667	571	27	22	47
\$3,000 and under \$5,000	922	715	33	42	132
\$5,000 and under \$10,000	1,252	879	37	68	266
Percent of total money income					
Under \$500	100.0	91.9	4.5	2/	3.6
\$500 and under \$1,000	100.0	93.3	1.7	2/	5.0
\$1,000 and under \$1,500	100.0	92.3	1.7	.5	5.5
\$1,500 and under \$2,000	100.0	91.9	1.9	.9	5.3
\$2,000 and under \$3,000	100.0	85.6	4.0	3.3	7.1
\$3,000 and under \$5,000	100.0	77.5	3.6	4.6	14.3
\$5,000 and under \$10,000	100.0	70.2	3.0	5.4	21.4

1/ Less than \$0.50.
2/ Less than 0.1 percent.

of Living Division
1942

Preliminary Figures

Money Expenditures for Current Consumption

Estimates for City Families and Single Persons

First Quarter of 1942

Money income class in 1941	Total	Food	Housing, fuel, light, and re- frigeration	Other House- hold oper- ation	Fur- nish- ings and equip- ment	Cloth- ing	Auto- mo- bile	Other trans- porta- tion	Per- sonal care	Medi- cal care	Recre- ation	To- bacco	Read- ing	For- mal educa- tion	Other items
Average amount in dollars															
Under \$500	103	44	30	5	3	5	2	2	3	5	1	2	1	1/2	1/2
\$500 and under \$1,000	225	84	52	7	5	28	10	7	5	9	5	7	2	2	2
\$1,000 and under \$1,500	337	119	72	11	9	44	18	11	7	16	10	10	4	3	3
\$1,500 and under \$2,000	431	147	89	16	15	52	26	13	9	28	13	13	5	3	2
\$2,000 and under \$3,000	571	185	112	23	25	73	39	13	12	40	24	12	6	4	3
\$3,000 and under \$5,000	715	227	130	35	40	86	56	16	16	37	34	16	7	6	9
\$5,000 and under \$10,000	879	275	148	53	59	98	79	21	21	22	45	22	7	8	21
Percentage of total money expenditures for current consumption															
Under \$500	100.0	42.7	29.1	4.9	2.9	4.9	1.9	1.9	2.9	4.9	1.0	1.9	1.0	2/	2/
\$500 and under \$1,000	100.0	37.4	23.1	3.1	2.2	12.5	4.4	3.1	2.2	4.0	2.2	1.1	.9	.9	.5
\$1,000 and under \$1,500	100.0	35.3	21.3	3.3	2.7	13.0	5.3	3.3	2.1	4.7	3.0	3.0	1.2	.9	.5
\$1,500 and under \$2,000	100.0	34.1	20.6	3.7	3.5	12.1	6.0	3.0	2.1	6.5	3.0	3.0	1.2	.7	.5
\$2,000 and under \$3,000	100.0	32.4	19.6	4.0	4.4	12.8	6.8	2.3	2.1	7.0	4.2	2.1	1.1	.7	.5
\$3,000 and under \$5,000	100.0	31.8	18.2	4.9	5.6	12.0	7.8	2.2	2.2	5.2	4.8	2.2	1.0	.8	1.3
\$5,000 and under \$10,000	100.0	31.3	16.9	6.0	6.7	11.1	9.0	2.4	2.4	2.5	5.1	2.5	.8	.9	2.4

1/ Less than \$0.50

2/ Less than 0.1 percent

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Average Change in Specified Types of Assets Compared with Net Change in Assets and in Liabilities

Estimates for City Families and Single Persons

1941

Money income class in 1941	U.S. Government Bonds and Defense Stamps		Tax savings notes Purchased	Net change in money in savings accounts	Net change in money in checking accounts	Net Change in Assets	Net 1/ Change in Liabili- ties	Net Saving or Deficit
	Amount spent for purchase	Amount received from sale						
Under \$500	\$ 6	\$ 0	\$ 0	\$ -119	\$ -3	\$ -84	\$ +15	\$ -99
\$500 and under \$1,000	6	0	0	-33	-5	-31	+36	-67
\$1,000 and under \$1,500	13	0	0	+11	-3	+38	+46	-8
\$1,500 and under \$2,000	26	0	0	-13	+10	+118	+55	+63
\$2,000 and under \$3,000	41	0	0	-10	-54	+116	+22	+115
\$3,000 and under \$5,000	73	0	5	+11	+143	+455	+25	+428
\$5,000 and under \$10,000	119	0	0	+52	+508	+1010	+90	+920

1/ Plus (+) means an increase in liabilities, minus (-) means a decrease in liabilities.

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Average Change in Specified Types of Assets Compared with Net Change in Assets and in Liabilities

Estimates for City Families and Single Persons
First Quarter of 1942

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Money income class in 1941	U.S. Government Bonds and Defense Stamps		Tax Savings Notes		Net change in money in savings accounts	Net change in money in checking accounts	Net change in Assets	Net Change in Liabilities	Net Saving or Deficit
	Amount spent for purchase	Amount received from sale	Amount spent for purchase	Amount used for tax payments					
Under \$500	\$ 39	\$ --	\$ --	\$ --	\$ - 2	\$ 2/	\$ 1	\$ - 3	\$ 4
\$500 and under \$1,000	33	--	--	--	- 21	- 1	14	/ 2	12
\$1,000 and under \$1,500	28	--	--	--	- 26	/ 2	25	/ 5	20
\$1,500 and under \$2,000	23	--	--	--	- 19	/ 12	32	/ 7	25
\$2,000 and under \$3,000	19	--	--	--	/ 13	- 6	50	/ 3	47
\$3,000 and under \$5,000	22	--	--	--	- 8	/ 28	109	- 23	132
\$5,000 and under \$10,000	31	--	--	--	- 64	/ 91	202	- 66	268

1/ Plus (/) means an increase in liabilities; minus (-) means a decrease in liabilities
2/ Less than \$0.50

Cost of Living Division
May 6, 1942

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Estimated Average Number of Persons Per Family

City Families ^{1/}

1941

Money income class in 1941	Average total family size	Average No. of persons per family	
		18 years and over	under 18 years
Under \$500	1.3	1.2	.1
\$500 and under \$1,000	2.6	1.8	.8
\$1,000 and under \$1,500	2.5	1.8	.7
\$1,500 and under \$2,000	3.1	2.3	.8
\$2,000 and under \$3,000	3.1	2.3	.8
\$3,000 and under \$5,000	3.5	2.8	.7
\$5,000 and under \$10,000	3.8	2.8	1.0
\$10,000 and over	3.8	3.1	.7

^{1/} Including one-person familiesCost of Living Division
May 6, 1942

MAY 7 - 1942

MEMORANDUM FOR THE PRESIDENT:

During our discussion of the American Bosch matter, you asked whether dividends paid on the stock of the American Bosch Corporation which George Murnane is holding as voting trustee could be transferred to Sweden under the Swedish general license and made available to the German owners of American Bosch.

In view of the investigation made by the Foreign Funds Control of the American Bosch Corporation, this company has been blocked not only as Swedish, but also as German and Dutch. As a consequence, the American Bosch Corporation can not pay dividends or make any other payments under the Swedish general license.

Recently the American Bosch Corporation applied for a license to make a dividend payment. The license, when granted, required that the dividends in the amount of \$120,000.00 on the stock held by Murnane be paid into a special blocked account in his name as voting trustee.

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No payments can be made from this account under the Swedish general license. An application has recently been filed by Murnane to transfer such funds to the account of the Stockholms Enskilda Bank. Once transferred to such account, the funds could be used under the Swedish general license. This application is being denied.

It is important to note, however, that if the Treasury Department had not uncovered the German interest in the Swedish-held stock of the American Bosch Corporation, the Swedish general license might have been used to transfer to Sweden the dividends paid on such stock.

It is true that the Swedish government has assured us that it would not use its general license for the transfer of funds in which the Axis had an interest. However, the Swedish government insists that there is no German interest retained in the Swedish-held shares in American Bosch. Sweden would therefore say that it has not violated its assurances to us by transferring abroad the dividends paid by American Bosch on shares held in Swedish name.

This situation is comparable to what might have happened with regard to the General Aniline and Film Corporation and the I. G. Chemie if the Treasury had not been convinced of the German interest in that company and blocked the company as German as well as Swiss. The Swiss insisted that General Aniline was Swiss owned and would therefore have considered transfers to Switzerland by the General Aniline and Film as coming within the Swiss general license.

The foregoing shows one way in which the general licenses held by Sweden, Switzerland, Spain and Portugal provide a channel through which funds may be transmitted to our enemies.

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

STRICTLY CONFIDENTIAL

CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT:

You asked me to bring up to date my memorandum to you of January 30, 1942, concerning William L. Batt's connection with American Bosch Corporation.

In that memorandum, a copy of which is attached, I pointed out the following:

(1) Batt has been with SKF since 1919; practically all of his income is from salary as head of that company; and under a voting trust agreement executed in 1941, he acts as trustee for the stock in SKF owned by Swedish interests, which amounts to 95% of the stock of SKF.

(2) When Mendelssohn and Co. nominally acquired the German Bosch interest in American Bosch in 1934, George Murnane of Monnet, Murnane and Co. was designated to represent Mendelssohn's interest in American Bosch. In 1938, Murnane reorganized American Bosch

and put in as President, Donald P. Hess, who had been recommended to him by Batt. At the same time Batt was made a director of American Bosch. (Murnane stated that it was upon his recommendation that Batt was made President of SKF.)

(3) After the failure of Mendelssohn and Co., its interests in American Bosch were sold in May 1940 to Swedish interests dominated by the Wallenberg family, which family also owned a dominant interest in American SKF. Murnane was designated as the voting trustee of the Swedish interests in American Bosch.

The investigation of American Bosch which the Treasury Department has recently concluded reveals the following:

(1) In 1934 German Bosch, desiring to protect itself against the Nazi foreign exchange control, transferred its interests in American Bosch, British Bosch and French Bosch to Mendelssohn of Amsterdam, retaining an option to repurchase the stock. Officials of German Bosch went along to Amsterdam with the transfer of these shares to insure continued German Bosch control over these companies.

STRICTLY CONFIDENTIAL

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(2) Mendelssohn, contrary to its agreement with German Bosch, pledged the stock of American Bosch with the New York Trust Co. to secure some loans. When Mendelssohn failed in the Summer of 1939, German Bosch was very fearful lest the stock in American Bosch be sold by the New York Trust Co. to competing American interests who would refuse to resell the shares to German Bosch. George Murnane and his partner Jean Monnet participated in negotiations to prevent the sale of the American Bosch stock to interests that would not be friendly to German Bosch.

(3) Negotiations took place between Chemical Bank and the German Reichsbank for the acquisition by Chemical of the American Bosch stock against payment of \$1,000,000 in cash to be put up by Chemical, together with \$2,200,000 of standstill credits acquired by Chemical on option from British banking interests. Under the proposal, Chemical was to agree to resell the American Bosch stock to German Bosch after the war. For some reason these negotiations fell through. The Reichsbank official told Kollmar, the representative of Chemical, that there had been too long a delay in concluding these negotiations and

also that the German Government, to the embarrassment of the Reichsbank, found out that enemy-owned German standstill credits would have been used to effectuate the purchase by the Chemical.

(4) In May 1940, the shares of American Bosch which had been held by Mendelsohn were purchased by The Stockholms Enskilda Bank. Kollmar of Chemical Bank was thereafter told by the official of the Reichsbank that the stock had been sold to "Swedish friends", the Wallenbergs, on terms similar to those discussed with him, namely, on the basis of the stock being resold to German Bosch within two years after the war. Kollmar stated that if the "Reichsbank makes any deal in Sweden it is with the Wallenbergs, because I know who their confidential bankers are."

(5) It is my judgment that the Swedes in acquiring the stock in American Bosch have agreed to resell it to German Bosch after the war. The remainder of this memorandum relates to the interrelated roles played by George Murnane, Jean Monnet and William L. Batt in the American Bosch picture.

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George Murnane

George Murnane has disclaimed knowing that there was any German interest in the American Bosch stock when that stock was held nominally by Mendelssohn. In that connection the following testimony by Arthur T. Murray, President of American Bosch through 1937, is of interest:

" . . . Dr. Mannheimer* further told me that it was his desire and intent to hold the shares in all of these companies as Agent for the German owners until such time as the Nazi Regime no longer existed, when they would be returned to the real owners.

* * *

"I was talking with Mr. Murnane and I suggested that some day both of us might find ourselves being asked by the Government who really owned the Bosch stock, because I felt then that sooner or later a war between Germany and the United States and the rest of the world was inevitable. Mr. Murnane replied that he was going to see to it that he never made any inquiry as to how the Bosch shares came into the hands of Mendelssohn & Co. because he always wanted to be in a position to say honestly that so far as he knew the shares were the property of Mendelssohn & Company. This conversation took place some time during 1936 or 1937.

* * *

"Stuttgart wanted to be very certain that there wasn't anything going through the mails that the Nazi Regime might get hold of to indicate that they were the real owners of United American Bosch shares."

* Dr. Mannheimer was the head of Mendelssohn & Co. and his suicide in August, 1939 led to the liquidation of Mendelssohn & Co.

When Hess was being considered in January 1938 for the Presidency of American Bosch, he wrote a letter to Batt, a copy of which is attached, in which he stated in part as follows:

"Dear Bill:-

"Just returned to Columbus yesterday so this is the first chance I have had to tell you that Mr. Murnane is in my opinion all that you stated and was most willing to give me all necessary data re United American Bosch. While this statement is somewhat premature, I am satisfied that he and I could get along in a most satisfactory manner. The general setup is exactly as you described it with control (70%) in Mendelssohn & Co., Rotterdam--which means German Bosch and Murnane acts for them. He has apparently as much authority as could be expected under such circumstances."

The foregoing would clearly indicate that Hess understood from Murnane as well as Batt that Mendelssohn was acting for Bosch.

In 1939 Murnane was in communication with Rassbach, who was an official of German Bosch. They were discussing National City Bank's effort to acquire the shares in American Bosch in exchange for blocked German assets owned by National City. Murnane pointed out that since National City was prohibited from retaining common

stock even though acquired in settlement of debts, National City would be compelled within a reasonable period to sell the shares of American Bosch and that there would then be a repetition of the existing situation. By this Murnane meant that the National City Bank, like the New York Trust Co., might sell the shares of American Bosch to interests unacceptable to German Bosch.

Murnane has said that in response to a question he asked Marcus Wallenberg during a visit to this country in the Fall of 1940, Wallenberg stated that Swedish interests alone owned the shares in American Bosch transferred from Mendelssohn, and therefore, Murnane believed that there was no German interest in American Bosch. At the same time Murnane stated that he believed that where money matters were concerned the Wallenbergs were the coldest-blooded people he had ever met.

When Marcus Wallenberg was in this country in the Fall of 1940, he was making very substantial purchases of German municipal and industrial bonds owned by Americans at prices from 20 to 25 cents on the dollar. Wallenberg

STRICTLY CONFIDENTIAL
- 8 -

was making these purchases with funds transferred to the accounts of the Stockholms Enskilda Bank from the accounts of the German Gold Discount Bank. Wallenberg admittedly was acting for the benefit of German authorities in making these purchases. These activities by Wallenberg were widely known in this country and must have been known by Murnane.

It is also interesting to observe that Marcus Wallenberg admitted to an official of the Treasury in the Fall of 1940 that Sweden had been negotiating with the Germans in order to protect itself from a German invasion.

It is my belief that after the German invasion of Norway, German and Swedish financial and industrial interests drew closer together. Swedish interests were used by the Germans to hold title to German owned property in the United States during the period of the war and Swedish interests were also used by the Germans to engage in other financial transactions here and elsewhere for the benefit of Germany. In exchange therefor the Wallenbergs and other Swedish interests obtained protection for their property holdings in Germany and German occupied territories. Needless to say, Germany also held the Swedish properties as a hostage to compel Swedish interests to act on behalf of Germany.

STRICTLY CONFIDENTIAL

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Jean Monnet

I called in Jean Monnet, who is the partner of George Murnane, who shares in Murnane's earnings as Chairman of the Board of American Bosch and who is at present a member of the British Supply Council. I told him that our investigation of American Bosch indicated that German Bosch retained an interest in the stock of American Bosch even though the stock had been transferred first to Mendelssohn and thereafter to the Swedish interests.

Monnet said that he did not believe that the Germans retained any control over the shares in Swedish hands and that if George Murnane was aware of any such tie-up he would have made such information known to Monnet. However, Monnet said he would question Murnane about the situation and report back.

At a second conference which I had with Monnet a couple of days later, Monnet said that he had talked the matter over with Murnane, that Murnane had corroborated his impression that the sale from Mendelssohn to the Swedish interests was without any strings whatsoever in favor of the Germans.

STRICTLY CONFIDENTIAL

- 10 -

I was not satisfied that Monnet was telling all that he knew. Monnet unquestionably knew all of the aspects of the Bosch situation. On August 17, 1939, a telegram was sent to Hess, the President of American Bosch, by Dr. Otto Fischer, one of the watch-dogs of German Bosch who worked out of the Mendelssohn's office. In that telegram Fischer indicated that thanks to urgent representations by Mendelssohns and Murnane, the investment in American Bosch had been kept intact and that it looked as though desirable interests were going to be able to raise the amount required for release of the American Bosch shares which were held as collateral by the New York Trust Co. Dr. Otto Fischer then stated:

"I am going to see Mr. Monnet tomorrow in connection with this project."

In a memorandum in the files of the New York Trust Co., signed by C. E. Hunter, a Vice President, he said that Murnane had told him on August 21, 1939, that Monnet had gone to Amsterdam to investigate the

STRICTLY CONFIDENTIAL

- 11 -

situation respecting Mendelssohn and the American Bosch shares. Monnet's report is stated in substance to have included the following:

"Third parties have rights in those shares, this right consisting of privilege retained by Robt. Bosch G.m.b.H. to meet any potential buyer's price within 30 days of the bid.

"A group in Amsterdam representing Stuttgart--very responsible people, are working feverishly to present a proposition to us. They are fully able to buy all these shares we hold."

Monnet also told me that up until the latter part of 1938 he was a believer in rapprochement between France and Germany.

STRICTLY CONFIDENTIAL

- 12 -

William L. Batt

I had a talk with Batt last Tuesday. I told him I believed that German Bosch had retained an interest in American Bosch even though the shares were owned first by Mendelssohn and later by the Swedes. Batt stated that he did not know that German Bosch continued to have such an interest while the shares were in Mendelssohn's name, but that if the Treasury had come to that conclusion, he would not question it.

During my talk I showed Batt a copy of the letter that Hess had written to him in January 1938 in which he said with respect to American Bosch:

"The general setup is exactly as you described it with control 70% in Mendelssohn & Co., Rotterdam - which means German Bosch and Murnane acts for them. He has apparently as much authority as could be expected under such circumstances."

I also recalled to Batt that in his letter of reply to Hess, he had not denied the German Bosch interest in American Bosch.

STRICTLY CONFIDENTIAL

- 18 -

Batt said that he had never told Hess that he believed the Mendelssohns were acting for the Germans and this part of the letter was Hess' personal conjecture.

I asked Batt if he would have accepted membership on the Board of Directors of American Bosch in 1938 had he known at that time that the Germans retained an interest in the Dutch-held American Bosch shares. He replied that he would have accepted the directorship at that time even if he had been aware that the Germans continued to dominate the affairs of the company. Batt then pointed out that he always believed there was a difference between German industrialists and the Nazi party and that he had always entertained the highest admiration and affection for German industrialists.

I then asked him if he believed that the Swedes were holding the shares in American Bosch for the Germans in consideration of an agreement on the part of the Germans to protect the Wallenbergs and other Swedish interests in German SKF. Batt denied that such an agreement existed, stating flatly that he believed the sale from Mendelssohn to the Enskilda Bank was without any reservations and that such an inference had never even entered his mind. I then asked

him if it was not possible for such an arrangement to exist without his knowing about it, and he said it was possible although he did not believe it. In response to another question, Batt stated that so far as he knew there had been no interference by Germany with SKF properties in German-occupied Europe, and he assumed that these properties were being used to assist Germany in its war effort.

He then asked me what reason I had to infer that the transfer of the Mendelssohn shares to the Enskilda Bank included an agreement to resell to German Bosch after the war. I told him of the information which had come to the Treasury's attention, particularly the negotiations and discussions between the Chemical Bank and the Reichsbank. Notwithstanding that, Batt did not think it was conceivable that the Wallenbergs could be acting on behalf of the Germans.

I then told Batt that we had information to the effect that during the Fall of 1940 Marcus Wallenberg had come to the United States for the purpose of purchasing for the Reichsbank German municipal and industrial bonds at a discount and had told certain people that he had a free hand in the purchase of these securities.

Batt confirmed what we had previously been told by Murnane, namely, that the Wallenbergs were hard and cold in matters of money, *but that he had the highest regard and affection for them.*

STRICTLY CONFIDENTIAL

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Batt said that he could understand the reasons for our apprehensions and thought that if he were in our position he would require the Enskilda Bank to warrant that the American Bosch shares would not be transferred for at least 10 years after the war.

I told him that I appreciated his frankness, but I wanted to think the matter over and would let him know my conclusions later this week.

(Signed) ^{Morgan}H. Morgenthau, Jr.

I have also sent a copy of this report to Donald Nelson.

JES:BB:EHF:nrd:kfa:vls - 5/7/42

STRICTLY CONFIDENTIAL

JAN 30 1942

MEMORANDUM FOR THE PRESIDENT:

You have asked me for information concerning William L. Batt's connection with American Bosch Corporation.

1. In order to have a clearer picture it is necessary to mention briefly Batt's connection with SKF. Batt has been associated with American SKF and its predecessors since 1919. He was general manager from 1919 to 1923, when he became president, which office he still holds. His salary as president has ranged from \$26,000 in 1935 to \$60,000 in 1940. He customarily files a joint return. He and his wife have no significant income other than his salary from American SKF Corporation.

On January 1, 1939, Swedish SKF owned 76 percent of the outstanding stock of American SKF; certain other Swedish interests owned approximately 18 percent. These shares were transferred to Batt under voting trust agreements early in 1941. Batt himself owns a trifling amount of shares in American SKF (65 shares).

2. In 1938 Batt became a director of American Bosch Corporation at a salary of \$2000 a year. The records of the company and the transfer agent do not reveal that he has ever owned any stock in American Bosch. He resigned as director of American Bosch on March 5, 1941.

The majority of the stock of American Bosch was re-acquired in 1931 by the German Bosch Company. In 1934 Mendelssohn & Co. nominally acquired the German Bosch interest in American Bosch. Shortly thereafter, George Murnane became director of American Bosch and represented Mendelssohn's interest in American Bosch. George Murnane is at present a member of the firm of Monnet, Murnane & Co. and formerly was a partner of Lee Higginson where he actively handled the Kreuger and Toll matters. Murnane's partner, Jean Monnet, formerly was chairman of the British French economic council, and is now a member of the British Supply Council. Murnane became chairman of the board of American Bosch in June 1937 and in 1938 effected a reorganization of the company. The financial reorganization left the stock in Mendelssohn & Co. and the managerial reorganization resulted in Donald P. Hess replacing Arthur T. Murray as president. At the same time Batt was made a director of American Bosch.

When Fritz Mannheimer, the head of Mendelssohn & Co. committed suicide in August 1939, Mendelssohn & Co. failed

- 3 -

and was liquidated. In May 1940, the Mendelssohn interests in American Bosch were sold to the Stockholm Enskilda Bank which is owned by the Wallenberg family. Murnane was then designated as the voting trustee of the Swedish interests in American Bosch.

At the present time, therefore, the Swedish interests in American SKF are represented by Batt, as voting trustee, and the so-called Swedish interests in American Bosch are represented by Murnane, as voting trustee.

* * * * *

3. In the course of our investigation of the personnel and records of American Bosch, which we started last Saturday, we have run across information which suggests that arrangements may have been made whereby the Germans would protect SKF holdings in German-occupied countries in exchange for efforts by the Wallenbergs to protect the German interests in American Bosch. Under such an arrangement the Wallenbergs would hold the Swedish interests in American Bosch until the end of the war when it would resell such interests to the Germans.

Murnane reported to one of our Treasury investigators that it was upon his recommendation that Batt was made president of SKF and that Hess who succeeded Murray in 1938 as president of American Bosch was suggested by Batt.

It has also been reported from another source that during the liquidation of the Mendelssohn (after the outbreak of war) English interests were asked to buy the Mendelssohn-

- 4 -

held shares in American Bosch with the understanding that at the end of the war the control would be resold at a profit to German interests; but the English exchange authorities refused to permit the transaction. Thereafter the Mendelsohn interests in American Bosch were sold to the present Swedish holders.

In view of the fact that our investigation of American Bosch has just begun we can not warrant the accuracy of the comments contained in section 3 of this memorandum.

(Signed) H. Morgenthau, Jr.

EHF Jr:BB:RP:mp
1/30/42

DONALD P. HESS

Columbus, Ohio
January 3, 1938Mr. L. Batt,
SKF Industries Co.,
Philadelphia, Pa.

Dear Bill:

Just returned to Columbus yesterday so this is the first chance I have had to tell you that Mr. Murnane is in my opinion, all that you stated and was most willing to give me all necessary data re United American Bosch. While this statement is somewhat premature, I am satisfied that he and I could get along in a most satisfactory manner. The general setup is exactly as you described it with control (70%) in Mendelssohn & Co., Rotterdam - which means German Bosch and Murnane acts for them. He has apparently, no such authority as could be expected under such circumstances.

From the standpoint of operations, i. e., manufacturing and merchandising, it looks good to me with real possibilities even in view of a very erratic performance over the past seven years. The financial picture is not good - which is probably to be expected in view of past earnings, or rather lack of earnings, and it is giving me a good deal of concern. In analyzing the last monthly statement it indicates current assets and liabilities about balance with a small amount of cash on hand. In this I am considering all notes payable as current although the statement does not show as such do (due?) to certain arrangements as to payments, etc. This year should show a small profit, but even this is questionable as present inventories look high to me.

Mr. Murnane told me that the bankers are willing to convert the notes into stock and he has additional funds to put into the company to help the cash position. Summarizing the whole thing Bill, I am much inclined to take it on, but the financial setup bothers me, and I want to give it considerable thought. Hope to give Mr. Murnane something definite within the next two weeks. Incidentally if you hear anything from him as to his feelings in my regard would greatly appreciate your so advising me.

Sincerely yours,

/s/

Donald P. Hess

DPH-V

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE May 7, 1942

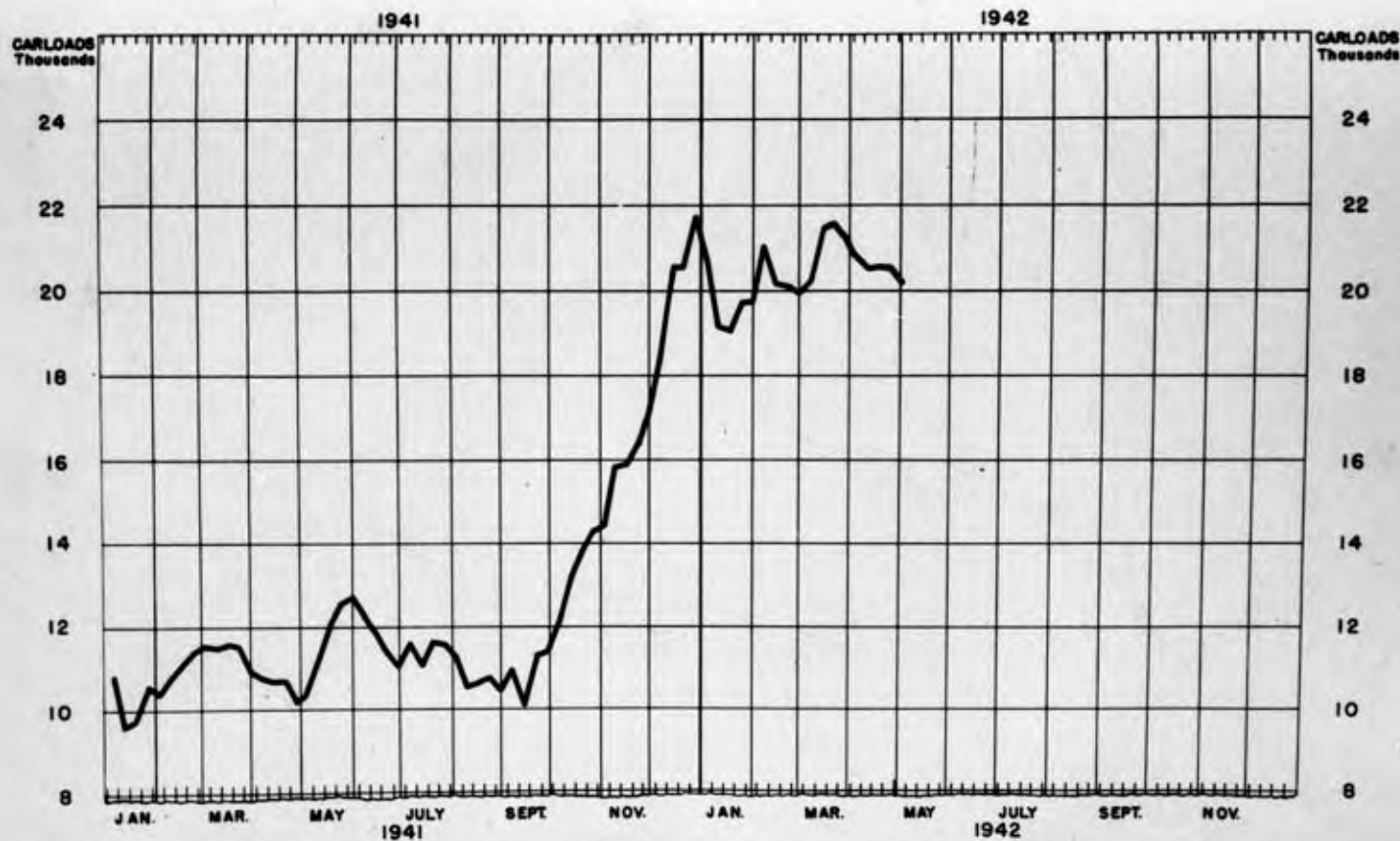
TO Secretary Morgenthau
FROM Mr. Haas
Subject: Export Freight Situation

Lighterage freight in storage and on hand for unloading in New York harbor decreased by 397 cars last week to 20,142 cars. (See Chart 1.) Additional rail storage space for 7,292 cars was available at the end of the week.

Exports from New York increased by 536 cars to 7,745 cars, exceeding the peaks reached in 1941. (See Chart 2, upper section.)

Receipts for export at New York also increased slightly, reaching 7,387 cars, or 220 cars over last week's figure. However, receipts for export at 9 other North Atlantic ports and 6 Pacific ports both decreased, the former by 299 cars to 3,488 cars, and the latter by 224 cars to 2,824 cars. (See Chart 2, lower section.)

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.

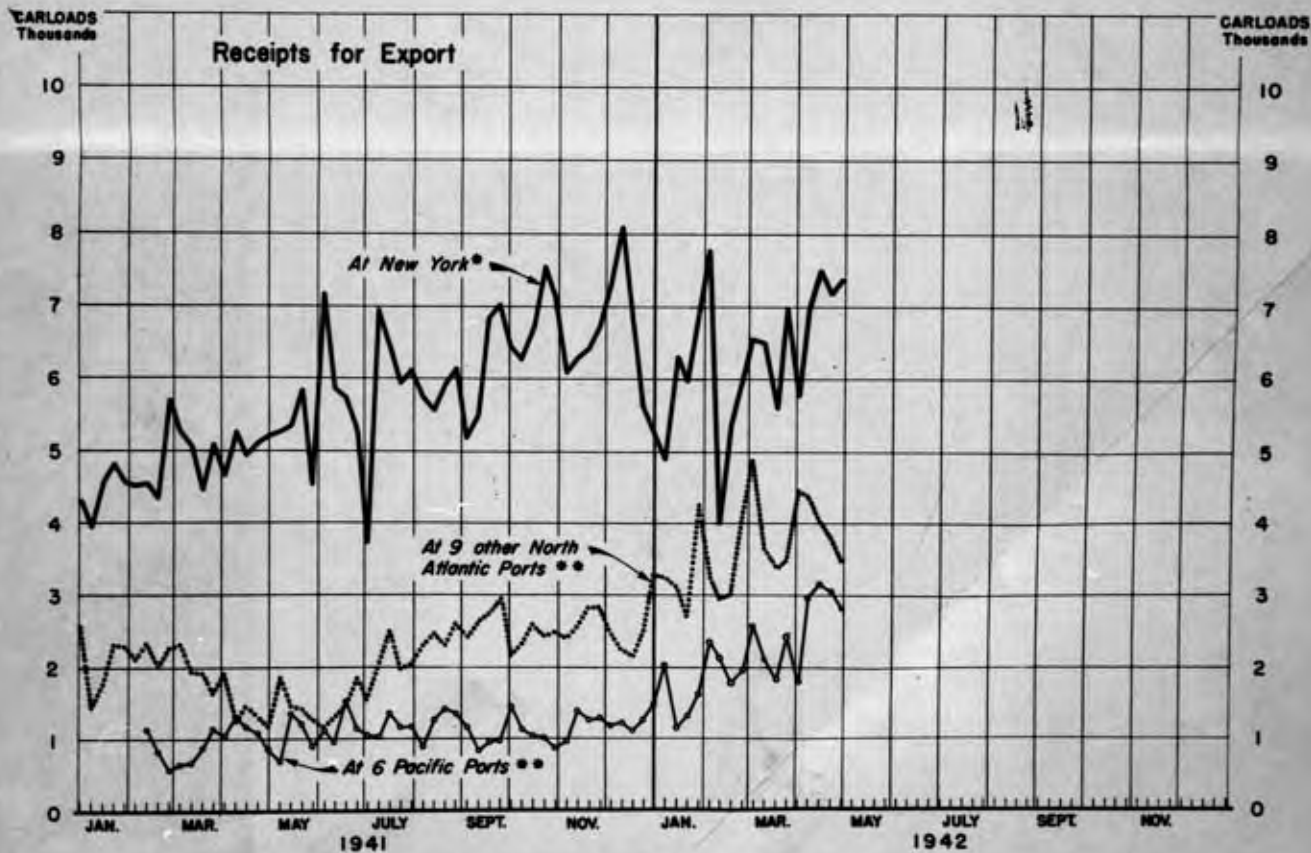
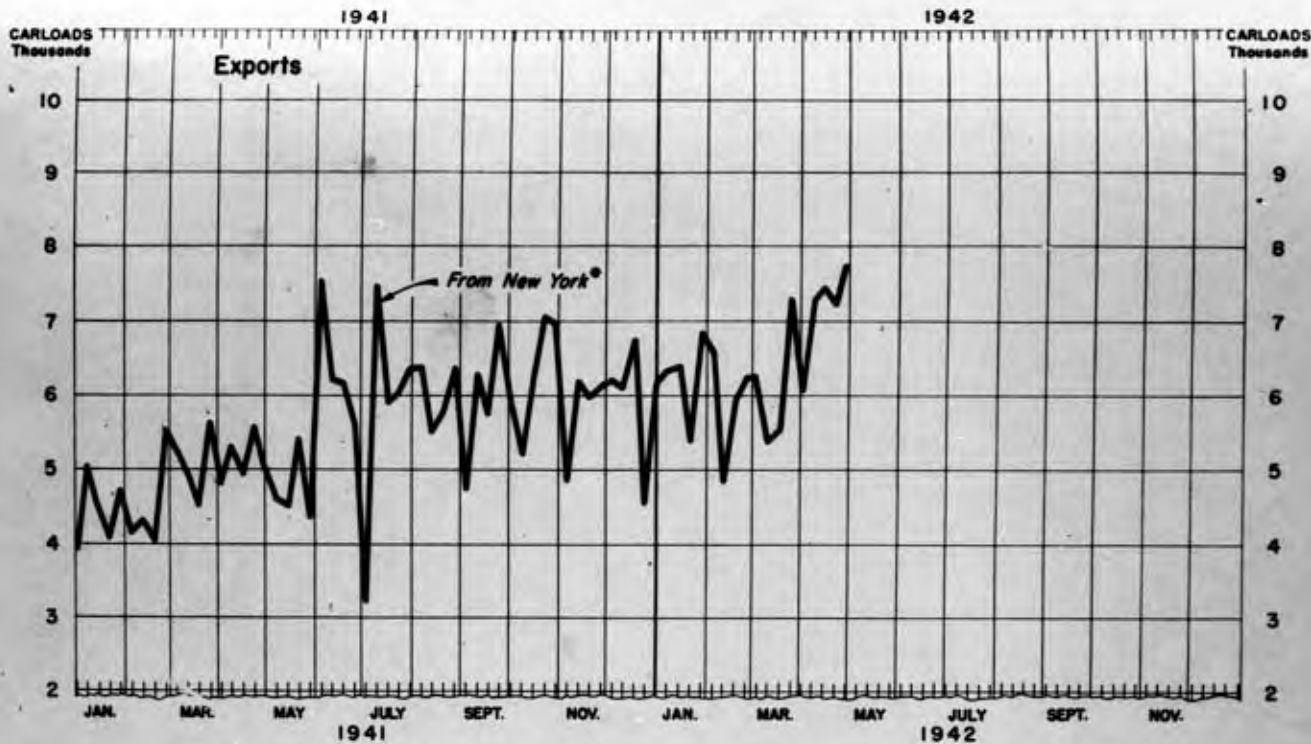
Office of the Secretary of the Treasury
Bureau of Research and Statistics

C-303-D

Chart 1

Regraded Unclassified

EXPORT FREIGHT MOVEMENT



* As estimated from data of general managers' association of New York.
 ** Association of American Railroads.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON


May 7, 1942

MEMORANDUM TO THE SECRETARY:

Supplementing my memorandum to you of yesterday's date, I talked with Mr. Nelson this morning concerning the Russian situation and he advised that he is very much concerned over the difficulties that have necessitated the reduction of shipments and has asked Bill Batt to keep in very close touch with the matter.

Yesterday afternoon Batt's assistant informed me that he had talked with the Russian delegation relative to selecting the items for forwarding, and the production schedule is being revised accordingly. In the meantime, materials produced against Russian orders are being stored so that we will be in a position to utilize the reduced number of vessels to the utmost in so far as weight and space content are concerned by having a selection for loading most advantageously.

FOR DEFENSE

BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS
Clifton E. Mack

Director of Procurement

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

303

DATE May 7, 1942

TO Secretary Morgenthau
FROM Mr. Kamarck

Subject: Shipment of Planes and Fighting Vehicles to U.S.S.R.

Summary

1. In the second ten-day period of April, 46 planes and 285 tanks (205 light, 80 medium) were shipped to the U.S.S.R.

2. The total number of tanks shipped to the Russians in 1942 has now passed the 1,100 mark.

Table A

Shipments of Planes and Fighting
Vehicles from the United
States to the U.S.S.R.*

	Shipments during <u>April 10 - 20</u>	Cumulative total Jan. 1, 1942 to <u>April 20, 1942</u>
<u>Planes</u>		
Pursuit	31	337
Bombers	<u>15</u>	<u>311</u>
Total	46	648
<u>Tanks</u>		
Light	205	594
Medium	<u>80</u>	<u>512</u>
Total	285	1,106
<u>Other Fighting Vehicles</u>		
Jeeps	0	1,549
Gun carriers	0	78

* These figures are based on export declarations received for the period indicated.

Table BShipments of Planes and Tanks to
U.S.S.R. by Months

	<u>Fighters</u>	<u>Bombers</u>	<u>Total Planes</u>	<u>Light tanks</u>	<u>Medium tanks</u>	<u>Total Tanks</u>
January, 1942	56	4	60	20	22	42
February	123	115	238	172	38	210
March	68	170	238	159	258	417
April 1 - 20	<u>90</u>	<u>22</u>	<u>112</u>	<u>243</u>	<u>194</u>	<u>437</u>
Total 1942 to April 20	337	311	648	594	512	1,106

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.

By Messenger

Veach 10:45
File to Foley
cc - Thompson

BB:EHF:vl8 - 5/6/42

WAR PRODUCTION BOARD
WASHINGTON, D. C.

OFFICE OF
DONALD M. NELSON
CHAIRMAN

April 29, 1942

My dear Mr. Morgenthau:

We are very appreciative of your cooperation in our program to substitute silver for copper in the bus bars of new Government-owned aluminum and magnesium plants. Arrangements for installation are now proceeding satisfactorily, and it is expected that within a few months the entire 46,000 odd tons of "free" silver available for this purpose will have been largely put to such use.

In our efforts to conserve critical and scarce materials it has been established that silver is a suitable substitute for many applications of aluminum, magnesium, copper, nickel, and tin. Shortages in all these metals are so severe that the supply is insufficient to meet even the most essential requirements. As you know, industry has had recently to depend for its silver supply solely on imports, which we estimate will amount to approximately 3,700 tons in 1942.

A preliminary calculation indicates that the amount of silver, which can be used industrially in 1942, may total approximately 11,285 short tons. A tabulation of the probable uses is attached and includes several anticipated uses, which have not as yet actually been put into effect. With an adequate supply of silver available, it is probable that the ingenuity of American industry will discover further uses for silver as a substitute for scarce materials.

It is my opinion that the maximum utilization of silver in industry as a substitute for critical materials, where its use is economically feasible at a level of 35 and a fraction cents per Troy ounce, should be pressed to a satisfactory conclusion immediately. As you know, the present arrangement leaves the 39/40,000 short tons of silver, which is specifically held as security for silver certificates, unaffected by the agreement between Defense Plant Corporation and yourselves. Therefore, I would appreciate your suggestions as to how this remaining silver can be made available for essential industrial uses, particularly as to the amount of silver which might be made available for such uses without legislation, and also how much could be made available with legislation and the form which such legislation should take.

Sincerely yours,


Donald M. Nelson

The Honorable
The Secretary of the Treasury

ESTIMATED POTENTIAL 1942 CONSUMPTION OF SILVER, BY MAJOR USES

(Short Tons)

Use	1942 Potential Consumption
<u>Total Consumption</u> a/	<u>11,285</u>
Solder	2,300
Copper-zinc	700
Lead b/	1,600
Electrical Industry	2,000
Contacts	500
Other	1,500
Bearing Materials	500
Returnable Containers c/	3,500
Chemical Industry	685
Electroplating Anodes and Salts	305
Photographic	320
Other	60
Decorative Arts	1,700
Silverware and Holloware	1,350
Other	350
Dental and Medical	100
Miscellaneous	500

Source: War Production Board, Division of Statistics

a/ Military requirements are included under the appropriate use.

b/ The substitution of a 2 $\frac{1}{2}$ % silver solder on the average, to replace the 21,000 tons of tin used during 1941 would require 1,600 tons of silver.

c/ The substitution of a .001" coating to replace an estimated 2,500 tons of tin used in returnable containers would require 3,500 tons of silver.

C
O
P
Y

311

DEPARTMENT OF STATE

Washington

In reply refer to
FD

May 7, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of telegrams nos. 248, dated May 5, 1942, from the American Consulate, Sydney, Australia and the reply thereto, no. 177, to the Consulate, dated May 6, 1942, concerning hubs to be used for minting Australian coins.

Enclosures:

1. From Consulate, Sydney, no. 248, May 5, 1942.
2. To Consulate, Sydney, no. 177, May 6, 1942.

eh:copy

5-8-42

C
O
P
Y

312

TELEGRAM SENT

WWM

May 6, 1942

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

11 p.m.

AMERICAN CONSUL

SYDNEY (AUSTRALIA)

177

Your 248, May 5, 5 p.m.

Hubs were delivered to Treasury April 21.

HULL
(FL)

847.515/15

FD:FL:EMcB

Bu

eh:copy
5-8-42

C
O
P
Y

313

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

Sydney

Dated May 5, 1942

Rec'd 11:05 a.m.

Secretary of State,

Washington.

248, May 5, 5 p.m.

Commonwealth Bank is anxious to know whether
Department has received hubs forwarded April 6
with my despatch no. 233 to be used for minting
Australian coins.

PALMER

NPL

eh:copy
5-8-42

Treasury Department **314**
Division of Monetary Research

D Date...~~May~~...7.....19 42.

To: Miss Chauncey

From: H. D. White

The attached is for your files. It
was left with me by Mr. Plumptre of
Canada.

A Suggested Plan for Solving Canada's U.S. Exchange
Deficit Under Joint Arrangements for Pooling
War Production.

A. The Problem

The problem which Canada now faces is that of a continuing substantial deficit of U.S. exchange which is likely to be seriously aggravated by the measures currently under discussion for the pooling of Canada's total war production through the Joint Munitions Assignment Board in Washington.

Canada commenced the war with total U.S. exchange (gold and U.S. dollar balances) of \$391,000,000 of which \$261,000,000 represented official reserves held by the Minister of Finance and the Foreign Exchange Control Board and \$130,000,000 represented surplus private U.S. dollar balances held by individuals and corporations. By the end of 1940 (and in spite of imports of gold from the United Kingdom of \$250,000,000), total gold and U.S. dollar balances had declined to \$330,000,000. All of this was held by the Minister of Finance and the Foreign Exchange Control Board - in other words, surplus private holdings of U.S. dollar balances had been taken over, leaving private individuals and corporations (banks, insurance companies, industrial corporations, etc.) with only the minimum working balances legally or practically necessary to carry on their day-to-day business.

In 1941, the net drain on Canada's holdings of U.S. exchange amounted to \$142,000,000. This was after taking into account the net effect of the Hyde Park Agreement - amounting to \$57,000,000. As at December 31, 1941, Canada's holdings of gold and U.S. dollars had declined, as a result of this drain or deficit during 1941, to \$188,000,000.

Estimates/

A Suggested Plan for Solving Canada's U.S. Dollar
Deficit Under Joint Arrangements for Pooling
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Estimates/

Estimates made in March of this year forecast an additional net loss of U.S. dollars during 1942 amounting to \$79,000,000 which, if correct, would reduce Canada's reserves to only \$109,000,000 at the end of this year. Admittedly, this forecast was attended with a good many difficulties, such as the difficulty of forecasting future orders to be placed by U.S. agencies with War Supplies Limited and of appraising the effect of priorities and shortage of materials on production and deliveries, the difficulty of forecasting the effect on tourist expenditures in Canada of rubber and gasoline restrictions, the difficulty of estimating what would happen to the production of gold, etc. In fact, actual results during the first quarter proved a good deal better than had been anticipated, partly due to the unexpectedly large capital movements and to the effect on payments for imports and exports of rumoured changes in the Canadian-U.S. exchange rate. At this time, however, we could not with confidence revise to a lower figure our estimate of the exchange deficit for the year as a whole.

Recently, a new and important factor has emerged which may, unless other steps are taken, produce a serious adverse effect on Canada's exchange prospects. This is the proposal for pooling Canada's total war production through the Joint Munitions Assignment Board in Washington, a proposal which Canada wishes to accept in order to assure the most efficient utilization of her economic resources for the common war effort.

If this pooling proposal is implemented it may embarrass Canada's exchange position in one or both of the following ways:

(1) Possibly/

- (1) Possibly through the non-payment of U.S. dollars for war supplies delivered under contracts placed by U.S. war agencies with War Supplies Limited, if the supplies in question are turned over to the pool and diverted from U.S. use. (Perhaps there is no danger of this in regard to orders already placed). 400
- (2) Possible reduction of such orders in the future if as a result of the pooling arrangement the U.S. war agencies which have placed such orders in the past fear that they themselves will not receive for their own use the war supplies to be ordered in future. 200

B. A Suggested Solution

Canada believes that the financial relations between the two countries should be such as to eliminate the influence of considerations relating to the balance of payments between the two countries, both during and after the war, upon the utilization of the resources of either country in the joint war effort.

She is exceedingly grateful for the suggestion made a little over a year ago by the Secretary of the Treasury which was embodied in the Hyde Park Agreement. This has been and promises to continue to be of enormous benefit to Canada. The agreement was negotiated in April 1941 and naturally some time had to elapse before its fruits could mature. Nevertheless Canada received a net benefit from the agreement last year of \$57,000,000 and for 1942 we estimate a net benefit no less than \$379,000,000. Our March estimates indicated that, were it not for the Hyde Park Agreement, Canada's dollar deficit for 1942 would total the impossible figure of ⁵⁴³ \$643,000,000 (excluding net ^{include} effect of capital movements, estimated at \$85,000,000). 541

If there is any basis for the fears expressed in regard to the effects on Canada's dollar receipts of

the proposed/

the proposed pooling arrangement, Canada's dollar deficit would soon reach a magnitude of unmanageable proportions. What is therefore proposed is really an extension and perfecting of the Hyde Park Agreement.

It so happens that Canada's imports of war goods from the United States accounts for all of Canada's annual deficit of U.S. dollars (excluding the effect of the Hyde Park Agreement and of net capital movements). Thus, in 1941, our total imports for materials and supplies for war purposes were estimated at \$294,000,000, whereas, had it not been for the effect of the Hyde Park Agreement and of net capital movements amounting to \$94,000,000, our dollar deficit would have been \$293,000,000. For 1942, we estimated that our total imports from the U.S.A. for war purposes will amount to \$542,000,000, whereas, were it not for the effect of the Hyde Park Agreement, and of net capital movements estimated at \$85,000,000, our total deficit would be \$543,000,000. In other words, our U.S. exchange deficit is entirely due to the contribution we are making to the fighting strength of the United Nations by the production of war supplies.

It would appear, therefore, that our exchange problem would be solved if the United States would agree to purchase from Canada through War Supplies Limited an amount of war supplies equivalent to the estimated amount of Canada's war purchases from the United States less the net amount of capital movement. If in this way the sales of War Supplies Limited were increased to the point where they balanced our war imports from the United States, then we would have accomplished the President's objective of eliminating the dollar sign from the contribution of war goods to the common war effort. The trade in war goods would in effect have been converted to a barter basis.

It may be added that this "swap" of war materials and supplies would be arranged on a basis which would not involve an elaborate requisitioning and accounting system

or burdensome administrative procedures. The results desired would be accomplished without delays on extra work

-- extremely important considerations under existing conditions.

The calculations of our U.S. dollar costs for war imports necessitates the use of estimates in certain cases and it would, it is believed, be necessary to proceed on the basis of an estimate for the year (or other convenient period). However, these estimates can be made with a reasonable degree of accuracy and they can be revised after the end of each quarter in the light of actual experience. It should probably be an understanding between the two governments that if the working of the agreement over a period should result in Canada building up a surplus of U.S. dollars or showing a further drain of U.S. dollars, the agreement should be reviewed and appropriate adjustments made.

It is believed that if the U.S. Government agreed to accept financial responsibility for the purchase of Canadian war production equivalent to the amount of Canada's import of war goods from the U.S.A., then the various U.S. departments and war agencies would be encouraged to place orders for that amount. If the orders which they placed on their own initiative were insufficient to provide the necessary dollar sum, it would be understood that the U.S.A. would agree to treat as U.S. orders a sufficient additional amount of Canadian war goods turned over to the common pool.

If there should be established anything in the nature of a Joint ~~War~~ ^{Planning} Production Board designed to distribute orders to whatever country has the facilities for production, the arrangements outlined above could, nevertheless, be made to work if the United States would agree to accept a portion of such orders as orders placed for their amount and for which they would accept financial responsibility.

ORVILLE
MAY 5 1942

May 5, 1942.

May 7, 1940

Mr. Liversay

Mr. Dietrich

Will you please send the attached cable to the American Embassy, Chungking,
"For Ailer from the Secretary of the Treasury".

FD:ch

May 5, 1942

To: Adler

From: Secretary of the Treasury

Fox has left Washington to return to Chungking by plane. He is expected to arrive at Chungking about June 5.

ISF/efs
5/5/42

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Chungking, China

DATE: May 7, 1942, 5 p.m.

NO.: 365

This is a message from the Secretary of the Treasury for Mr. Adler.

Fox has departed from Washington by plane for Chungking. According to plans he should arrive about the 5th of June in Chungking.

HULL
(FL)

FEDERAL RESERVE BANK
OF NEW YORK

May 7, 1942

CONFIDENTIAL

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

I am enclosing our compilation for the week ended April 29, 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,

/s/ L. W. Knoke,

L. W. Knoke,
Vice President.

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

Enclosure

Copy:vw:5-11-42

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

Week Ended April 29, 1942

Statistical
Commission

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)							BANK OF FRANCE							
	DEBITS			CREDITS				Net Incr. (+) or Decr. (-) in Balance	DEBITS			CREDITS			Net Incr. (+) or Decr. (-) in Balance
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)	Other Credits (c)		Total Debits	Gov't Expenditures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	
First year of war (8/23/39-8/28/40)*	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 (e)	449.7	1,095.3 (b)	900.2	195.1 (e)	+229.0
War period through December, 1940	2,792.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1
Second year of war (1/1-12/31/41)**	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															
Jan. 28 - Oct. 1	140.8	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	156.2	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	88.4	69.4	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	85.4	35.0	171.4	-	-	171.4	+ 50.0	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. 8	36.3	19.0	17.3	20.3	-	0.5	19.8	- 16.0	-	-	-	0.1	-	0.1	+ 0.1
15	24.8	17.6	7.2	22.8	-	-	22.8	- 2.0	0.1	-	0.1	0.1	-	0.1	-
22	18.6	12.9	5.7	14.1	-	-	14.1	- 4.5	-	-	-	0.1	-	0.1	+ 0.1
29	18.4	14.7	3.7	13.4	-	-	13.4 (f)	- 5.0	0.1	-	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) 38.5 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 April 29, 1942 \$ - million
 Cumulation from July 6, 1940 \$ 162.7 million

(a) Includes payments for official liquidation of securities through Air Winston, Private Supply Board, Ministry of Supply Timber Control, and Ministry of Overseas.

(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 \$65 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 \$3.0 million transferred from account of Commonwealth Bank of Australia.

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

Week Ended April 29, 1942

Strictly Confidential

PERIOD	BANK OF CANADA (and Canadian Government)									COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)						
	DEBITS				CREDITS					DEBITS			CREDITS			Net Incr. (+) or Decr. (-) in Balance
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	For Own A/C	For French A/C	Other Credits	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	472.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war (8/29/40-8/27/41)**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Aug. 26 - Oct. 1 1941	23.1	-	23.1	52.2	21.2	-	-	31.0	+ 29.1	10.7	0.5	10.2	2.8	2.1	0.7	- 7.9
Oct. 2 - Oct. 29 1941	37.4	-	37.4	19.7	11.9	-	-	7.8	- 17.7	8.2	5.5	2.7	8.0	5.9	2.1	+ 0.2
Oct. 30 - Dec. 3 1941	52.8	0.1	52.7	32.5	19.3	-	-	13.2	- 20.3	10.3	6.9	3.4	11.6	9.0	2.6	+ 1.3
Dec. 4 - Dec. 31 1941	47.7	-	47.7	22.2	17.3	-	-	4.9	- 25.5	3.9	1.8	2.1	2.8	0.2	2.6	- 1.1
1942																
Jan. 1 - Jan. 28 1942	39.5	-	39.5	33.0	27.0	-	-	6.0	- 6.5	4.5	-	4.5	10.8	-	10.8	+ 6.3
Jan. 29 - Feb. 25 1942	34.1	-	34.1	35.7	12.4	-	-	23.3	+ 1.6	8.4	1.3	3.1	1.6	-	1.6	- 6.8
Feb. 26 - Apr. 1 1942	46.5	-	46.5	99.3	20.5	7.7	-	71.1	+ 52.8	7.8	1.3	6.5	3.6	-	3.6	- 4.2
Apr. 2 - Apr. 29 1942	37.4	-	37.4	35.9	14.2	-	-	21.7	- 1.5	10.9	8.0	2.9	16.8	-	16.8	+ 5.9
WEEK ENDED:																
Apr. 8	2.2	-	7.2	9.5	2.5	-	-	7.0	+ 2.3	0.3	-	0.3	0.8	-	0.8	+ 0.5
15	7.6	-	2.6	7.9	3.7	-	-	4.2	+ 0.3	1.1	-	1.1	12.3	-	12.3	+11.2
22	5.9	-	5.9	11.8	5.1	-	-	6.7	+ 5.9	5.2	5.0	0.2	2.1	-	2.1	- 3.1
29	16.7	-	16.7	6.7	2.9	-	-	3.8(a)	-10.0	4.3	3.0	1.3	1.6	-	1.6	- 2.7

Weekly Average of Total Debits Since Outbreak of War

Through April 29, 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) Of which \$3.5 million represents proceeds of U. S. Government checks deposited by War Supplies, Ltd.

TREASURY DEPARTMENT

327

INTER OFFICE COMMUNICATION

DATE May 7, 1942

TO Mr. White
FROM Mr. Hoflich

Subject: Mr. Casaday's second report on the British Voluntary Savings Campaign

We have received a cable report from Casaday based on his visit to Gloucester and some villages in the surrounding agricultural and mining area. You will be interested in reading the entire cable. The following highlights are of particular interest:

1. Decentralization marks the organization of the savings campaign in Gloucestershire. Permanent small committees, largely selected by the Deputy Regional Commissioner, carry the real burden in each locality. These are almost independent bodies, under the supervision of the Deputy Regional Commissioner, rather than under the local town committees which function only nominally. These latter committees are believed by the Deputy Regional Commissioner to be (1) too large to work effectively, and (2) often filled with "stuffed shirts."

The small active committees are designed to reach every section of the population, e.g., the industrial committee of businessmen and union representatives to organize savings groups in offices and factories. Each of these committees is allowed to use its own initiative in selling methods and publicity, and each raises its own funds for overhead.

2. The value of savings leagues (competing employee groups) was doubted by the Deputy Regional Commissioner. He cited examples of firms giving a \$3.00 certificate to any employee who would contribute \$2.30. This was done, he said, because of the excess profits tax, and represented no gain to the Exchequer.

3. The same official was dubious about the value of kiosks at factory pay windows because, in his opinion, employees will not buy voluntarily but must be approached and sold regularly by an enterprising individual.

4. During the special campaigns such as warships week, an entirely new organization was created in Gloucester, with numerous sub-committees based on sections of the population and several functional sub-committees such as publicity, entertainment, pageantry and finance. But since the recent organization of the small committee system outlined above, it is

clan!
2-15 Graves; Read page 5 & 7 and 11 for sample of the film taken by local hand in evidence and the film, which is the same as the one in 3d.

believed that for future special weeks only the functional committees will have to be organized for the occasion.

5. It was admitted that in the different localities during the special weeks, from 25 to 75 percent of the savings came from large institutional investors, and that the results were to that extent misleading. It was admitted also that many individuals saved more than they could afford during such special weeks and found it necessary to save less than usual or nothing at all during weeks immediately following. But the purpose of the special weeks is not simply to raise money, but to create enthusiasm and reach new savers. The aggregate level of savings tend to be higher after the special weeks than before.

6. A device found extremely useful in small communities is the short locally made newsreel shown during the special week at the local cinema, with close-ups, and local persons recognizable. Outdoor movie vans showing pictures, released by the national committee are found effective in gathering street crowds.

7. The following groups have been found unenthusiastic about the savings movement--(a) workers in new war factories, because they are drawn from various parts of the country and consider their employment to be temporary; (2) young workers earning well for the first time; (3) miners. The opposition of miners is stated to be on two grounds: (a) They remember the means test after the last war when they were denied unemployment relief until all their savings had been used up, and apparently still distrust the Government on this score. (b) Some of them view the savings campaign as a method of indoctrinating workers in the virtues of the capitalist system as a substitute for a comprehensive plan of social security.

JG

PLAIN

London

Dated May 5, 1942

Rec'd 7:50 p.m.

Secretary of State,

Washington.

2391, fifth.

FOR SECRETARY OF THE TREASURY FROM CASABAY.

Department's 1730, April 22 and Embassy's 2281, April 30.

A visit was made to Gloucester and to some villages and hamlets in surrounding agricultural and mining area. Population of Gloucester is estimated at 68,000 (said to represent an increase of 35% during the war). Gloucester industry is diversified population of Gloucester and Gloucester rural district (which is the area under the jurisdiction of the Gloucester local committee) is estimated at 96,000. One of the persons interviewed is E. W. Vernal Deputy Regional Commissioner for Gloucestershire with a 1931 population of 336,801. This is one of the five counties in the southwestern region with headquarters at Exeter, the others being Cornwall, Devon, Dorset and Somersetshire.

Vernal is a firm believer in decentralization in the savings organization. Instead of relying on the local committees which he says are too large to work effectively and often filled with stuffed shirts he has brought about in each locality largely by personal selection a series of permanent small committees which carry the real burden. Each such committee has a secretary and is in fact an almost separate independent body under supervision of the Deputy Regional Commissioner rather than of the local committee which functions only nominally. There are active separate committees to reach every section of the population. Examples are the industrial committee composed of businessmen and union representatives and designed to organize savings groups in factories and offices, the street groups committee to organize street groups, the organizations committee to create groups in clubs and other organizations, the schools committee, et cetera, where feasible parish committees or ward committees are likewise organized even if these overlap some of the others. This system relieves the almost intolerable burden that would otherwise devolve upon the secretary of the local committee and gets better results. Each small committee is allowed to use its own initiative in selling methods and publicity. Also each committee raises its own funds for overhead. It is reported that nowhere in Gloucestershire has any of the per capita allotment out of Government funds been accepted but that on the contrary most committees have raised an excess of expense money to turn over to the Exchequer as a gift.

Vernall was dubious about the value of savings leagues. He cited examples of firms giving a fifteen shillings certificate to any employee who would contribute eleven shillings and sixpence. This was done, he said, because of excess profits tax and therefore represented no gain to the exchequer.

He was also dubious about the value of kiosks at factory pay windows. Employees, he said, will not go even a few steps to buy stamps but must be approached and "sold" regularly by an enterprising individual. People do go of their own accord, however, to the post office, the trustee savings banks and to well conducted savings centers to buy stamps or certificates. The savings center in Gloucester has been outstandingly successful in individual sales.

During war weapons week and warships week in Gloucester an entirely new organization was created with a series of subcommittees based on sections of the population and several functional subcommittees such as publicity, entertainment, pageantry and finance. It was pointed out that the small committee system outlined above was only recently developed and that in future special weeks only the functional committees would have to be created for the occasion.

The usual variety of stunts was resorted to in order to keep enthusiasm at high pitch. The function of the finance committee was to persuade institutions and large firms to invest heavily during the week. It was admitted that in the different localities from 25 to 75 per cent of the total saved came from these institutional investors and that the results were to that extent misleading. It was also admitted that many individual savers saved more during the special weeks than they could afford on a continuous basis and found it necessary to save less or nothing in the weeks immediately following. But it was emphasized that the purpose of the special weeks is not simply to raise money but to create enthusiasm and to reach new savers. In practice the aggregate level of savings in the area visited tended to be higher after the special weeks than before and the success of the "week" in any locality must be judged on this basis.

One device found extremely successful in small communities is a short locally made newsreel shown during the special week at the local cinema. It is emphasized that there must be close-ups and people must be recognizable. A few words spoken by one or two well known and well like local characters results in packed houses. This is sometimes supplemented by a short-personal talk by some civic leader between pictures. The outdoor movie vans showing pictures released by the national committee are also found effective in gathering street crowds during special weeks.

A few random observations as reported by persons interviewed may be of interest: (1) The way to get rid of a stuffed shirt who insists on volunteering for committee work is to call him up several times a day and pile more work on him than he can possibly do; (2) street groups in the area visited vary from 5 houses to 100 but the ideal is considered 20 to 40 houses; (3) when an industrial committee (composed of businessmen

and union representatives) desires to send out a notice it is better to have the notice sent to the business community through, say the Chamber of Commerce, and to the labor community through the trade union council; (4) the following groups have been found unenthusiastic about the savings movement: (A) workers in new war factories because they are drawn from scattered parts of the country consider their employment temporary and have little stability; (B) young workers who are earning well for the first time; (C) miners. The opposition here seems to be on two grounds. (First) They remember the means test after the last war when they were denied employment relief until all their savings had been used up and apparently still distrust the Government on this score. Some of them viewed the savings campaign as a method of indoctrinating workers in the virtues of the capitalist system as a substitute for a comprehensive plan of social security. They are reported to have said in effect, "What good would it do the worker if he were able to save all his wages? It is a paltry sum and would only last a short time anyway. What we need after the war is guaranteed employment and permanent security."

Sample campaign literature and publicity is being forwarded by air pouch. In general the literature appears less expensive and elaborate than that sent in from the eastern district last week. There is also being sent a short film made by British Movietone News of a colliery worker speaking to his fellows about war savings in the forest of dean and which was used during warship week there. This film is copyrighted in for the confidential information of Treasury only and should be given no distribution. British Movietone News also produces films of outstanding local pagantry as well as of military and naval scenes suitable for national distribution.

VINAWF

KED

Copy: 3; 5-6-43

-COPY-

To: Mr. Lauren W. Casady,
United States Embassy,
London, England.

From: The Secretary of the Treasury

Please send by air pouch samples of local news-reels mentioned in your cable No. 2391 of May 5. If British authorities are interested in seeing some samples of the films used here for similar purposes, we will be happy to send them.

Film received - 6/12/42 -

THK:HDW:ls
5/15/42

333

May 12, 1942.

Harold Graves
Secretary Morgenthau

ACTION!

Please read pages 5 and 7 of the attached cable from Casaday. Ask White to cable for sample of their films, especially local films, and in exchange send them some of our State films, which by the way I have never seen.

*Followed up with
White 5/14 - still
let me know -*

May 7, 1942

Secretary Morgenthau

Mr. White

Subject: Purchase of Dollar Currency in Switzerland by the Turkish Government

The attached memorandum from the British Embassy states that the British Government recently received information that the Turkish Government had been buying dollar currency in Switzerland and shipping it to Turkey in a diplomatic pouch.

Such action by the Turkish Government is contrary to the Treasury's General Ruling 6-A, which is designed to prevent the Axis from benefitting from dollar currency seized in the invaded countries. The British Ministry of Economic Warfare applies its regulations to currency consigned from Turkey in the same manner as these regulations are applied to other European countries. The recent extension of our General Ruling 6-A applies to all countries, including Turkey.

It may be desirable to inform the Turkish Government of our policy and urge their cooperation. A note to this effect for possible use is being prepared.

*Original in A. White's
office with notation
"not submitted to
Leig."*

EMB/grs - 5/7/42

334-A

C
O
P
Y

DEPARTMENT OF STATE
WASHINGTON

May 5, 1942

In reply refer to
FD

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a memorandum left with this Department by the British Embassy at Washington under date of April 25, 1942 concerning the alleged purchase of dollar bills in Switzerland by the Turkish Government.

Enclosure:

Memorandum, dated
April 25, 1942.

C
O
P
YSECRET

(Reference:
W.T.1001/AA/191/42)

MEMORANDUMEnemy Currency Regulations: Turkey

The British Government recently received information that the Turkish Government had been buying dollar bills in Switzerland and shipping them to Ankara by Diplomatic Bag, thus providing a channel for evasion, by a blocked country, of General Ruling 6A of the United States Freezing Order and of the British Government's controls under the Enemy Currency Regulations, by which currency (money or securities as defined in the Regulations) in transit through British territory is liable to seizure and forfeiture unless the owner can prove freedom from enemy taint. A copy of these Regulations is attached.

This channel would, of course, be open to any country, including enemy territories, where the Turks might be willing to buy, and it could seriously prejudice the measures taken by the United States Government and the British Government to prevent disposal of currency in which there is likely to be enemy interest, and to destroy the market for such currency in Europe.

The Ministry of Economic Warfare has therefore decided that the power of seizure under the Enemy Currency Regulations will be applied to currency and securities consigned from Turkey as it is already applied to consignments from European countries. The British Ambassador at Ankara has communicated this decision to the Turkish Government and the matter has been discussed also with the Central Bank who have been requested for their part to discourage Turkish nationals from engaging in this traffic.

It is believed that if the United States Ambassador in Ankara were to make representations to the Turkish Government and if necessary to the Central Bank requesting them to take such steps as they can to suppress this traffic in currency through Turkey, such representations would have considerable effect. Since the decision of the Ministry of Economic Warfare and the representations already made by the British Ambassador are directed towards objectives which are common to both the United States Government and the British Government, the Ministry hopes that the United States Ambassador may be instructed accordingly.

BRITISH EMBASSY,
WASHINGTON, D.C.
25th April, 1942.

COPY NO. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 151

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

1. MADAGASCAR

An attack launched by our troops against ANTSIRANE on the morning of the 6th was unsuccessful, the position being strongly held with large numbers of 75 MM's and machine guns. A further attack on ANTSIRANE in the evening from the south supported by a landing by Marines on the North was successful. Naval and military Commanders surrendered but no general capitulation.

2. NAVAL.

NORTHERN WATERS. An outward bound convoy arrived at MURMANSK on 5th. 22 ships out of 25 arrived safely in spite of constant shadowing and attacks by enemy aircraft and U-boats.

3. AIR OPERATIONS

WESTERN FRONT. 5th/6th Bosch Factory, STUTTGART, was not identified owing to heavy haze but 93 tons of H.E. and incendiaries were dropped on estimated position on the town. 11 tons H.E. dropped on NANTES docks. 6th. 26 Bostons and Hurricane Bombers attacked targets at CALAIS, BOULOGNE and CAEN. 41 Squadrons of Spitfires provided escorts or made sweeps over Northern France. 8 enemy aircraft raided South-East and South-West ENGLAND damaging two Naval Auxiliary Vessels in BRIXHAM HARBOUR. 6th/7th. Aircraft were despatched - STUTTGART 97, NANTES 19, Aerodromes in HOLLAND 4, Leaflets (FRANCE) 9. Seven aircraft are missing. 24 R.C.A.F. (one missing), 10 R.A.A.F. (two missing) and P.A.Z. aircraft took part. 2 enemy aircraft flew inland, one enemy fighter destroyed and another damaged. We lost one Spitfire.

MALTA. Between 1550/5 and 1050/6 twenty-nine bombers and 60 fighters attacked. 4 enemy aircraft damaged by A.A. guns and fighters. We lost 2 fighters, one pilot safe.

INTELLIGENCE

Photographic reconnaissance of DAKAR on 5th showed no material change in French Warships present. Bombing of MALTA - estimated that 6,728 tons of bombs dropped on MALTA in April compared with 2,174 tons in March and 993 in February. A marked decrease is apparent since 28th April.

COPY NO. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 157

Following is supplementary resume of operational events covering the period 30th April to 7th May, 1942.

1. NAVAL

Nineteen attacks, twelve by aircraft and seven by surface craft were made upon enemy submarines. It is estimated that about ten U-boats were operating against the Russian convoy route. There was a considerable increase in the number of ships attacked and twenty-two including seven tankers were torpedoed, of which six were sunk. Most casualties occurred in the East Indies area.

Our submarines in the MEDITERRANEAN report having torpedoed thirteen thousand tons of enemy shipping. During the week ending 6th May, six hundred and seventy eight ships were convoyed. Imports into the United Kingdom from ships in convoy for week ending 25th May were 621,000 tons including 218,000 tons of oil.

FRENCH NAVY. It is reported that STRASBOURG and PROVENCE are at TOULON fully effective. DUNKERQUE will not be ready for nine months. RICHELIEU at DAKAR has one gun of her main armament out of action. JEAN BART at CASARLANCA has only one turret mounted and is in low state of readiness for sea.

2. MILITARY

RUSSIA. The total of German divisions on the front, including FINLAND, is now one hundred and eighty-two.

BURMA. Our forces are operating north and west of MANDALAY and are withdrawing up the CHINDWON VALLEY towards KALEWA. AKYAB has been evacuated. The Chinese are resisting on the BURMA-CHINA Frontier.

3. AIR OPERATIONS

WESTERN FRONT. Day. Various military objectives in German occupied territory were bombed by Bostons and Hurricanes with Spitfire escorts. Heavy fire from A.A. defences was often experienced. Sweeps by fighters were also made. Night. Our bombing operations were curtailed by adverse weather on two nights and by a heavy sea-mining programme on another. Nevertheless, two hundred and ninety six tons of high explosives and two hundred and sixty four tons of incendiaries were dropped, the main objective being STUTTGART, but cloud and haze spoil the full effect of these attacks. HAMBURG was also raided once under similarly unfavourable conditions. Night intruders bombed thirteen different enemy aerodromes. An average of about sixty enemy bombers operated on three nights by way of "reprisal" raids on towns in coastal counties, these activities caused a noticeable reduction in German mine-laying and anti-shipping operations. It is estimated that during the period twenty-three thousand tons of enemy shipping was sunk or damaged by our aircraft off NORWAY and HOLLAND, 269 sea-mines were laid.

MALTA. The intensity of the air attacks died down, only two hundred and twenty bombers, sometimes with fighter escort attacked, some Italian aircraft took part in the raids. This decline, apart from losses, is probably due to withdrawal of some G.A.F. units from SICILY and also to the need for resting crews from whom almost has been demanded during a period of intense activity.

BURMA. Wellingtons bombed AKYAB after its occupation by the enemy.

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

AUGSBURG. Photographs 29th April show the main diesel engine shops damaged by several direct hits besides various other buildings forming part of the M.A.W. Factory.

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COLOGNE. Photographs on the same date show ten areas of damage, mostly caused by fire. The damage is such that the authorities can no longer clear away the debris quickly and have given up trying to hide it by erecting hoardings.

ROSTOCK. In the first two raids, the Heinkel Works received twelve direct hits by heavy bombs, work was going on at the time. Two engineering sheds caught fire and the walls of the largest assembly shop fell inwards destroying the aircraft on the lines. Five warehouses in the docks were burnt out and seven cranes fell into the dock.

KIEL. Photographs 3rd May show a direct hit on sheds in the German ship-building yards and two main shops in a wire cable factory completely gutted. On 16th February, a bomb fell on the assembly shed at the Marinewerft and killed most of the night shift there.

GENNEVILLERS. Photographs of 30th April show damage to the power station, a building in the Thomson-Houston factory gutted, direct hits on a large building near the Goodrich factory and a woodwork factory completely gutted. Other photographs taken since 27th April confirm damage to the Shell factory at MARQUISE, the docks at DUNKIRK where nine invasion barges were destroyed and others damaged to the railway station and a factory at ST. OMER, and show bombs bursting in the dispersal area at MORLAIX aerodrome, also on a factory and among industrial buildings at LILLE where it is reported that a barracks received direct hit and several Germans were killed.

2. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

Metropolitan Area. British. In the Air: Bombers 22, Fighters 31, Coastal 8, Army Co-operation 1. Total 62. Six fighter pilots are safe.

<u>Enemy</u>	<u>Destroyed</u>	<u>Probably Destroyed</u>	<u>Damaged</u>
Bombers	24	2	9
Fighters	26	24	17
Miscellaneous	3	Nil	Nil
TOTAL	53	26	26

Three of the bombers were destroyed by A.A. fire.

MIDDLE EAST (including MALTA)

<u>British</u>	<u>In the Air</u>	<u>On the Ground</u>
Bombers	2	Nil
Fighters	6	2
TOTAL	8	2

One pilot is safe.

<u>Enemy</u>	<u>Destroyed</u>	<u>Probably Destroyed</u>	<u>Damaged</u>
Bombers	6	Nil	11
Fighters	8	1	8
Miscellaneous	Nil	Nil	1
TOTAL	14	1	20

Seven of the aircraft were destroyed and six damaged by A.A.

FAR EAST

<u>British and Allied</u>	<u>In the Air</u>
Bombers	1
Fighters	10
TOTAL	11

<u>Enemy</u>	<u>Destroyed</u>	<u>Probably Destroyed</u>	<u>Damaged</u>
Bombers	Nil	3	Nil
Fighters	13	5	12
Miscellaneous	Nil	Nil	1
TOTAL	13	8	13

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NOTE: No account is taken of enemy aircraft destroyed on the ground in any theatre or of British Naval Aircraft casualties.

6. HOME SECURITY

Estimated civilian casualties for week ending six a.m. sixth. Killed three hundred and nineteen, seriously wounded 387, including killed at COWES 51, EXETER 139, NORWICH (one night) 50.



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

May 7, 1942

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

Dear Henry:

The attached is from the weekly general
directive of the British Political Warfare
Executive.

Sincerely,

Bill
William J. Donovan

Strategy.

a. Europe. The significance of the scale of our April air offensive, in that it is proof of the inadequacy of the Luftwaffe to protect the German War Machine, should be rubbed in. From now on Germany's increasing shortage in equipment of every kind and her growing inferiority in the East will handicap her war effort. Germany is already obliged to reduce her air offensive against Britain to Baedeker bombings and cut down the scale of the Malta attack. Because this patent truth can no longer be hidden from the German people, Hitler is apprehensive.

b. The Far East. Japan's probable intentions in our long-term propaganda line, are seen as: Conquest of Burma the extension of operations into North Eastern India, capture of New Guinea and Solomons, reduction of Corregedor, Southward and Eastward extension of operations in Fiji, Samoa New Caledonia, air raids on Ceylon and possible attempt to occupy the island, Air and Naval operations in Western Indian Ocean, and, in the event that a strategical course would make such a move desirable in Japan's interest, preparations for an attack on Russia.

c. The linking of the Eastern Theatre with the Western should be avoided, but so long as Madagascar leads, short-term modification of this is necessary. Madagascar must be linked with the battle of the Atlantic. A somewhat more prominent place will have to be taken by Far Eastern News generally.

Propaganda policy.

a. Both moral and physical results in Germany being produced by R.A.F. offensive. Germans are physically on the defensive in the West.

b. Poor effect on Italy was produced by Hitler's speech. Italian internal difficulties brought out even

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more strongly in Mussolini's address to the Prefects.

c. By giving a good deal of attention to France accentuate the war of nerves during the coming week. Give impression that there are many more raids to come and that Laval will not find it easy to collaborate with a country which itself is showing more signs of nervousness and which is constantly being attacked in the French territory it occupies. It is important to go all out in discrediting Laval both as a politician who allowed himself to be used by the Germans to occupy a position which is even more difficult than that of actual Quislings, and as a traitor.

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COORDINATOR OF INFORMATION

THE WAR THIS WEEK

April 30-May 7, 1942



Printed for the Board of Analysts

Copy No. 6

The Secretary of the Treasury

The Coordinator of Information**THE WAR THIS WEEK**

Following the recent accession of Laval, the British seized the initiative and struck Tuesday at Vichy-held Madagascar. With parachutists and commandos reported in the van of the attack, the British have captured the principal base at Diego Suarez and threaten the early conquest of the island, aiming above all to safeguard it against potential future use by the Axis. At the other end of the Indian Ocean the Japanese were fully capitalizing the successes of their newest offensive in Burma. With Lashio and Mandalay in their hands, they drove fresh spearheads northeast along the Burma Road, north toward Bhamo, and northwest toward India, and had virtually isolated China from all but air supply. To the southeast, developments in Melanesia clearly indicated the imminence of some further advance in the Solomon Islands and suggested that an even wider offensive in the Coral Sea area may be in the making.

In the west, German precautions in France and the Low Countries appeared to reflect no substantial anxiety concerning a "second front," despite the widespread publicity given the latter possibility in the press of the democracies. On the eastern front the Soviets continued to win victories by communiqué, but American military observers were inclined to discount these successes and to believe that the Germans are actually in the process of ironing out salients created by earlier Russian drives.

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The British Seize the Initiative in Madagascar

The British expedition against Diego Suarez, following President Roosevelt's prediction of measures to prevent further Axis use of French territory in any part of the world, emphasized again the determination of the United Nations to seize the initiative from their opponents. Threats of a Japanese move on Madagascar have been in the air since the fall of Singapore, and measures to forestall it were undertaken even before the Vichy visit of Admirals Abe and Nomura accentuated the danger, according to press reports.

The attacking forces struck directly for Madagascar's strongest fortified point—a naval base and military area, with a considerable garrison even in normal times. Geographically this northern tip of the island is practically isolated, save for a single none-too-adequate road down to Majunga, and thence inland to Tananarive, the capital. But capitulation of Diego Suarez would probably entail the collapse of resistance elsewhere and open the way for rapid penetration of the whole colony. The few thousand ill-equipped native and French troops can hardly resist long, and the possibilities of Japanese aid appear remote. Fifth column activities present no serious threat. The natives are unarmed, and disinclined to guerrilla fighting; the bulk of the 25,000 French residents are friendly; no serious interference will be offered by seventy Italians, five Germans, and two "problematical" Japanese—a hotel keeper and his wife.

Advantages of Holding Madagascar

The United Nations would gain decided advantages from a conquered and strongly held Madagascar. Most important, the danger of hostile use of the island would be removed; a critical threat to troops and supplies routed via the Cape of

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Good Hope to the Red Sea, the Persian Gulf, India and Australia would be neutralized.

Furthermore, the United Nations would possess a new strategic springboard, well situated in relation to the Middle and Far Eastern theatres of combat as a point of support for convoys, a base for submarines and destroyer patrols (the dry-dock at Diego Suarez can accommodate 10,000-ton cruisers), and a vantage point for aerial surveillance of the southern Indian Ocean and southeast Africa. Madagascar normally exports large quantities of agricultural and mineral products, particularly beef, coffee, graphite and mica. It is understood that she now has substantial accumulations of these products which will be available for the common effort as fast as ships can be found to carry them.

Difficulties of Occupation

Considerable local difficulties face a power which assumes responsibility for Madagascar by military occupation. These are not lessened by the publicly expressed determination to respect the status of the colony as French territory, ultimately to be restored to France. The chiefs of the administration are strongly collaborationist, and probably cannot be left in office. The economic situation is very bad, owing to shipping losses and the effects of eighteen months of British blockade. Trade has practically ceased, and there are acute shortages of all kinds of manufactured goods, construction materials, petroleum products, medicines, wheat flour, and condensed milk. Health conditions present a third major problem for an occupying force. Malaria is prevalent over the whole island, tuberculosis and syphilis are very widespread, and the microscopic jigger flea, which burrows under the toenail to lay its eggs, could by itself cripple an incautious army.

Potential Danger of a Break With Vichy

A larger peril is that the Vichy government might be drawn into full Axis belligerency, especially in the event of protracted fighting. If the occupation is completed by landing troops on Madagascar's insular dependencies in the Indian Ocean and the Mozambique Channel, not to mention the nearby independent colony of Reunion, the number of possible grievances will be multiplied. It is clear, however, that the United Nations face the chances of a break with open eyes. The United States has declared that it will not hesitate to send troops or ships to Madagascar, should such action be desirable in the common cause, and that it will regard any warlike act against either Great Britain or the United States as an attack upon the United Nations as a whole. War with one power means war with all. Laval has chosen to place a minimal interpretation on this formula, and to regard local resistance in Madagascar as falling outside the category of "warlike acts." Meanwhile it is reported that the British did not consult the Free French in advance and that General de Gaulle's headquarters have evinced notable chagrin and disappointment in this connection.

Defeat in Burma

The Japanese are moving swiftly to rout the last Allied resistance in Burma. Chinese and British forces, defeated and separated, are retreating on three fronts—toward India, toward northern Burma, and into China itself. Imperial Headquarters at Tokyo claims also the capture of the airfield at Akyab on the western Burmese coast, only 300 air-line miles from Calcutta, but the British have offered no confirmation. This denouement of the Burmese campaign, which has now developed new threats to both China and India, has led Generalissimo Chiang Kai-shek once again

to warn his people of the difficulties which lie ahead and of the possibility of further prolongation of the war.

In the Burmese campaign the Japanese appear to have taken brilliant advantage not only of superior forces and equipment, but also of native aid. Fifth columnists captured Lashio some hours prior to the actual occupation of the town by Japanese forces, according to reliable advices received here. Four Thai divisions are said to have participated with the Japanese in the attack, and native Burmese were active against the Allies throughout the campaign. In addition to the Thai divisions, eight Japanese divisions and two motorized regiments are estimated to be in action on the Burmese front, supported by some 400 planes. Upwards of 250 light and medium tanks also are said to be in use.

The Advance on China

The strongest Japanese drive appears to be along the Burma road, where the invaders are reported to have reached and passed Wanting, which lies beyond the Chinese border in Yunnan Province. The nature of this threat to China is difficult to evaluate, but it hardly seems likely that the Japanese can extend their operations far into China at present. Beyond Wanting, the terrain becomes very difficult, and the Burma road climbs over rugged country to elevations as high as 8,430 feet. Various Chinese in Washington seem to be convinced that southwest China is not the danger spot for a Japanese offensive. The real threat, they say, still lies in the Yangtze valley area of central China, and particularly in the region of Changsha, which the Japanese have already three times assaulted.

The Japanese may intend, however, to proceed as far as Lungling. Their objectives here would be two: the substantial isolation of China and destruction of lend-lease sup-

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plies cached along the Burma road. Although depot facilities between Lashio and Kunming are poor, the Chinese apparently have transferred some supplies from Lashio to this region.

The Isolation of China

At Lungling, about 20 miles southwest of the point where the Burma road crosses the Salween River, there is a junction with a route northward to Myitkyina, thence to Fort Hertz, from which a road is now being built over the mountains to Ledo in Assam. Japanese capture of Lungling would put an end even to the faint hope of supplying China over this new route to the Burma road.

Another supply route, known as the India road, is said to be under construction. Starting at Ledo, it uses the route to Fort Hertz, then runs due east to Sichang in China and from there another 600 miles to Chungking. News despatches from Chungking say that "350,000 laborers" are now working on this road. But it crosses very difficult terrain and several high passes, including one of more than 13,000 feet. It is estimated that at best this road could not be completed for at least two years.

The most effective method of implementing President Roosevelt's recent promise to maintain aid to China appears, therefore, to depend upon the further development of a traffic in airborne goods. Japanese air bases in northern Burma might also make this difficult. But the fact that, before the fall of Hongkong, a regular air freight service was maintained over Japanese occupied territory between Hongkong and Chungking indicates that freight service of this kind is at least possible.

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Withdrawal to India

A third Japanese drive is directed against British and Indian troops retreating along the Chindwin River toward Kalewa. From Kalewa there is a trail across the great Arakan Yoma range to Chittagong in India. The Japanese are reported to be moving up the Chindwin River in barges. Whether they would attempt to follow the retreating Allied forces across the Arakan Yoma range is again open to question. But these mountains, formerly thought to be impassable for armies, are probably no more so than those which lie between eastern Burma and Thailand, and over which the Japanese have moved their tanks to capture Lashio. Refugees from Burma, of whom there are reported to be some 80,000, have been filtering into India over the mountains at the rate of a thousand or more a day for the past several weeks. It is difficult to believe that Japanese troops could not do the same.

It must also be borne in mind, however, that the region on the windward side of these mountains is one of the rainiest in the world during the monsoon season now approaching. At Cherra Punji in India, some 200-odd miles north of Chittagong, the rainfall sometimes reaches 425 inches a year—with one exception, the heaviest in the world.

The Japanese Move Forward in Melanesia

Current Japanese naval and air activity in the Carolines and Melanesia now suggests the beginning of a forward movement in the Solomon Islands, with an offensive on a large scale in the Coral Sea area not to be excluded. Since the withdrawal of their naval concentration from the Bay of Bengal in mid-April, the Japanese have shifted the focus of their naval activities to the Southern Mandates—New Britain area. It is believed that most of the heavy units returning from the Indian Ocean proceeded to home waters for overhaul and

repairs. But at least two heavy cruisers, supported by destroyers and submarines and later reinforced by the new aircraft carrier *Ryukaku*, sailed to the vicinity of Truk in the Carolines. An attempt to occupy Tulagi Harbor in the Solomons, which continues to be the object of Japanese bombing attacks, is looked upon as imminent.

The Japanese may soon be able to reinforce their troops in this area from units released by the fall of the forts in Manila bay. After a pounding from Japanese heavy artillery, firing from the heights of Bataan, Corregidor's defenses have given way, and this key fort has finally fallen. Terms for the surrender of other forts in the bay are being arranged. Resistance apparently is continuing, however, on Mindanao, Cebu, and Panay and even in Northern Luzon, coming chiefly from small, scattered units and guerrillas. How far the Japanese intend to mop up in the Philippines at this time is a matter of conjecture.

Reconnaissance in New Guinea

In the Markham Valley of Northeast New Guinea, where their troops were flooded out several weeks ago by heavy rains, the Japanese have again penetrated inland. Observers on the scene, however, apparently do not anticipate an immediate attack on Port Moresby overland via the Markham Valley, but suggest rather that the Japanese are seeking to disperse their airfields. Numerous commercial fields exist inland, which in peacetime were used for air transport to the New Guinea gold fields.

The anxiety of the Japanese, reflected in their search for dispersal fields, is well grounded. On two successive days, April 29 and 30, Allied fliers were able to bomb and machine gun Japanese aircraft lined up on the ground at Lae, destroying or damaging some 50 planes.

Russo-Japanese Relations Improve?

Japanese relations with Russia are improving, while those with Germany are getting worse, in the opinion of the French ambassador in Tokyo, whose views are to be received with some reserve since in mid-March he regarded a Japanese attack on Siberia as imminent (*The War This Week*, March 19-26, pp. 6-7). Although the extreme militarists still favor war and the betterment in relations may even be a Japanese ruse to deceive the Russians, the ambassador thinks that cooler heads in Japan will restrain the others until the results of the expected German offensive against Russia become apparent.

The following may be straws in the wind: General Tatekawa, ex-ambassador to Russia, has made remarks implying praise of Russia's war effort, and the Japanese government again permits and even encourages its officials to travel by the Trans-Siberian Railroad. Moreover, there were no indications of military movements on either side of the Manchurian frontier during the past week. A Japanese warning to the Soviets that additional landings of American bombers in Siberia would endanger Russo-Japanese relations was to be expected in the circumstances.

Non-violence in India

On May 2 the Working Committee of the Indian National Congress, by a vote of 176 to 4, adopted a measure calling for non-violent non-cooperation as the means of resisting a possible Japanese invasion. The motion precludes any support of the British program of military resistance, although the Congress states that it will put no hindrance in the way of that program. It was at the instance of Mahatma Gandhi that the Congress acted—Gandhi, who less than two weeks before had protested against the growing American military

strength in India. The motion represents, for the present at least, the return of Gandhi to leadership, and the temporary eclipse of Nehru.

The Cripps mission had left the Congress a prey to internal dissension. Nehru and Azad, president of the Congress, favored full resistance to Japan. Rajagopalachariar, right-wing leader from Madras, while also favoring active resistance, differed from the other Congress leaders in wishing to collaborate with the Moslem League by establishing separate Hindu and Moslem states. His resignation from the Congress preceded by a few days the vote in favor of non-violence.

The Philosophy of Non-Violence

Non-violent non-cooperation is a technique of revolt developed by Gandhi in South Africa before the First World War. He took it to India in 1919 to use against the British, and it was the weapon of his widespread campaign during 1919-1922. Its philosophy is epitomized in the word *satyagraha*—somewhat loosely translated by Gandhi as "soul force." Literally it means "stubborn insistence (*agraha*) upon the truth (*satya*)." Truth, in Gandhi's view, as in that of traditional Hinduism, is a metaphysical force, with absolute value, which can operate to produce concrete results in the physical world. A true cause, promoted by sincere advocates, themselves strictly devoted to truth in every respect, cannot fail. Ethically, truth abhors the injury of living creatures: it is the antithesis of violence.

In the case of modern India, Britain as its sovereign has appeared to Gandhi to represent untruth, to be "satanic": Britain took and enslaved the country; it holds India by violence. For this reason, Gandhi has felt himself called on to lead a movement to drive out the British by non-violence. For the same reason, he opposed active cooperation in the

present war, and withdrew from the leadership of the Congress when the latter offered in the summer of 1940 to support the British war effort. Convinced that the Japanese, as military aggressors, are the agents of evil, Gandhi now has induced the Congress to oppose them also with *satyagraha*.

Non-Violence in Action

The action of the Working Committee is not pro-Japanese. Neither does it imply merely passive resistance. It may mean such active forms of opposition as refusal to man the railways, abandonment of city services, mass demonstrations against taxes—all efforts to wear down the endurance of the aggressors. Its success is far from certain, but the only other way of mobilizing the civilian population seems to be guerrilla warfare, and for this the people have no training.

Fresh Speculation on Laval

An element of mystery continues to surround the intentions of Pierre Laval. General de Gaulle believes that he may for the present lull the French people into a false sense of security (apathetic reactions to Laval's return to power have been reported in various French circles). The General also believes that later Laval will perhaps place the French fleet indirectly at the service of the Axis in operations against Syria.

In this same connection, another observer points out that the cabinet is filled with second rate men (see Appendix I) and is really to be viewed as a half-way house on the road to full collaboration. These second raters, some of them friends of Pétain, have been chosen as a transitional cloak under which Laval can act while he is establishing full control in France. Meanwhile the Germans will make concessions to

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Laval only as he demonstrates that he is their man, according to this argument, and they may then drop him in turn when he has served their purpose.

Various sources now picture Laval's appointment as a grudging *pis aller* on the part of Pétain: if the Marshal had refused to yield, Hitler threatened to install a *Gauleiter* in France and to institute military control (and perhaps total occupation) of the unoccupied zone. In any event the Marshal recently defended the appointment by declaring that, although Laval was somewhat more favorable to the Germans than he (Pétain), the new premier would give no military aid to the Nazis.

German Anxiety in the West?

On the eve of Hitler's expected offensive in the east, various developments and reports reveal German anxiety concerning the military position in the west, according to some observers. It is widely believed that the Nazis sought in the creation of the Laval regime security in their rear. The popular demand in Britain for a "second front" and the recent conversations of high Allied strategists are believed in some quarters to be the source of uneasiness in German counsels. An unconfirmed report has Field Marshal von Rundstedt appointed commander of the German Army of Occupation in the west, and it is insisted that Hitler would scarcely waste Von Rundstedt's talents on an inactive front.

On the other hand, the present German military position in the west, as indicated by the accompanying map, suggests no great anxiety, either in terms of number or disposition of ground troops or of aircraft. Some ten divisions hold the coastal defense zone from the Gulf of St. Malo to Lille. Three further divisions are stationed in the Low Countries. Altogether in occupied France and the Low Countries there are

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some 30 divisions (one armored). The strength of each division is estimated to be considerably less than that of divisions operating on the Eastern Front, where more overhead troops are required, so that the total of the 30 divisions may not be more than 375,000 men. Some observers, moreover, believe that the total number of divisions may be 27 rather than 30, but with an additional armored division in training in the vicinity of Paris.

The Factor of Rapid Reinforcement

The current situation could change almost overnight, however, since it is estimated that ground reinforcements leaving central Germany could be set down on the French coast within 72 hours. With adequate bases and facilities (which they are believed to possess), and assuming the availability of operational units in central Germany and elsewhere, the Germans could probably double their air force in 24 hours, according to military observers.

Troops stationed near Cherbourg have been observed recently undergoing intensive training to resist possible landings, and preparations for defense along the entire French coast continue. But there is no evidence of new Nazi invasion plans against the British Isles, and certain American observers believe that Germany will be content for the present to maintain a strong defensive position. This view is perhaps confirmed by a report that Rhine barges, previously requisitioned and adapted for use in an invasion, are being returned to their Dutch owners.

However confident the Germans may be about the situation in the west, it is *not* true that they are using only third rate troops to garrison their defenses in that area. It is a fact that the troops include older men and that they are not the best in the German Army. But they are veteran fighters

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with battle experience gained in the present war, and the divisions include a considerable leavening of younger men. Reports that these troops are of a distinctly inferior quality may arise in some instances from contacts not with regular units but with *Landeschützen*. These troops are veterans of the First World War, and the Germans are using about 20 battalions of them in France, primarily for guard duty in the interior.

Libyan Alternatives

In the Western Desert observers point out that a shortage of artillery and anti-tank equipment may force Marshal Rommel to postpone until autumn any planned offensive. As the hot summer months approach, the problem of water and of reasonably comfortable bivouacs may well be the chief consideration in the Libyan theater. Apparently Rommel's present positions at Jebel el Achdar are hilly, comparatively well watered, and much cooler than those of the British.

Yet an Axis attack is not entirely out of the question. The virtual neutralization of Malta has permitted far more Axis convoys to get through to Tripoli than was the case last autumn and winter. Considerable reinforcement of Marshal Rommel's army is, then, theoretically possible. The extent of this reinforcement will largely depend on how much armored equipment the Nazis think they can spare from the Russian front.

Were Rommel to receive such additional strength, he could probably take the offensive at any time this summer. Highly competent observers suggest that even in the most intense heat mechanized warfare is possible on the Libyan front. The windy season, which lasts for a two-month period sometime between April and June, even offers certain advantages:

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dust storms lasting five or six days are useful for concealing secret maneuvers from the enemy.

The Germans Straighten Their Line

A Nazi effort to wipe out the chief salients established by the Soviets last winter—thereby straightening the German lines in preparation for concerted offensive action—has characterized recent operations on the Russian front, according to well-informed American military opinion. Of the three great Soviet salients, the Nazis have doubtless already eliminated the one farthest south, toward Dnepropetrovsk. After two weeks of German claims, the Russians have finally admitted fighting around Izum, far to the east of their extreme penetration last winter.

The middle salient, below Smolensk, where Soviet parties last February pushed as far as Dorogobuzh, may also have disappeared. Here the Nazis claim to be in Sukhinichi, effectually pinching off the area of Russian advance, but this claim still awaits Soviet confirmation. The final salient, the northern one around Staraya Russa, may still be intact. It is of some significance, however, that the Russians have now admitted for the first time that the Germans are occupying a number of towns south and east of Leningrad.

As the Nazi lines straightened, the German armies were apparently attempting to clear the areas behind their forward positions—in order to obtain increased mobility for a coming offensive. Where such an attack might come was still anybody's guess. So far as weather was concerned, the ground was dry in the south, in the center it was still muddy, while in the north the ice was breaking up.

Stalin's Ultimate Aims

Despite its present position of extreme peril, the Soviet Government is apparently unshaken in its desire to regain and permanently hold the territory included in its boundaries of June, 1941. In his May Day order, Stalin eschewed any desire for "foreign" conquests. But his specific enumeration of the peoples that the Soviets intend to liberate gives some notion of his ultimate aims: "We want to free our brother Ukrainians, Moldavians, White Russians, Lithuanians, Latvians, Esthonians and Karelians from the insults to which they have been subjected by the German Fascist beasts."

Hitler's Speech Again

Optimistic reports interpreting Hitler's recent speech continue to arrive. Gothenburg editors dub it privately as the rehearsal of a swan song. The Swedish ambassador at Ankara mentions military tangles and sagging morale. "Hitler's uneasiness" is another phrase which occurs, and a Swiss Consul mentions the speech along with other factors foreshadowing a "threatened crisis."

On the other hand, certain observers here continue to regard the speech as one of Hitler's shrewdest and most carefully considered utterances. They point out that the speech aims at opposite effects at home and abroad, and is to be understood in terms of the two intellectual climates—authoritarian and democratic—to which it was addressed.

At home, it was a precautionary warning to all Germans, aiming not to weaken but to strengthen morale in the face of the arduous spring and summer ahead. The promise of further hardships and the threat of harsh treatment for recalcitrants need not have a demoralizing effect on the Germans. The Nazi state normally acts by spreading terror, and if Hitler sought to warn the widest possible German

audience against any derelictions of duty or half-hearted support of the war in Russia, he could reasonably assume a new and severe "power"—even though he already possessed it.

Abroad Hitler must have known his remarks would be interpreted as a sign of weakening morale, according to these observers. Presumably he aimed at this effect, both in America, where his objective is to retard the war effort and to create confusion, and in England, where he also wishes to awaken doubts as to the wisdom of British policy in carrying on the war. This he did by assuring the British that they are bound to lose the war, even if they lose it only to Russia and the United States.

Azis Air Strategy: The Value of Interior Lines

Recent air developments have emphasized the Axis advantage of speedy concentration offered by interior lines, in the opinion of an American air expert. In the case of the Germans, who have not yet revealed their full reserves, this factor is still of great importance. The Japanese, on the other hand, as a result of their far extended lines, may now be in a considerably less favorable position than they were a few weeks ago.

Plane production figures running to many thousands have often given a misleading impression as to the number of aircraft needed to carry out a given mission: a relatively small number, if well organized and well supported, can accomplish seemingly disproportionate results. For instance, in their southward drive on the Indies, the Japanese used in all about 2,500 planes, 1,500 of which were operational at any given time. Despite their reckless expenditure of aircraft in specific actions, they exercised considerable economy in their dispositions of strength. For example, by establishing

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landing stages about 200 miles apart, they probably cut down operational losses, as compared with combat losses, to the surprisingly low ratio of 1:1.

From a central air base at Bangkok, the Japanese were able to despatch planes quickly where they were needed. Against them, the Allies, desperately outnumbered, lost the greater part of their own aircraft on the ground. Eighteen American B-17's in Java, for instance, after sinking 45 transports and 11 naval vessels in the battle of Macassar Straits, finally succumbed to a Japanese attack on their landing fields. And even when the Allies were able to ship in new planes over long and dangerous transport routes, the necessity of guarding both Australia and India kept their air strength dispersed and divided.

Significance of the Attack on Ceylon

Then came the Japanese air attack on Ceylon. It seems likely that, owing to faulty intelligence, the attackers were surprised at the resistance they met. After losing around 70 planes shot down or damaged (the decks of three carriers were shot clean), they broke off the attack, and withdrew their heavy naval units from the Bay of Bengal.

This engagement proved what the B-17's in Java and the AVG in Burma had already shown—that the Japanese have never yet won an air-battle against properly equipped and properly organized opposition. The AVG has outscored its enemies by more than 20 to 1. American raids on Japan's bases at Rabaul, Salamaua, and Lae have been almost uniformly successful—and virtually without losses for the attackers. At the present time the American naval air arm is successfully contesting Japanese aerial and naval expansion southward through the Solomons. Faced with this new Allied strength, the Japanese may well hesitate to launch an

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all-out air offensive against India, Australia, or even New Caledonia.

There remains the possibility that Japan may swing on her western pivot in Burma and go into China. But this again might cost Japan more planes than she can afford to spend. And in Siberia the undetermined strength of potential Russian resistance presents a threat which the Japanese might very well hesitate to encounter.

The Factor of Reserves

Our observer concludes that Japan has no substantial air reserves of her own. Nor is it likely that by any gigantic pincers movement the German and Japanese air fleets would be able to join forces in the Middle East. Formidable physical barriers would doubtless prevent any such long-distance replenishment of Japan's reserves.

Turning toward Europe, we find that German handling of the problem of reserves has been extremely effective. When, for example, Marshal Rommel found himself hard-pressed by the British in Libya, he obtained an impressive number of additional planes within about two days. But the German air force in North Africa is merely an outpost. The Luftwaffe as a whole is organized in depth to a distance of roughly 1500 miles from circumference to center, and the central air reserve is well under cover.

Dispositions in Europe

In Russia we can distinguish three main areas of German air concentration. To the south, in the Crimea, our observer reports increasing Nazi strength. Such a concentration, he adds, does not necessarily presage an offensive toward the Caucasus. A second area of strength is in the center, facing

the considerable Russian air mass in the Moscow region. Here the immediate purpose of the Nazis is apparently to attack the Russian railroads and blast the Soviet troops out of their trains into the mud. To the north, in Finland, the growing Nazi air concentration threatens the periodic interdiction of American supplies to Russia. The lines of communication from Murmansk—running laterally to the disposition of the German air force—are particularly vulnerable to attack, the lines from Archangel less so.

In general, however, the Germans—favored by interior lines—have not yet revealed their full strength in Europe. The day-time fighter sweeps of the British, for example, have not forced the Nazis to show their hand. Fundamentally, our observer concludes, Hitler must regard the building of American air strength in the British Isles, and not the Russian land mass before Moscow, as the main threat to his system. The dispersal of American air strength suits his purposes well, and he may be expected to encourage it and to keep the United Nations guessing as long as he can.

Norwegian Resistance Grows

With the Quisling regime in conflict with practically all the clergy, teachers, and lawyers in Norway, current Swedish newspaper reports picture a spread of the spirit of revolt in that country. Many teachers have been arrested, thrown into concentration camps, subjected to forced labor. On the whole, opposition has forced the Quisling regime to desist from its attempts to indoctrinate these groups, and persecutions have served only to unite the people against National Socialism. National Socialist agitators declare that the Norwegian professional classes are attempting to create chaos to facilitate eventual military invasion by the Allies.

In the last two years about 20 percent of the fishing fleet,

including the biggest and best boats, has disappeared, taking refugees to the British Isles. Quisling has attempted to stop this exodus with regulations of great severity: recently 18 such refugees were caught and then selected for execution in reprisal for the assassination of two Gestapo agents.

Meanwhile, the Germans have been rapidly strengthening their system of communications along the Norwegian coast. They have completed the coastal highway all the way to Kirkenes, near Murmansk. Reports from Stockholm indicate that they have already extended the coastal railway from Namsos to Mo on the Rana fjord, that they expect to complete the previously projected stretch to Bodø by the autumn of 1943, and that they are using Russian prisoners of war to construct the final link from Bodø through Narvik to Kirkenes, which will not be finished for at least two years.

A Democratic Victory in Colombia

Democratic forces won a fresh victory when Alfonso López was chosen president of Colombia in the elections of May 3 by a majority of 200,000 votes out of a total of about 1,100,000. His opponent, Carlos Arango Vélez, is, like López, a member of the Liberal Party. But, whereas the former drew his support from the right wing of that party and from the Conservative Party (headed by pro-Falangist, pro-Nazi Laureano Gómez), López found his constituents among the middle and working classes. He also had the support of President Eduardo Santos. The election, which was almost entirely free from violence, reflected the pro-democratic convictions of the Colombian people, it is said. In foreign policy López favors an aggressive "international democracy" and American solidarity against the Axis forces.

The Navy Takes Jurisdiction of Venezuelan Tankers

To facilitate protection against further submarine depredations, it is reported that the United States Navy has just taken jurisdiction of the tanker fleet serving Venezuelan oil fields. Practically all the crude oil produced in the Maracaibo fields is transported by shallow-draught tankers to the Dutch islands of Curaçao and Aruba for refining. Between February 16 and March 15 of this year Axis submarine activities in these waters had reduced the daily average shipments out of Lake Maracaibo and other Venezuelan ports by a large percentage.

The Navy has now ordered that the tanker fleet operate at less than 50 percent of normal. This rate of operation signifies an annual loss of revenue for Venezuela of nearly two million dollars, and will also necessitate a substantial curtailment in the personnel of the oil companies. Both the Standard and Gulf Oil Companies, however, have recently agreed to bridge this loss in revenue, which should be only temporary, by non-interest bearing loans to the Venezuelan treasury, but they have not yet made provision for their own unemployed workers.

APPENDIX I

THE CHARACTER OF LAVAL'S CABINET

With the final constitution of the Laval ministry, it has become possible to make certain generalizations about its composition. Noteworthy are the small number of holdovers from the previous regime—only five—and the fact that only four departments of the government besides those directed by Laval himself carry full ministerial rank—an obvious effort to leave a maximum of authority in the hands of the Chief of the Government. Furthermore, French reactionary and fascist groups are well represented, and the powerful Worms et Cie, banking and industrial trust controlling a large share of the French economy, while less important numerically than in the previous cabinet, still retains a considerable representation. Finally the ministry is full of men of relative youth and inexperience—men who have recently come up through the ranks, and who now for the first time attain cabinet rank.

Brief biographical details follow:

Lucien Romier: minister of state without portfolio attached to Marshal Pétain. Editor of the conservative daily *Le Figaro* and something of an authority on sixteenth century France, Romier is a man of considerable intellectual distinction, an intimate friend of Pétain, and probably less collaborationist than the majority of the cabinet.

Joseph Barthélemy: minister of justice. A former deputy and one-time French delegate to the League of Nations, Barthélemy is a large landed proprietor, with views which may be described as feudal agrarian. He is a noted jurist, and like Romier, a friend of Pétain and not an outright collaborationist.

Pierre Cathala: minister of finance—one of Laval's oldest political associates, having served with him in his ministry of 1931, and in the Tardieu ministries of 1930 and 1932.

Jacques Leroy-Ladurie: minister of agriculture and supply—a large conservative landowner, who wields the preponderant influence in the National Federation of Agriculture. His brother, Gabriel, is a guiding figure in the Banque Worms.

Abel Bonnard: minister of national education—a poet and member of the Academy, for some time an ardent exponent of collaboration. He has supported Bonapartist claims to the French throne, and has ridiculed Anglo-Saxon civilization.

General Eugène Bridoux: minister of war. As Pétain's military delegate at Paris on the commission discussing armistice problems with the Germans, General Bridoux has assisted Fernand de Brinon, a notorious collaborationist.

Admiral Paul Auphan: secretary of state for the navy—one of the youngest admirals in the navy, a Darlan man, whose political opinions have been variously reported as "pro-Ally" and definitely "anti-American."

General Jean Jennequin: secretary of state for air—a daring air leader in 1940, and subsequently commander of the French air force in Syria at the time of the British and Free French attack.

Hubert Lagardelle: secretary of state for labor—a personal friend of Mussolini, who helped draft Pétain's labor charter.

Jean Bichelonne: secretary of state for industrial production—a mining engineer with connections in the French steel industry and the Dutch coal industry. He is a collaborationist and a great admirer of German efficiency.

Robert Gibral: secretary of state for communications—a young man, previously director of the electricity and communications secretariat.

Max Bonnafous: secretary of state for agriculture and supplies. Graduate of the Ecole Normale Supérieure, a socialist and editor of the works of Jaures, Bonnafous has been prefect of Bouches-du-Rhône and is said to admire autarchy and authoritarian government.

Jules Brevie: secretary of state for colonies—formerly resident-general in Indochina, and an expert on French West African problems. He has instructed all French colonial governors to organize a steadfast defense of the empire.

Dr. Raymond Grasset: secretary of state for family and health—departmental leader for Pétain's National Veterans Legion and a long-time neighbor of Laval.

Paul Marion: secretary of state for information—an amateur economist who has been associated with a number of the new political parties in France, notably Doriot's fascist Parti Populaire Français.

The following are secretaries of state attached to Laval:

Count Fernand de Brinon: The scion of a wealthy family with an entree into high German circles, de Brinon was effective head of the Comité France-Allemagne, the most active of the pro-German groups of the pre-war period. The author of several articles for official Nazi organs expressing admiration for the policies of Hitler, he was one of the principal engineers of the Franco-German trade agreement signed after Munich, and in the spring of 1939 served as Bonnet's personal agent to Goering. Since the fall of France he has been Pétain's ambassador to the Germans at Paris, at which post he now remains.

Admiral René Platon: A follower of Darlan, under whom he served as under-secretary for the colonies.

Jacques Benoist-Méchin: An outstanding pro-German and the author of the leading French book on the Reichswehr, Benoist-Méchin was confined to a prison camp by the French government for a time during the present war. On the fall of France, Abetz, German representative in Paris, obtained his release. An ardent collaborationist, he became secretary of state under Pétain, serving as intermediary between Vichy and the Germans in Paris. It was he who first conceived the idea of transferring to the Invalides the ashes of Napoleon's son.

Jacques Guérard: secretary-general attached to Laval—formerly confidential secretary to Paul Baudouin, well known defeatist of the Armistice period, during the latter's tenure of the ministry of foreign affairs.

Robert Bouasquet: secretary-general of police—a young man, previously prefect of the Department of the Marne, in occupied France.

Georges Hilaire: secretary-general of administration in the ministry of the interior—another young man, also a prefect in occupied France (Department of the Aube).

Jacques Barnaud: delegate-general for Franco-German economic relations—an able, cultured man, formerly one of the economic advisers to the Blum government. Deeply interested in Catholic theology, he apparently believes it possible to establish a Catholic totalitarian Europe. He is a partner and leading figure in the Banque Worms.

Joseph Pascaud: general commissioner for sports. No information available.

APPENDIX II

THE ZONES OF OCCUPIED FRANCE

Since the Armistice the portion of metropolitan France occupied by the Germans has been divided into at least seven different zones, each with special regulations of its own controlling the movement of Frenchmen and foreigners. At present, however, there appear to be only three zones which have any political or military importance: the forbidden zone on the north and east, the coastal zone, and the maritime zone (see accompanying map).

The coastal zone includes the Atlantic and Channel coast of France from the Spanish frontier to the forbidden zone in the northeast. Over most of its length it is a strip of territory about nineteen miles (thirty kilometers) wide, but the boundary line cuts much farther inland behind the larger peninsulas. This zone is obviously a region of possible combat, and the German military authorities aim to control all movement and residence there. Since October 20, 1941, entrance into the zone has been forbidden to all persons except those whose principal residence is there, and even residents must have permits from the commander of the local military district in order to enter or remain in the zone. No newcomers are allowed to establish residence there.

The forbidden zone includes the departments along the northeastern frontier contiguous with Belgium, Germany, and Switzerland, and parts of the second row of departments farther from the border. The return of refugees to this zone is absolutely forbidden, except to the Departments of the Moselle, Bas-Rhin, and Haut-Rhin, which compose Alsace-Lorraine and have been annexed outright to Germany. All traffic between this zone and the rest of France is closely restricted. The forbidden zone is served by important railroads leading from the coast to Germany, and it includes some of the most highly developed industrial districts of the country and has the principal French deposits of iron ore, coal, and potash, which, with the sole exception of bauxite, are France's only important mineral resources.

The Germans originally explained their special control over this region as necessitated by heavy war damage, the difficulty of provisioning the area, the danger of British air-raids, and strategic considerations. There is evidence now, however, which indicates that they intend to annex this zone, or at least a large part of it, to Germany. French control has been almost obliterated by barring entrance into the zone to officials appointed to posts there by the French Government. The refusal to allow former residents who left the region during hostilities to return to their homes, and the intensive recruiting of French laborers for work in Germany suggests an attempt to depopulate the area of Frenchmen. A German agricultural and colonizing society has taken over the cultivation of land owned by refugees and is apparently preparing eventually to settle Germans on that land. After the Armistice there appeared in Germany several books and articles in National Socialist publications seeking to justify the extension of the

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German frontier westward to include much of eastern France, which, it was maintained, is geographically and culturally part of Germany.

The maritime zone is a continuation of the coastal zone into the forbidden zone. It is an especially restricted combat area, but the particular regulations applying there are not known.

In unoccupied France the only zone to be distinguished is that composed of the few narrow strips of territory along the Franco-Italian frontier which are occupied by the Italians, and which were held by their troops at the time the Armistice went into effect.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 7, 1942

TO Secretary Morgenthau
FROM Mr. Kamarok
Subject: Survey of Military Situation

Axis Campaign Plans

According to British analysis, the following are the Axis plans:

A. Russia

Overwhelming evidence indicates that the next major German operation will be an attempt to defeat the Russian Army and obtain Caucasian oil. The offensive will probably start late in May or early June. The recent Russian operations have been designed to interfere with the German preparations and so postpone the attack and reduce its force. It is over-optimistic to assume that they have had any large effect.

B. Libya

There is little probability of an offensive by Rommel in the near future.

C. Japan

Since the date of the reported increase in Japanese forces in Manchuria is uncertain, it is still not possible to make any deductions as to Japanese intentions towards Russia.

The Japanese are continuing to build up their concentrations in the southern mandated islands. This activity would indicate a Japanese attempt at cutting the American supply route to Australia. (Our Military Intelligence states that the Japanese have several aircraft carriers, a battleship, and about twenty transports now in the New Guinea and New Britain-Solomon Island area. The United

States has several task forces deployed to meet this expected assault. Our main fleet, which formerly was in this area, has recently been moved elsewhere.)

(U.K. Operations Report, April 23 - 30, 1942;
U.S. Military Intelligence Information, May 6, 1942)

Air Operations

As nearly as it can be made out, the German first-line air fleets are disposed as follows:

Western Europe	1,000
Mediterranean area	1,000
Russian front	2,500
Reserve in Germany	<u>1,000</u>

Total 5,500

(The total of 5,500 is 1,000 greater than the British estimate of the German first-line strength.)

(U.S. Military Intelligence Information, May 6, 1942)

Later information on the R.A.F. bombing attack on Luebeck, the Baltic port, in March, gives more indication of the large extent of the damage done. A complete embargo on the dispatch of goods via Luebeck was imposed for twenty-one days after the bombing attack. 42,000 people (about one-third of the population) were made homeless.

The R.A.F. has been almost completely successful in closing the Strait of Dover to enemy shipping. During March, only five enemy merchant ships of any size tried to pass through the Strait. One was sunk and a large tanker was seriously damaged and later beached.

(U.K. Operations Report, April 23 - 30 , 1942)

Atlantic

The main U-boat concentration is still off the coasts of the United States in the Atlantic and in the Caribbean. Some Italian submarines are operating off Brazil and Freetown, Africa.

(U.K. Operations Report, April 23 - 30, 1942)

Pacific

Australian and Dutch troops are still maintaining guerrilla operations against the Japanese in Timor.

A new Japanese aircraft carrier has just joined the fleet, but whether she is a converted merchantman or regular aircraft carrier is still uncertain.

(U.K. Operations Report, April 23 - 30, 1942;
May 5, 1942)