DIARY

Book 637

May 26-27, 1943

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May 26, 1943
10:27 A. M.

HMJr: Hello.

Operator: Governor Lehman.

HMJr: Hello. Hello.

Gov. Herbert Lehman: Hello, Henry. How are you?

HMJr: I'm all right, Herbert.

L: How is Ellie?

HMJr: She had a good night.

L: Good. I know the - the night before last wasn't so good....

HMJr: No....

L: ....I understand.

HMJr: ....but last night was better.

L: Good.

HMJr: Herbert?

L: Yes.

HMJr: Your - there's a meeting of the Budget, I think, at two-thirty.

L: That's right.

HMJr: And if you could find some way to - to see Harry White, I think he could be helpful to you.

L: I'm sure - (laughs) I was just trying to get him on the phone this minute....

HMJr: Oh, you have?

L: ....as a matter of fact.

HMJr: Because he was at the house last night and I gave him some of the background....

L: Uh huh.

HMJr: ....and he said, "If Governor Lehman had only told me last time I could have been much more helpful because I didn't know all the new answers."

L: Yeah. Well, I was just trying to get him. Have you had the chance in reading the memorandum which he - he's going to be submitting?

HMJr: Yeah.

L: Well, of course, that....

HMJr: Yeah.

L: ....that just....

HMJr: Well, I....

L: ....isn't a coordinating committee; that's an absolute operating committee.

HMJr: Well, Harry's very much opposed to it and I think he could be helpful to you.

L: All right. I'll - I'll get in touch with him. I'm trying to get him.

HMJr: All right.

L: But if - if this thing - if this thing went through....

HMJr: Yeah.

L: ....why, the department would take over operations for every one of the agencies....

HMJr: Well, Herbert.....

L: ....everything.

HMJr: ....what happened to the letter - the last letter the President signed?

L: To me?

HMJr: Yes.

L: Well, apparently he - he signed another one to the - to the Secretary.

HMJr: No, but you told me about the four-page letter he signed to Hull.

L: Yeah.

HMJr: You told me about that.

L: Yes, I did. That's right and I gave you a copy, I think.

HMJr: But at this last meeting - I mean no one seemed to be cognizant of the fact - of - about the letter the President sent to Hull.

L: No. I think that was held up. I went to see the President....

HMJr: Oh.

L: ...and told - and said that this thing would take the - all operating authority out of the - out of...

HMJr: Yeah.

L: ....our organization and out of every other agency, as a matter of fact. And he said he was going to go into it further and in the meantime -- and I was to talk to Hull -- and in the meantime nothing was done under that letter.

HMJr: They used the first.....

L: But now, of course, this memorandum, I think is being prepared for submission to the agencies....

HMJr: Yeah.

L: ....under the authority of that letter.

HMJr: Yeah. Well, I - I - I - if you could, say get White, I'm sure he'll be helpful.

L: All right. Fine. I'm - I'm just - I just put in a call for him this minute.

HMJr: Thank you.

L: Thank you very much.

HMJr: Goodbye.

L: Goodbye.

cc - Randolph Paul

May 26, 1943
10:57 a.m.

Operator:	Go ahead.
HMJr:	Hello.
Cong. Robert Doughton:	Hello, Henry. How are you?
HMJr:	Okay. I called you about 9:00 o'clock yesterday morning. I don't know whether your office told you.
D:	Somebody said that you said that you were in your office - did - did not tell me to call, but you said that you were in your office if I wanted to call you.
HMJr:	That's right.
D:	And I was so busy - I didn't have anything special.
HMJr:	That's right.
D:	I talked with Byrnes about the tax situation....
HMJr:	Yeah.
D:	....and I just - just was in a strait-jacket all the time.
HMJr:	Yeah.
D:	The conference is going to meet again, you know, and we're having just a terrible time. A swearin' man would say it was an awful time.
HMJr:	Yeah.
D:	And I just - I thought I'd call you up and see if I was still on pleading terms - I need to be on praying grounds with you anyhow.
HMJr:	Well, I kind of feel left out of it all, but - so I really don't know where we in the Treasury are at.

D: Well, I didn't know about that. I - it's been one of the most bitter experiences I've ever had in my life, but it's got to where I'm not going to make any apology of what I've done.

HMJr: Yeah.

D: If I make a mistake, why, I always have to take the responsibility of it. There's nothing in the world that's more - greater pain to me really, of course, than to not do the things that I think that you up there want done. I didn't know - when it came down to the last analysis, we either had to take - we got - what we got or take nothing.

HMJr: Well....

D: Now the Treasury has taken the lead in the Administration about a collection at the source and withholding tax. I didn't start that, but I have been trying to work with the Treasury to get something.

HMJr: Well....

D: We just got to where we had to take this or go back and get something worse or take nothing.

HMJr: Well, what I'd like....

D: That's all there was to it, and we got all we could in....

HMJr: Well, for better or worse, the fat's in the fire now.

D: How's that?

HMJr: For better or worse, the fat is in the fire, but the thing -- we down here feel very strongly, and I'd like to have a chance to talk to you this week about it -- is we've got to get more revenue.

D: Well, I'd be glad to sit down and talk with you and Mr. Paul, or you any time....

HMJr: Well, now when....

D: ....about the whole situation.

HMJr: Well, now when can we do that, because we - we - we desperately need more revenue.

D: Well, we weren't getting - if you don't get this bill, this withholding tax, of course, you're not going to get....

HMJr: Yeah.

D: ....more revenue right now.

HMJr: Yeah, but I mean....

D: Suppose you - I don't know just what we're going to do, and the thing is so complicated I'd be glad to sit down and talk with you, and I think, to tell you the truth, if we sit down for a practical talk about it with the hope of working out some results....

HMJr: Yeah.

D: ....and working together that it'd be well to have Senator George and others that are - help to carry the load. You may want to have a talk with me first but....

HMJr: Well, when - I - I was....

D: I'll just have it - I'll just do it any way you say.

HMJr: Well, do you think between now and Friday noon we could do it?

D: Yeah, I know we could, and if we don't....

HMJr: Well, couldn't - couldn't either at this end or at your end, couldn't we have - maybe get together for lunch tomorrow?

D: Well, I don't know just what we'll have up in the House at lunch-time. If you'd come down here, we can.

HMJr: I'll come up there.

D: Yeah, I'll have lunch brought up and - who do you want to have at that conference?

HMJr: Well, I - I agree with you. I think that George ought to be there.

D: Well, I'll have to first find out if he can come, you know.

HMJr: Yeah.

D: If you and George will be my guests, I'll invite you - now he's got up - this Reciprocal Trade over there, you know.

HMJr: I know, but....

D: They're going on with that, and I don't know whether he can get off at that time or not. I - I just don't know.

HMJr: Well - well, would you find out?

D: Yeah, I'll be glad to find out.

HMJr: And....

D: And if we can't get together for lunch, why, we might get together - we're going to meet tomorrow morning at 11:00 o'clock to go over this conference report, and before - go over it, you know, before we file it....

HMJr: Yeah.

D: ....and I'm hoping to bring that up - well, Friday or Monday, one.

HMJr: Yeah.

D: I don't know just which, and....

HMJr: Well, if....

D: I'll be glad to talk about the whole situation. We just got to this, Henry - we just got to this, and I couldn't, after straining myself one way or the other, I couldn't take the full responsibility for taking a position that would

(Cont'd.)

D: (Cont'd.) kill a withholding tax for this Congress, and that's what it means....

HMJr: Well....

D: ....if they wouldn't take this, why, they'd send it back to us and instruct us to take something better, which I knew the President would veto....

HMJr: Well....

D: ....I knew if....

HMJr: Well, think this over....

D: ....he wouldn't take this, why, he wouldn't take something worse.

HMJr: Bob?

D: Yes.

HMJr: Think this over, possibly, that if we were going to get together tomorrow, and as far as lunch is concerned I'd be glad to be host - and on the Hill if that was possible - why not have Vandenberg and Knutson there?

D: You mean now to talk about future taxes?

HMJr: Yup.

D: Not to talk about this bill?

HMJr: No, not about this bill. I mean future taxes.

D: Well, don't you reckon it would be better - we'd be in a better position to know about that if we knew what the attitude of the Treasury is going to be about this bill?

HMJr: Well, I - I - I....

D: Or will you be in a better position on what you're going to do if you knew what we were - could do?

HMJr: Well, I - I could - I - my own thinking would be considerably cleared if I knew whether or not we could get another revenue bill through the Congress. Just forget about this bill.

D: Whether we can get one through, Henry, in time....

HMJr: ....a tax bill....

D: Whether we can get one through in time to make it apply to this year's income, I don't know.

HMJr: Well....

D: You - you know how slow these things are.

HMJr: Well....

D: If we get a collection at the cold source now and get it started, why, it wouldn't make so much difference if you didn't and had - if we went on like we are, and then imposed a tax at the beginning of the first of next year you wouldn't gain a revenue until -- if you didn't have withholding tax -- until '45.

HMJr: Well, why don't you call....

D: That's the reason - that's what - that I was so worried about.

HMJr: Why don't you talk with Walter George? I'd very much like to see you and Walter George tomorrow. Not about the bill, but about additional taxes.

D: I understand.

HMJr: And you might ask him should we have Vandenberg and Knutson present.

D: Yeah.

HMJr: See?

D: I'll do that, and if....

HMJr: I can do it any time tomorrow or any time Friday morning.

D: Well, if we could - Friday morning would be a good time, if we don't have to get up this conference report. If we get it up Friday, why, I'd want the morning to prepare for it.

HMJr: All right. Well, any time tomorrow....

D: Well, see if we can make it tomorrow. If not, why - if we're not going to bring up the conference report in the House, we can certainly do it Friday morning.

HMJr: And any time....

D: Have you provided - provided George will, and if not, I'll accommodate myself any time it suits you and him.

HMJr: Well, the taxes have to originate in the House, so....

D: That's true, but I wanted to see if we can't get a - an understanding about it on the main points before we start it. If we don't, it will work us to death and get nowhere.

HMJr: Well, would you - would you talk to Walter?

D: I'll call Walter right now, and I'll call you back.

HMJr: That'd be fine.

D: That'll be fine. I'll call you back, Henry.

CC - Randolph Paul

May 26, 1943
11:12 A. M.

HMJr: Hello.

Operator: Mr. Doughton calling.

HMJr: Okay. Hello.

Robert Doughton: Hello, Henry?

HMJr: Yes, Bob.

D: I just talked with Senator George.....

HMJr: Yeah.

D: ....and he said that the soonest that he could get to the conference with you and me -- and he thought it was best for just us three first.....

HMJr: Yeah.

D: .....would be Friday morning at 9:30.

HMJr: Yeah.

D: If you can come down to the Ways and Means Committee room in the Capitol, it'll suit better. If not, we'd come to your office.

HMJr: Either way.

D: Well, it'd suit - it'd suit him a little better down here, but either one you say.

HMJr: That's all right. I'll - I'll come there.

D: You know where it is?

HMJr: I can find it.

D: Well, it's on the second floor there. You've been up there.

HMJr: I.....

D: On the way - on the second floor. Just go in the House side there. It's right next to the House entrance, you know.

HMJr:	Now do I - do you want me to come alone?
D:	Well, just as you say about that. I'll have - we'll have nobody but George and myself.
HMJr:	No. Well, I mean I didn't know whether you'd want me to bring Paul or not.
D:	Well, that'll be all right. I'd have no objection and I'm sure he wouldn't.
HMJr:	Well, I'd kind of like....
D:	I think that would be all right, to bring Paul and nobody else.
HMJr:	I'd like to bring Paul.
D:	Well, that will suit me. I'll take the responsibility that that's all right.
HMJr:	All right. Now nine-thirty....
D:	Nine-thirty.
HMJr:	....Ways and....
D:	And Paul knows exactly where it is. They're in the Ways and Means Committee room in the Capitol.
HMJr:	Yeah.
D:	They're on the second - Paul's been there forty times.
HMJr:	Can we go there without getting publicity?
D:	Well, of course, it's not certain, but if you did, it wouldn't break up the plan of salvation, would it?
HMJr:	No.
D:	I don't think so.
HMJr:	All right.

D:	I think you can drop in there very well without it, but if not, why - at that time I don't think the newspapers are hanging around there.
HMJr:	Well, if it'll suit you fellows a little bit better, I'll be glad to come there.
D:	Well, that's what he said. Either one would suit me, but if it suits you much better we'll come down there.
HMJr:	Did he say - did he - did George say that it would suit him a little better?
D:	That's what he said.
HMJr:	Well, then we'll do it that way.
D:	He's got this Reciprocal Trade yet and he's - I don't know just.....
HMJr:	All right.
D:	.....he's tied up on that. That is what he said.
HMJr:	Okay.
D:	All right. Thank you, Henry. Friday morning at nine-thirty?
HMJr:	That's right.
D:	Thank you.

May 26, 1943
11:55 a.m.

FINANCING - ORGANIZATION PLANS

Present: Mr. Bell
Mr. Gaston
Mr. Gamble

H.M.JR: Bell, you are a pretty good reporter. Do you want to tell them what happened?

MR. BELL: We had an hour and a half with Mr. Eccles. The Secretary told him about the way he was thinking, how hard he tried to get together with Allan Sproul and found it impossible, and so after thinking it over with the group here he came to the conclusion he would set up the kind of an organization we have been discussing.

Eccles said that he was hoping that we could get together on a Federal Reserve basis, that they had all done such a good job in the last campaign; that there were one or two instances which probably needed to be straightened out, but that he was hoping that we would still keep the organization that we had the last time at the top, consulting with the War Savings Staff; that they would set up the State organizations to tie in with the Federal Reserve channels.

But to make a long story short, he said that if the Secretary had decided on this other he felt that he had had his day in court and at least he was satisfied that he had had plenty of opportunity to put up their case.

I don't know - there are a lot of details.

H.M.JR: I felt that he was kind of trying to swing me around there.

MR. BELL: He felt they would still like to get together, no doubt about that.

H.M.JR: I left it fairly definite that I was thinking hard all the time.

MR. GAMBLE: Did I understand you to say he hoped we would continue the same operation we had in April?

MR. BELL: Continue on the basis we had in April but perfect the organization underneath. He meant through the Federal Reserve System to make it one organization - bring the War Savings and the Victory Fund committees together under the Federal Reserve System. He thought it was important that the Federal Reserve System be in the picture, and he would like to see that organization perfected, like we started out discussing last Friday.

But he said that if we decided to go this other way he knew that the Federal Reserve System would cooperate with the Treasury in every way; that there isn't much that they can do other than be in an advisory capacity. He doesn't think that they can serve on any committee or anything of that kind because you would have in some cases four or five administrators or managers of States in one district, but they would be willing to do anything they could.

He did suggest in connection with the splitting that you might want to put with the banks the mutual savings, insurance, brokers and dealers - probably the financial institutions in that group - and leave on the other side the individuals, trusts, and so on.

MR. GASTON: I think that is feasible.

H.M.JR: Then he got onto the statement - who was he going to have working on the statement?

MR. BELL: Thurston. He would like to get out such a statement that would get over this difference that we had and show that we are in complete agreement on this organization, that in conjunction or in conference with the Federal Reserve Board we came to some understanding that this will be the organization.

He wanted to put in some sentence about the Federal presidents being overworked and probably this was better to relieve them of some of this responsibility other than the one of being advisor to the Secretary on the types of issues, types of financing, and so forth, as they had been in the past.

MR. GASTON: This is promotion as distinguished from the type of financial advice they give.

H.M.JR: I said that you would handle that thing for me. I suggested you (Gaston) draft one and that they draft one, and you can get together.

Herbert, I think that you might sort of begin drafting - have something to look at at lunch time - you and Fred Smith.

And one thing he said, "I think we have to watch our step." I didn't quite get the significance of it. He said, "Of course if this happened we would just have to dismiss all of the people on the Victory Fund, just disband."

Isn't that what he said?

MR. BELL: Yes.

H.M.JR: I said, "I don't know what you mean."

He said, "After all, we got them all together."

I said, "No, that isn't quite correct. After all, George Buffington got them together."

MR. GAMBLE: I told Buffington we shouldn't dismiss any of them.

H.M.JR: So I think - there is a little something I didn't quite understand. I think that whatever is done, these people all should be notified just to stay at their desks and that within a reasonable time it will be explained to them.

MR. GAMBLE: There are a hundred and fifty permanent employees.

H.M.JR: I think it should be explained to them that in time - I think that should go to the head of the Victory Fund committee.

MR. GAMBLE: From you to the twelve presidents of the Federal Reserve banks to advise those people.

H.M.JR: Something so they don't get a cold dismissal. Eccles talked like, "All that's left is for the Federal Reserve bank presidents to tell them they are through."

MR. BELL: He meant the Victory Fund organization as such would now disappear, that anything you want you will have to pick up.

H.M.JR: He was very much - I think at the least weakening on my part he would have tried to get together. But I told him very quietly, "I just can't sit here from now until Labor Day arguing." And he agreed this morning that we shouldn't have to argue.

He says, "You can set the thing up over the telephone." Isn't that what he said?

MR. BELL: Yes. It would be a little difficult.

H.M.JR: I tell you, gentlemen, I told Eccles I never thought of anything more carefully. I said, "I am willing to face this thing. I am willing to take the whole responsibility, with the help of everybody here I can get. It would be much more - be terribly nice and easy just to say to the twelve Federal Reserve banks, 'This is your responsibility, go to it.'"

Now, this may seem digressing a little, but I have been following very closely what has been happening in OPA when something goes sour.

Did you see George Haas' weekly report?

MR. BELL: I got one. I haven't read this last one.

H.M.JR: I read it. When you see what can go wrong in an organization like that and it begins to go down hill - it just scares me to death.

Well, we are in pretty good shape - got plenty of time to get ready. These people will not desert their Treasury, their Government. I am not too worried. It is going to be hard; it is going to be tough.

MR. GAMBLE: A lot of work, but we can do it. It is work we should have been doing, anyway.

H.M.JR: So it was a very pleasant meeting. There was nothing approaching acrimonious--

MR. BELL: No, very good meeting - very friendly meeting.

H.M.JR: But I was firm, wasn't I?

MR. BELL: Yes.

H.M.JR: Not too firm, but just stuck--

MR. BELL: You told him what you had made up your mind to do, and he accepted it, I think, without trying to argue you out of it.

H.M.JR: He brought up Burgess, and so forth. Well, that is that.

I was pleased at his attitude on the publicity, and most likely I will have him here when I give out the statement.

MR. BELL: I don't know. That may look funny, as though you are trying to cover up something. I don't know.

MR. GAMBLE: It is more or less of a joint statement.

H.M.JR: He said the statement would read, "In consultation with the Federal Reserve the following statement is given out by me." If you don't have him here they will run over there.

MR. GAMBLE: I think it would be very smart to have him present when you give out the story.

You are a newspaperman, Herbert. You know better than I.

MR. GASTON: I think it would be good.

MR. GAMBLE: I think it would be very wise.

H.M.JR: I think just the opposite, Dan. I think it shows they have nothing to cover up.

MR. GAMBLE: If you are in a position now to make up your mind as to how much you do want them to handle - and I see no reason from our point of view why they shouldn't handle insurance companies, mutual savings banks, brokers and dealers - it might be well to make that a part of your statement.

H.M.JR: It would be.

MR. GASTON: Insurance companies and other financial corporations.

MR. GAMBLE: It seems then more like a partnership.

H.M.JR: It wouldn't be, for instance, General Motors.

MR. GASTON: Strictly--

H.M.JR: But mutual savings and--

MR. GASTON: Insurance companies and other strictly financial corporations.

MR. BELL: I don't know where you draw the line. Insurance companies aren't financial institutions.

MR. GASTON: No, they are not.

MR. BELL: It really boils down to--

MR. GASTON: But investment houses, brokerage houses, and so on, I suppose are financial institutions.

MR. GAMBLE: They like to keep the brokers and dealers in this.

MR. BELL: They really belong there - they need to be controlled. Dealers and brokers had better come into the banking.

MR. GASTON: The list of financial institutions is included in that New York memorandum. They set them up separately.

MR. BELL: That will have to be thought of a little, how you are going to word that. You can word it in some general way now, but when you draw the line it is difficult. You want to avoid overlapping and conflict.

H.M.JR: I think just what Eccles said - the mutual savings, insurance companies, and brokers.

MR. GASTON: Yes.

MR. GAMBLE: That is right, dealers and brokers.

MR. BELL: And stop there.

H.M.JR: He said Government bond dealers.

MR. GASTON: Dealers in Government securities.

H.M.JR: That is what he said, to stop there.

MR. GAMBLE: That is where I would stop with it because that is clean-cut and leaves no room for fuzziness.

H.M.JR: All right.

May 26, 1943
2:40 p.m.
(Chart Room)

FINANCING

Present: Mr. Bell
Mr. Gaston
Mr. Eccles
Mr. Ransom
Mr. Szymczak
Mr. Evans
Mr. Draper
Mr. Williams
Mr. Young
Mr. McKee
Mr. Fleming
Mr. Leach

H.M.JR: Gentlemen, I asked you to come over - I think it was Friday, a week ago, that we met here first in the morning and then in the afternoon, and with not very happy results. Then I had to go up to New York for personal reasons and I used that opportunity to have two very lengthy talks with Mr. Sproul, and I think both of us did everything that we could do, seeing things the way we do, to try to get together. But we couldn't get together on your formula and we couldn't get together on my formula, unfortunately, and I think we both made an honest effort.

So I feel this way, that we are at war; we have got enough enemies outside America without having a lot of fights going on inside; and that if I attempted to go around and visit each of the twelve presidents, or if representatives of the Treasury did, I feel it would only aggravate this situation and it might continue for months, which is something that I am sure you don't want, and I know I don't want.

We have got a lot of things to do. You gentlemen have got a lot of things to do. I feel that we can help each other and we can do it without my asking the Federal Reserve to take my formula, or my taking your formula, and simply do it by our going ahead, setting up these State organizations, and using the best men and women in each community, irrespective of their connections, and with the continued support in each community of the Federal Reserve Board and the presidents, which I am sure I can count on. The only difference is that you gentlemen will not - I won't hold you responsible in your district, but I certainly would look forward to consulting with you frequently. I hope you take as much part in the local drive as you have time. I certainly would expect the State chairmen or managers to consult with you, get the benefit of your advice, and I would look to the System to handle the sale of Federal securities to the banks, insurance companies, and dealers.

Now, that is really the result of an hour and a half's talk with Mr. Eccles this morning, and I think that I have fairly and accurately reported it, haven't I? Is that fairly accurate?

MR. ECCLES: That is right. That is the high spots.

H.M.JR: After an hour and a half's talk. I simply feel we can go forward this way. We will do everything we can to sell as many securities as possible to individuals. That is a thing that everybody wants to do - sell as few to the banks - and you people can assist us greatly in the communities.

I am sorry we couldn't get together on the other basis, but I am really afraid that if we prolong this thing, it will be Labor Day and I won't have any organization, and I will have a lot of sore spots and heartaches, which I can't afford. There are a great many things the System can do for us, and I hope they will continue to do for us.

That, gentlemen, is my little speech.

MR. McKEE: Mr. Secretary, you made a statement there that would indicate that you came to this position because of lack of time to get around to the twelve Federal Reserve Banks. You didn't mean it that way. You came to the decision - that wasn't any part of your bringing you to the decision you made?

H.M.JR: No. What I meant was this. If, after the experience I went through in New York, you see, where I got nowhere - and I am saying that Sproul has his honest beliefs - sincere - and I like to think I am - and I got nowhere - well, supposing we duplicate that in eleven other districts. I don't mean the time, but the time isn't enough. It would take so long to do it that I am afraid Labor Day would be on us and we wouldn't have any organization.

MR. McKEE: I still don't think - what I wanted to know is whether that was the condition that brought about your deciding on this present program, the amount of time it would take to go around - a question of whether that couldn't be eliminated.

H.M.JR: Do you want to go into the whole - I will answer any question. I mean, that is one factor. I was hoping we would let bygones be bygones, but if you want me to give you more reasons--

MR. McKEE: It just seemed to me you put it on a basis as a lack of time, as if we had imposed some condition or something you had to do in order to--

H.M.JR: Well, there was that. I think I am quoting it correctly, so much has happened - the proposal was put up to me that either I or somebody from the Treasury would have to go into each district and try to satisfy each bank president before I could get an answer that they would go ahead. I think that is correct. If not, somebody can - I think that that is correct.

MR. McKEE: It may be. That wasn't the way I understood it.

H.M.JR: I think that is correct.

MR. ECCLES: I think, with this possible correction, that you made the suggestion, I think last Friday, that you would go to New York and discuss this thing with Sproul and you might go to Chicago, and then you would send your staff people to the other banks for the purpose of setting up an organization, all this being on the assumption, however, that a program had been accepted and announced after you had been to New York.

H.M.JR: No.

MR. ECCLES: The question of the setting up of the organizations in the districts, it would be assumed that the Federal Reserve would go along, and then I reported to you on Monday, after talking the thing over with the presidents and the Board, that the presidents all felt that inasmuch as they were not now chairmen of the new setup - they were chairmen during the drive, the drive is over, and none of them were chairmen of the new set-up - that before they felt that they could say that they could be chairmen, they felt they ought to know who it was that they would have to work with as their sales manager. And on that basis you assumed - and you had reason to assume - that an announcement couldn't be made now, couldn't be made until after all of the people had had a chance to determine whether or not they could accept the chairmanship, depending upon the personnel that was selected in each district.

I recognized on - it was either Monday or Tuesday - that that would not be practical to do that because, as you state, you might go to eleven districts and work it out and the twelfth one you couldn't work it out with him and then there was no program.

MR. BELL: I think that is where it turned.

MR. ECCLES: That is right. That is where it turned.

MR. GASTON: That is right, Marriner.

MR. ECCLES: So I said, of course, "That isn't practical. We have got to do" - what would have to be done, of course, it would have to be agreed to beforehand, and that seemed to be the breaking point. It didn't seem possible to agree beforehand because these presidents - none of them wanted to be committed if you were going to remove their sales manager and give them somebody that they didn't know or somebody they didn't want to work with.

That is about where it got.

MR. GASTON: Under either plan it provided for consultation and joint approval for selection of key persons.

H.M.JR: That isn't - I mean, as long as McKee has raised it, it isn't what has been in my mind--

MR. McKEE: The only thing I wanted was clarification - not being in your meeting - that the condition that you mention of having to go around to all these banks wasn't one of the stumblingblocks that made you make your decision on your present setup of organization for the future.

MR. ECCLES: I think the particular stumblingblock was that the plan that the Secretary presented did involve either acceptance of it as it was, without knowing who might be selected in each district to work with the chairman, and it was on that basis that they couldn't accept the plan. That is really what it amounted to.

H.M.JR: Let me tell you this, because what was in my mind isn't quite what was in yours - as long as McKee has raised the question, and to demonstrate the point - you remember, you read me part of a memorandum which you had in your pocket but didn't give me, which agreed more or less to what I had asked for, and then we talked about this thing and you said that you didn't want part of the presidents in and part out.

MR. ECCLES: That is right. That is what they had said.

H.M.JR: And then to show you I still had it in my mind when I saw Sproul on Friday because I said, "Sproul, if I can sell you, it is up to you to sell the other eleven presidents because I just haven't got time to do it, nor have I got the strength." Then he came back Saturday and said, "Well, look, Mr. Morgenthau, instead of doing it that way, would it be agreeable to you if the Board would sell it to them?" So I still had it in my mind that there was no agreement, and somebody had to sell it to somebody.

Unless we could satisfy - I mean, I didn't know whether satisfying Sproul - but it was still in my mind that all twelve had to be satisfied or no deal, and that seemed to me like a lot of time and a lot of work.

MR. McKEE: The only reason I raised the point, it did seem, the way you presented this thing today, that it was a condition of which you made your decision on which way you would go.

MR. ECCLES: I would say it was a factor.

H.M.JR: It was a factor. It was a factor as late as Saturday when Sproul, after talking to Eccles - he told me he had talked to Eccles - he said, "Instead of asking me to sell the twelve, wouldn't you leave it that the Board do it."

MR. ECCLES: He talked to me Friday, not Saturday.

H.M.JR: He asked if he couldn't leave it to the Board to do it. Again I said, "I haven't got the time or the energy to do it."

Does that clear up that point?

MR. McKEE: The thing I didn't want you to believe is that we couldn't handle that kind of a thing for you in case you made that kind of a decision, that couldn't necessitate you going from bank to bank.

H.M.JR: I never was told that the Board would handle it for me.

MR. ECCLES: I don't think the Board would or could.

H.M.JR: I never was told that the Board would handle it for me.

MR. McKEE: As far as trying to work with you and get their consent, it would save your time.

MR. ECCLES: I mentioned to Peyton and Day, particularly - if you recall, I said that I thought that the others would be easier to get together with, maybe, than those two; that it seemed to me that if it could be determined whether or not you wanted to make changes in the managers in these various districts - if there was no change to be made, you could indicate that over the telephone, for instance. If there were changes to be made you could--

H.M.JR: You said that this morning.

MR. ECCLES: I said that on Tuesday morning, too.

H.M.JR: On the telephone?

MR. ECCLES: I said it to you Tuesday morning when we were in a discussion with Herbert, and I mentioned this other fact as one of the difficulties. That was when Gamble was proposed, you will recall, as the manager. I said that was going to make it doubly difficult because the Reserve people had felt that he was pro-War Savings and anti-Federal, and that they didn't know him and that there possibly wouldn't be the confidence, and it would be doubly difficult to get them to accept the program and not know who their manager was going to be in each district, it being left - they felt, at least, that Gamble would have a lot to do in the selecting of the manager, and that would make it doubly difficult. Didn't I bring that out on Tuesday?

MR. BELL: Yes.

MR. ECCLES: Of course, the experience with Sproul had more or less demonstrated what I saw at the time would be the difficulty; that is, to take Gamble as their boss, so to speak, because he would be the director and they would take instructions from him as the chairman in the district, and likewise, to let the manager go that they had worked with for maybe a year - to have to break in some new man that they didn't want - unless that bridge could be crossed right to begin with it wasn't possible to accept your program.

MR. WILLIAMS: In any event, Marriner, time is an element in the problem, even though there may be other factors of greater importance, because the evidence is already coming in from the field that those who are participating want to move into the next drive, and I think that any considerable delay would militate against the success of the effort.

MR. ECCLES: That is what you (the Secretary) said.

MR. SZYMCZAK: On the whole, we have been advised by the chairman on all the details.

H.M.JR: I am sure you have, but I simply felt - well, this is so important, and I felt that I wasn't asking you a very big favor to come over and sit down with me.

MR. SZYMCZAK: Tickled pink to come over and be here.

MR. ECCLES: No--

H.M.JR: As I say - I am repeating myself, and I know I am - but I think if this thing could be settled with my counting on you gentlemen to assist us to sell the banks, insurance companies, and the dealers, and when we have our public drive, to assist us all that you can in the field - not holding you responsible - we will go ahead and pray the Lord for support.

MR. ECCLES: I reported to these men after I left here this morning as fully as I could, the gist of our discussion here in the Treasury, and I told them that I did review with you the history of the setup, the Victory Fund Committee and the drive in December and the drive in April, and that I felt that I was sorry that the benefit and the experience of this Victory Fund organization couldn't be used - the good men there and the good men under the Federal Reserve - but inasmuch as it didn't seem possible, and you had made a decision to put it on a State basis, that that was your decision - you had the responsibility - and that I felt sure that the System would cooperate fully, as you said you wanted them to do; that it wouldn't be my choice, but you had the responsibility and this was your decision.

MR. SZYMCZAK: Mr. Secretary, this is war; you are the Secretary of the Treasury; we are here to help you now, and in the future. The only thing that concerned us at the moment, because we have been constantly kept advised by the chairman, is the statement. What are they going to tell their men in the banks? How do they become associated with the State organization? How do we fit into the bank financing, and how is that to be--

H.M.JR: Well, the statement is in preparation and I would like to work it out in cooperation with the Federal, so just as soon as - if that is agreed - if Mr. Eccles would send somebody over, Mr. Gaston and Mr. Fred Smith are available.

MR. ECCLES: I reported that to them, that we had discussed the very great importance of avoiding any unfavorable public repercussions, that the statement would be a very important statement, because the press would be wanting statements, and we should have something that we could all stand on and say, "This is all we have got to say. There it is." And nobody have anything else to say about it. You said that you would be very glad to have us prepare a statement and to get together with Gaston. I suggested Thurston.

MR. GASTON: Elliott called me up a short time ago about it, and said he was standing by.

MR. ECCLES: That the statement - you said it might be a joint statement, and I said I wasn't sure that would be the best, that it possibly would be better to have a Treasury statement in which we had had an opportunity to make suggestions and possibly agree upon, so that it was a statement in which we concurred in, but it was more properly, maybe, a statement to be made by you.

H.M.JR: On second thought, I think that is the best.

MR. ECCLES: I thought so. But now that is the way it is left. I would like, personally, for these men, each of them, if they want to do so, to state their own feelings with reference--

H.M.JR: I would like very much to have them.

MR. ECCLES: ...with reference to their willingness to cooperate. I told you I thought that everybody would, and I think that is certainly true. I would like them to say how they feel about this thing.

MR. BELL: Before you leave that question of the statement, I think that ought to be sent to each of the Federal Reserve Bank presidents by wire and some indication ought to be made to them at the same time as to what they do with the Victory Fund personnel - probably to hold it on for a few days until it can be looked over and absorbed into the other organization.

MR. ECCLES: That question was raised by one of the presidents this morning, that these men, of course, are all on the pay roll of the Federal Reserve Fiscal Agency account, and the Treasury has been reimbursing them for the reimbursable expenses. There have been expenses that they have absorbed that were not reimbursable, but for all reimbursable expenses, the Treasury has been paying them.

These men, of course, are on the Federal Reserve pay roll, and it would seem to me advisable to keep them on the pay roll for a little time. We usually give people notice, anyway, before they are just dropped summarily.

MR. BELL: We agree with that.

MR. ECCLES: It would seem advisable, after the statement is out, for the presidents to say to each of their groups, "Now, here is the statement, and I have been advised for you people to just stay put just where you are; you are on the pay roll, and whether you will be invited to participate in the new setup, I can't say, but if you are, I hope you might feel like accepting" - something like that.

MR. RANSOM: Marriner, couldn't you handle that expeditiously and have Matt, on account of his assignments on the Board, and someone representing the presidents - Hugh Leach or someone we could get at quickly - to decide the details of that, so that it would be - whatever transition that has to take place would take place as smoothly and quickly as possible?

MR. BELL: We can put that in the wire.

MR. SZYMCZAK: We ought to get that statement out as soon as possible because the minute these men get back to the banks they will be asked.

MR. RANSOM: I mean the mechanics of taking care of it.

MR. SZYMCZAK: But you can't start talking until you get the statement.

H.M.JR: But I would like very much if the presidents would tell these men, "Just be a little patient; you are going to be kept on the pay roll; you are not going to be summarily dismissed, and there is a very good chance that you will be absorbed." So that would kind of quiet them down.

MR. ECCLES: That is right.

H.M.JR: And then we will move just as fast as we can. Then I think your suggestion - a committee, Bell - somebody from the Board and somebody from the bank, is entirely acceptable to me.

MR. ECCLES: That they would be on the pay roll so far as the presidents were concerned until further notice from the Treasury. That is all they can say to them. That could all be put in a wire.

H.M.JR: They could give them a little reassurance that there is a good chance that there is a place for them.

MR. SZYMCZAK: I take it you don't want to discuss the setup for bank financing and how the Federal Reserve Banks would fit into that picture, until later?

H.M.JR: If you could take Mr. Eccles - I would like very much to hear how each of you feel on the over-all plan, and then we could go into the discussion, if you don't mind.

MR. FLEMING: Speaking for Cleveland, I think the question of cooperation, it seems to me, has to be decided. I am sure as far as we are concerned we will cooperate to the fullest extent.

H.M.JR: Thank you.

MR. LEACH: With Richmond we always have. We cooperated with the War Savings Staff even before the Victory Fund Committee was ever set up. Of course we expect to do exactly the same thing - not only do it ourselves, but to do whatever we can to get the banks to cooperate and to do whatever part may be suitable for them.

I think that there will be quite a bit of surprise in our district at the turn this has taken, but, of course, the statement would take care of that.

MR. YOUNG: As for Chicago, we will cooperate with whoever is selected and we will see that the banks cooperate, the dealers, and also the insurance companies. So there will be no question about getting the System's cooperation.

MR. WILLIAMS: I think, Mr. Secretary, it goes without saying that you will have our whole-hearted support. The sound financing of the war is just the first consideration. There have been differences of opinion here and I think they have related largely to organization. Never has there been any question as to motives. And I will give you my assurance that not only will I help whoever is appointed in Pennsylvania, in Delaware, and the formulation of policy, but also in the selection of personnel at all levels down through the county level.

We have in our files, as I am sure the other districts have, any number of reports as to what the organization is and the way it has been functioning down at the local levels, and all that is at the disposal of the successor organization.

I would like to emphasize, if I may, the question of the announcement - the problem of public relations. It seems to me that it may be an acute problem if it isn't properly handled, and I can use Hugh Leach's district as an illustration. Hugh Leach has not only operated in Richmond, but he has operated at both of the other branch banks; he is known personally to every banker in the area, and it is going to come as a distinct shock to them not to have him continue to assume the responsibility that he has had; and that has to be announced, supported by the cooperation he has just pledged you, and I think that may be typical in many of the other districts.

We will do what we can to see that the success that has been achieved thus far is improved.

MR. SZYMCZAK: As I understand it, Mr. Secretary, wherever you want to use, in whatever organization setup in the district or in the State - if you want to use the Federal Reserve Bank, you use the Federal Reserve Bank men.

MR. FLEMING: We will have the same situation Mr. Williams talks about in Hugh Leach. Banks have pretty largely assumed the Federal Reserve will have the leadership in this campaign, and it will be quite a shock to some of them. Already the men have had letters about the next campaign. It will be quite a shock to them.

MR. ECCLES: That question of letters - of course, chairmen of these various drives get a lot of letters with criticism and suggestions which develop, we will say, in the last drive. They have got a lot of people, bankers in particular have got ideas as to what ought to be done to improve the situation, and they write to these men as chairmen of the district committee, who was responsible, largely, for the appointing of these various bank people in all of these areas.

Now, it would seem to me that all they can do when they get these matters is to say that this change has been made. If they haven't seen the announcement, send them a copy of the announcement, and tell them that you are forwarding their suggestions in to the director of sales for his information and benefit.

MR. RANSOM: Mr. Secretary, the decision is yours, and you have made it after the best advice the System is capable of giving you. It seems to me, now, that the common interest is involved in complete cooperative effort to achieve an end that all of us desire, and that end may be, not expedited but hindered, unless all of the presidents of these banks - and I take it, without question, that that is what you will get - they will fully cooperate with the plan which you have now decided to follow. And the statement, then, becomes of the greatest importance, because on that we stand. I don't think the public has any question as to whose decision it is, or our role in the matter, which is advisory. We tried to arrive at a decision which would do the job.

Now that you have decided, I think these men are typical of the entire Federal Reserve System, they have given you whole-hearted, all-out cooperation, and together we have achieved a fine result, and in the future we can achieve the same result by the same spirit, which is an important part of that. There are many details all along the line, but it is a question of the spirit in which those difficulties are met and ironed out.

H.M.JR: Well, I agree with you that the statement is important, and I think that the quicker that they can get at it the better.

MR. RANSOM: I think they are at it.

H.M.JR: And, after all, I have a press conference tomorrow. I don't have to give it out then if it isn't ready. I don't want to give it out until everybody is satisfied and I agree with you that it should be a statement that we can all stand on, one that will be good here and just as good in San Francisco or in Dallas, and then go forward as rapidly as we can.

We are ready, if you people want to, to talk about the financing.

MR. ECCLES: I would like to hear Ernest. He has been awfully quiet.

MR. EVANS: I think it is a fine arrangement. I think it will work out all right.

MR. DRAPER: I think that we will cooperate, and will do so, period.

MR. SZYMCZAK: You didn't say that loud enough.

MR. McKEE: Mr. Secretary, I would like to speak on the plan. We have always considered your responsibility. We accept that you have weighed the pros and cons of both systems, and you have made your decision. You have our blessing and you will have our support. You always have had our support, and you will continue to get it.

H.M.JR: Well, don't think that I arrived at this thing lightly, and I would like - I don't want the last word, but at least I want to put it in somewhere that when I walked into this room a week ago last Friday there was no more sincere person than myself when I made the suggestion that we place responsibility with the twelve presidents of the Federal Reserve and I didn't arrive at that decision lightly, you see.

Well, from then on it didn't work, and from that Friday until this Wednesday, I have tried my best, and as I say, it just seems to me that the more I try the more people I offend and the more sore spots there are, so I had better stop trying - had better call it off and get together and put our shoulder to the wheel to get ready for the next financing.

MR. ECCLES: I would like to say this, that we don't know how long the war is going to last, of course, we can't foresee all of the problems, and we cannot see the difficulties involved in the financing. I would like to feel, without any recrimination at all of anything that has gone before, that to the extent that your system doesn't work out satisfactorily to you, and you want to make any modification or change, I would like you to feel that the Federal Reserve continues to stand ready to advise with you and to play any part that may not be foreseen now, that it seems to be necessary or advisable for them to play. By that I am saying this, that if the proposal is not entirely satisfactory to you, I hope that you won't feel, and I hope the System won't feel, that because of anything that has gone before we shouldn't be able to sit down and talk together about any change that may seem to be advisable.

H.M.JR: I think that is a very fine spirit, and I accept it, and will approach it in the same spirit. And I think whatever misunderstandings there have been during the last couple of weeks, the sooner we forget them the better.

MR. ECCLES: That is right.

H.M.JR: And that is one of the main reasons why I want to stop arguing. I mean, it has got me flat - figuratively flat on my back - and got poor Allan Sproul in bed, and we don't want to put anybody else to bed.

MR. McKEE: The best man wins, huh? (Laughter)

H.M.JR: I don't know.

MR. SZYMCZAK: He went to bed right after you got there, though.

H.M.JR: I didn't know he got out of bed - I didn't know I got him out of bed. He never should have come down.

Would you like to have Mr. Bell sketch our financial needs for the balance of this year?

MR. ECCLES: Yes.

(The Secretary and Mr. Gaston left the conference.)

MR. BELL: Assuming that we continue on with the present bill program until it reaches a billion dollars a week, and stop at that point, we will go out of June with about seven billion dollars, and we will go out of July with about two billion three. This also, I might say, assumes that we pay off the maturities in June of a billion eighty-three million and maturities in July of three hundred and twenty-four million.

MR. McKEE: What is the total of that - those two maturities?

MR. BELL: One billion four hundred and seven million. They are the maturities.

MR. McKEE: It left you two billion three August 1?

MR. BELL: Two billion three on August 1.

Now, we will have to have some financing to carry us through to September 1.

MR. EVANS: Will this twenty percent withholding tax help you any there?

MR. BELL: We don't know just what we will be able to work out. It might work against us because if they put the returns on a quarterly basis and give a man thirty days to file his return and make payment, you may get the money the first of November or late October. What I am trying to work out is that these taxpayers can make their payments on a monthly return and file returns on a quarterly basis, so that the collector, instead of having a check with the return, will have a certificate of deposit from the depositary. And if we do that we may get some money in August, which would help us out to some extent. I don't think enough to carry us through, but it might give us five or six or seven hundred million dollars. We have contemplated a financing here in July of two and a half billion dollars of certificates, or notes, or something - bonds. If that happens we would have a balance of four billion eight hundred million going out of July and five hundred million going out of August. That isn't very much money.

MR. DRAPER: August would be five hundred million?

MR. BELL: Yes, assuming we have a two and a half billion dollar financing. Then we contemplate a fifteen billion dollar program.

This sheet was set up a couple of weeks ago, before we started talking about what we would do in the drive, but fifteen billion dollars put into the month of September, fifteen billion dollars in the month of December, sixteen billion dollars in the month of March, and sixteen billion dollars in the month of June, carrying right straight across the board.

What we have been thinking about here is probably having the drive - the next drive - around the middle of September. I think the 13th comes on Monday, and that would probably be a good date to start it and run it to the end of the month for the non-banking end of it.

If you separate this drive into two parts, the Federal handling the bank and insurance, and this other organization handling the drives - individuals, and so forth, that fifteen billion will have to be reduced to whatever amount you want from that source and in the interim you will have to do bank financing.

MR. DRAPER: The total of the individual drive - the drive for individuals and bank drive - will be fifteen billion?

MR. BELL: Yes. Now, you might want to do a little more than that in the September, October, November period, so that your next drive might go over to January instead of December; although, on the other hand, there might be some advantage in having the drive in December because you can try to get that money that might otherwise be spent for goods.

MR. ECCLES: You are contemplating the drive in September, according to your--

MR. BELL: That is just our tentative thinking. The Secretary asked if we could go to the first of October. I said that if we go to the first of October it means a lot of bank financing. In addition to the two and a half, I think you might need as much as four billion dollars more.

I thought maybe we might begin to get some criticism for too much bank financing before we have another drive, and I think that is for consideration - whether we would try to have it in September or go to October.

There has been some thought that the tax payment month would interfere. Maybe that will be out of the way. On the other hand, I don't think it interfered a lot in December. Maybe it did, some.

MR. ECCLES: It will be out of the way with this new bill.

MR. BELL: Yes, we won't have to worry about tax months.

MR. LEACH: Farmers will have more.

MR. ECCLES: They will still have in December even more than in October.

MR. McKEE: Ought to have it the last half of October to get the farmer money.

MR. ECCLES: December is better for farmers.

MR. BELL: You have the War Fund drive scheduled for October. I understand the President has approved that. It can be changed, but they don't want to change it. They have made some preliminary plans.

I am to have a conference with them as soon as we make up our minds what period we are going to use.

MR. SZYMCZAK: Do you have in mind getting the bank financing in between the various drives, or at the end of the drive?

MR. BELL: That is for consideration. It has been suggested that we do it in the interim periods, and it has also been suggested that we do it at the end of the drive - three or four days at the end of the drive. I would just as soon have it in the interim.

In October and November we can have any bank financing we want without interfering with the next drive.

MR. SZYMCZAK: You didn't have in mind having any bank financing before September?

MR. BELL: Yes, two and a half billion of some kind of financing in July, and that even gives us a very small balance - only five hundred million.

But I am hoping to get additional money out of this withholding tax in August.

MR. SZYMCZAK: Were you going to try to get more money than this two and a half you mentioned from the banks?

MR. BELL: Nothing more than Treasury bills.

MR. McKEE: Any roll-overs?

MR. BELL: A billion six hundred million dollars that mature on August 1.

MR. BELL: Now, there is a feeling in New York that it wouldn't hurt anything if we had two and a half to three billion dollars' worth of bonds, and maybe notes, because we are going to put a billion dollars of money back into the market on June 15 at this maturity, and there is going to be pressure on the market for this investment.

The market is pretty high, particularly the note and the intermediate bond market.

MR. ECCLES: Let us sell something. I don't know that the market is going to be strong because your reserves are going to go down awfully fast.

MR. BELL: This is apparently what is happening. We are making our calls, and New York is losing, I suppose, forty percent. They have got about forty percent of the War Loan account.

So our calls draw the money out of New York and throw it into the country, and then the country comes to New York and wants to invest it in notes and bonds, and New York gives up bills and certificates in order to meet the calls.

So you have got bills and certificates thrown into the Federal and pressure on the note and bond market. I think it is worth considering as to whether we want financing before July just for market reasons. We don't need the money, but for market reasons you may want a bond or a note issue before July.

MR. YOUNG: No thought of refunding a billion four?

MR. BELL: We have announced we pay that off in cash.

MR. ECCLES: Taking the country as a whole - and the Treasury - I would like to look at that one.

MR. BELL: I say it is for consideration. We have made no decision. I discussed it yesterday with Bob Rouse. Dudley Mills was in the office, and I discussed it with him also.

MR. McKEE: One of the finest things you have done in a long time is the schedule of payments on these small war loan deposit accounts. I think maybe you might be able to raise that minimum a little.

MR. BELL: I think we may. Your number of banks in the larger group is not large.

MR. McKEE: There is always the worry - even the Federal Advisory Council mentioned it to us - is there any exposure - you weren't there, Marriner - any exposure in allowing these small banks to handle these war loan deposit accounts, not knowing the kind of assets they might invest the money in?

I said at that time that I thought that your program had told the fellow in advance when his money was going to be called for, and he, now, in one class of banks could count on his maturities being usable at given dates.

MR. BELL: That is right. And I think the larger banks can tell pretty well within a week or ten days - if we tell them when the next drive is going to be, they will know pretty well that we will be out of money by the time that drive comes around, so they can schedule their payments pretty well.

Each month follows a pattern pretty well of the previous month, except for interest payments and maturities. A slight increase for the upswing--

MR. McKEE: Don't you have a lot of maturities in December of this year, Dan?

MR. BELL: We have three billion eight of the certificates on December 1, and this four hundred twenty-one million of one-and-one-eighth percent Treasury notes.

MR. McKEE: Have you thought anything about rolling over your certificates in a choice of - did you ever consider giving him a preference on two maturities, on rolling over these certificates now that we have so many of them out? I think we might be able to get some of this money for a little longer time - help us on refinancing - where you are still borrowing a lot of money.

MR. BELL: We haven't done that on certificates we have had maturing so far because they have only been the normal roll-over; but when you come to December with three billion eight, we may want to do something like that, John, pretty soon. I don't know whether you would want to do that in August with a billion six.

MR. McKEE: Will you come against a demand for just a little longer money - and that is what you are coming into in various of these periods - but if you had certificates falling due - whether you couldn't give them a chance to take one - a certificate, or a short bond, or a short note?

MR. BELL: By that method you create rights, of course, in the certificate, which we have tried to avoid. But when you come to December maturity, I am willing to sit down and consider something like that. I think it is important, because a lot of those certificates are not in the banks at this point anyhow. We are watching that. We are making a study of it to see where they are held. Certainly we ought to try to keep those that are outside of the banks invested in the new securities.

MR. DRAPER: And you don't know what the tax picture is going to be, really. You are pretty confused.

MR. BELL: Not at all - we don't know.

MR. ECCLES: You see what you have developing because the funds now in the War Loan account are spent - you go back into private accounts. They are subject to reserves - it means a huge shifting. By July reserves are going to be - as a matter of fact, they don't have enough reserves now to meet what the requirements will be with that shifting, and they are going to sell a lot of paper to the Fed.

It seems to me in making an offering, in order to get funds from the - you ought to get funds from the banks, really, before you need them in order to meet a market situation. I can't see as it makes very much sense, because all it means is that the banks are going to need more reserves when they have less reserves in order to buy a lot of securities. It means the equivalent of the Fed really furnishing the funds with which to buy whatever offering you have to offer.

Now, that is all right when the Treasury needs the money. We should furnish the reserves to enable the banks to buy, but why furnish reserves to enable the banks to buy securities in order to have balances that the Treasury doesn't need? That is looking at the thing as a whole. I think that is a factor that you have to think about.

MR. BELL: I don't think that is developing. I think that has been here all the time.

MR. ECCLES: But that is developing - you see, with the huge war loan account it built up reserves very fast, and the banks were trying to use those reserves and run the market up. Now they are going to have to reverse it. They had to buy a lot of securities to use up the reserves, and that is why they got seven billion instead of five.

Now they are going to have to turn right around again and sell the Fed enough of what they buy, it seems to me, in order to meet the increased reserve requirements. I am looking at this system as a whole. That is what they have to do, so we are going to have to buy.

Now, when you get into that position I think we have to think of things I have stressed before, and I think they are going to become more evident again, and that is that the Fed will not only have to roll over all of its - replace all of its maturities so as to keep reserves up, but they will have to be buying practically all of the new bills that you are offering.

MR. BELL: You are rolling over everything except bills.

(The Secretary reentered the conference.)

MR. ECCLES: Roll over and buy a lot of other stuff, possibly furnishing four hundred million a month in reserves to take care of Treasury--

MR. McKEE: That is on a cash basis.

MR. ECCLES: I wish the Treasury would think again of simplifying this, because there is a terrific - there is an awful lot of Fed selling just as there was when these reserves went up and all that sold through the dealers, just a whole raft of stuff we sell - we not only don't buy any new bills, but we don't get any - don't want them. We let them run off, which is perfectly all right when the reserve is there to let everything run off that the market will take - not only that, but to sell securities we have to try to keep down the premium on this stuff so as to avoid speculation in future issues.

But when the reverse is true, when the banks are losing reserves instead of getting reserves, it seems to me that at that point we ought to replace our bills directly, and I think that ought to be considered.

MR. BELL: We have considered it.

MR. ECCLES: You are going to run into that problem again in July. You don't have it now; the market has taken all of them.

MR. BELL: As far as I am personally concerned, I don't care. I don't think you are in entire agreement on it.

MR. ECCLES: All but New York.

MR. McKEE: Mr. Secretary, we are talking about replacing something we have in our portfolio, and I was just about to mention that the Advisory Council was against our buying directly to create reserves. They were not opposed to our buying direct to continue reserves.

MR. BELL: I see, not opposed to rolling over.

MR. SZYMCZAK: Replacement of what maturities we replaced - we have done it.

MR. BELL: You see, they have bills maturing every week as our bill maturities come along, maybe a hundred million dollars or two hundred million dollars out of an issue.

MR. McKEE: We will have half a billion in a week.

MR. BELL: Under the present procedure they don't pay on bids; we pay the cash, and they have to go into the market to replace those reserves.

MR. ECCLES: The market goes up and down.

MR. BELL: If they just turned them over, the thing would be level.

MR. ECCLES: It would be much stabler, much easier to manage.

MR. BELL: We in the Treasury have said that first it was a Federal Reserve problem for them to agree on the procedure, and we wouldn't have much trouble going along with them.

MR. ECCLES: We all agreed, except New York, and they, of course, express the dealers point of view almost entirely.

MR. SZYMCZAK: We have replaced some of our securities.

MR. BELL: The notes - wherever we had a refunding we allowed you to come in and refund - that is right.

MR. SZYMCZAK: Even recently when the setup was entirely different we didn't have any rights. Before we had rights--

MR. ECCLES: We wouldn't want to replace them when the reserves in the banks were increasing such as they did in the last financing. As the war loan account built up, reserves were required, and the excess built up fast. It is proper we let everything run off that the market can take when the reverse is true, and they are losing reserves rapidly. We have a double duty, not only to replace everything in the market, but go out in the market and buy two or three hundred million in addition.

MR. McKEE: ... at a time when you don't want confusion in the market.

H.M.JR: Just bring me up - what is the argument? I would like to take sides. (Laughter)

MR. DRAPER: There isn't one, curiously enough. I think we are all in agreement.

MR. McKEE: We haven't been able to sell you to allow us to bid to you directly for bills.

MR. BELL: It is a question of replacing what is in their portfolio.

H.M.JR: Do you agree that they should be permitted to?

MR. BELL: Yes, we can agree upon some basis. I think they have had a vote on it, and they haven't been able to convince Allan Sproul and Bob Rouse of the Open Market Committee that you shouldn't go through market channels to replace their portfolio.

H.M.JR: I don't know--

MR. BELL: I think they have confined the discussion to our room.

H.M.JR: I don't remember your mentioning it.

MR. ECCLES: We discussed it very thoroughly with the Open Market Committee.

H.M.JR: Not with me.

MR. BELL: That is right.

MR. ECCLES: I sent Dan a letter and the instructions of the committee stating what our position was.

MR. BELL: Haas has that.

MR. ECCLES: As I say, it wasn't unanimous, but all except one out of the six members of the board and all of the twelve presidents - New York was the only one that would like to keep up the market channel of that thing. That is a dealer - dealers would like to do it, of course, because they get commissions going and coming on a fine scale.

MR. BELL: Well, I have been over the picture.

H.M.JR: Did anybody make any suggestions as to when they think the next financing should be?

MR. BELL: I said that the latest that we could have any financing would be July of at least two and a half billion dollars; whether we needed more would depend upon how we were able to collect the withholding tax. If we were able to collect it on a monthly basis, we would get some additional funds in August. If we were able to do it only on a quarterly basis, we couldn't get the funds until November so the withholding tax would be a bad thing from the Treasury's standpoint for the next three months' financing.

I told them that there was some feeling in New York, particularly, that the market was pressing against the top and that we ought to have a note or a bond issue in June so as to relieve this pressure.

Marriner said that he would like to think about that, and I said that that is the only reason I was throwing it out, to get some study of it in the next week or so.

H.M.JR: Did you talk at all about our next public financing?

MR. BELL: I said that what we had discussed here would be two dates, one would be, say, around the fifth or thirteenth of September, or possibly October. And if we go to October it is going to require quite a bit of bank financing, and in the meantime that may cause some criticism of the Treasury program of financing through the banks before the next drive. I don't think there was any discussion as to whether we should do it in September or October. I was just reporting.

MR. McKEE: Maybe this isn't a fair question, but you don't have to answer it if you don't want to. Has this tax disturbance interfered with your estimates for your fiscal year too much? I imagine it would.

MR. BELL: Yes, it interfered with March and June, because not near as many people paid in full this year as paid in full last year, and we took a billion and a half off of our estimates for the fiscal year 1943. We didn't change our calendar year liability. We are going to get that revenue; we are going to get it over a twelve-months period instead of six.

MR. McKEE: It will be delayed coming.

MR. BELL: If it turns out more people are paying in full than we estimated - on the first of March we put in a very conservative estimate - put it at really rock bottom - I think that that billion and a half may be cut to seven or eight hundred million dollars - probably half.

MR. McKEE: Then that is not sizable.

MR. BELL: Not serious, no, but our expenditures are going to be down for budget estimates as much as three billion dollars.

MR. ECCLES: I was going to suggest two or three thoughts that I have in connection with the whole program. I think it may be desirable to try to determine if you can whether you are going to have these drives every four months or every six months. Every six months is quite a long while, and it does involve, if you go six months, the appearance of a lot of bank financing in the interim. You go every four months, and the banks in the year would do just as much, but it would be a little oftener and a smaller amount, and it seems to me that four months might be - and not only that, but if you go on a four-months basis you won't have such a terrifically large war loan account that you build up, which is upsetting on the reserve picture, because deposits are subject to reserves while they are in private accounts; and when you pull them out and they go into war loan accounts, they build up very greatly, and they create a very large volume of excess at that particular period. That in turn, with this large volume of excess the banks have - they go into the market and bid up your securities and encourage speculation and padding, which is the thing we try to get away from. Then the shift the other way is exactly the opposite.

When the war loan account goes down the reserves go down, and they run a huge deficit.

I think it would be smoother if we could have it maybe every four months and have the bank financing likewise, at least every four months - fit in three times a year instead of just two times, and have it that much larger. You would get as much in a year, but it wouldn't look as much if you got it three times instead of four times.

We haven't discussed it; I am just giving you what occurred to me on that as something to think about.

MR. BELL: That has some merit, but the four may once in a while slip into the five months.

MR. ECCLES: I think it would help your organization if you could do that with a degree of certainty that you are going out to get this money and you are not going to have any more offerings for another four months.

It will have this advantage, likewise, with the insurance companies: Instead of the insurance companies accumulating as much as they would in six months - you see, they accumulate money, and there it is. Then they are in the market to buy stuff, and the minute the drive comes they sell it again. So if it were a little oftener it would make that a little smoother operation with insurance companies and the mutual savings banks.

There is this other thought that I have - I think if you do that, then the bank financing would be separate, and you would find that three times a year in between somewhere the banks would come in - three times a year the public would come in.

Now, in the case of the War Savings - this is just a thought that I think we might consider - if instead of having these war savings bonds subject to an immediate conversion, have them convertible not before a period of one year with this proviso, that in the case of need people can get the money by a certification of need through your director of sales or something. The amount of redemption would be small, but the people that can't put the money in this thing for a war with that kind of assurance - their money just doesn't - you can delete that--

H.M.JR: Good money. (Laughter)

MR. ECCLES: It is a big expense to issue these securities, and the people that are just taking the security to convert it again - that kind of money you don't want, anyway. I think it would help greatly when the war is over if those securities were falling due - what would be sold a year from now would start coming due in two years; what is sold now, a year. It gives you a chance to turn around, and I think another thing, of course - I know it has been discussed, but our people, I am sure, feel that if you could have it limited to a fifty-dollar bond, which was the amount in the last war - a minimum, instead of the twenty-five - that that might - let them accumulate stamps instead of issuing all those pieces - that that might be a helpful matter.

MR. RANSOM: There is a question there beyond the expense and difficulty involved in selling a twenty-five dollar bond. There are a lot of people who can't buy a fifty-dollar bond and won't undertake it. They will not save enough stamps to ever get to a fifty-dollar bond. And to what extent that has a value beyond the trouble and expense involved, I have never been able to guess, feeling that perhaps it may serve some useful purpose.

MR. ECCLES: I think all our Reserve Banks who have had to handle the redemptions of all this stuff are all sure that it--

MR. BELL: You have just one small part of it. We have the other end of it in Chicago, haven't we, Hap?

MR. YOUNG: Yes.

MR. ECCLES: There is something for consideration there. Then there is the question of the F and G's again - they have been more or less discussed. It might be a good thing to determine that for the duration, instead of leaving the element of uncertainly that is involved in it - and if you did get rid of the F and G's, then I would think that we ought to think of selling - the payments be made on an installment basis as the two-and-a-half's so that when the drive comes along and you sell people a substantial amount of the two-and-a-half's that they can pay for them out of their income over the next period, such as the Canadians have done successfully, out of current income, arranging for the banks to handle the collection, getting the rate of interest that the bond bears while they are handling it.

H.M.JR: If we have a twenty-percent withholding tax, I don't know how many bonds you are going to sell under the installment plan.

MR. McKEE: Don't forget our hundred-dollar coupon bond, too. (Laughter)

MR. ECCLES: I think that will affect your pay-roll deduction possibly more than the other. I merely mention Canada again. They have a withholding tax, and they do use this installment for this reason, that people don't save that money for the next drive - the trouble is, there is too much temptation for them to spend the darned thing in the interim, whereas, if they get committed, there is always the obligation to make the payment instead of spending it.

If people would all budget and say, "Now I am going to put so much and get ready for the next drive, and I am going to hold my money until the drive comes," that is fine. But the trouble is, there is just a lot of people who won't do that sort of thing. The money is laying around, and they spend it.

MR. RANSOM: Any objection to that obligation running to the Treasury instead of the banks?

MR. ECCLES: The obligation would run to the Treasury, sure.

MR. BELL: Do you object to running it to the banks? It would be simpler if the banks carry it for three or four months.

MR. ECCLES: The obligation would be to the Treasury, but the banks would be the collection agency; that was the thought.

MR. LEACH: Would you mind saying why we didn't issue a two-and-a-half percent bond below five hundred the last time? I know you had some reason for it, but I just haven't heard what it is.

H.M.JR: Well, I just felt that it wasn't in the public interest. That was the thing - a negotiable bond - and people get into - they would be subject to this high pressure salesmanship. They would buy it, and when it came to selling it, they most likely wouldn't be able to - they wouldn't know how to sell it. The bond might be selling at a hundred and one, and the corner grocery store would give them ninety-eight for it, and so forth, and so on. We have studied the last war very carefully, and I think that was one of the major mistakes that was made in selling a negotiable bond to people of moderate incomes.

Personally, I think whatever success we have had with the public is due to the fact that the bond has been non-negotiable and they feel that they are protected. To me that is the greatest asset we have here.

MR. McKEE: Could you protect that and still have a coupon bond?

H.M.JR: Oh, yes. The coupon--

MR. McKEE: I still think you are losing a lot of savings money.

H.M.JR: I don't mind a coupon bond if you can get by some of our people.

MR. McKEE: You are losing a lot of savings money where people want to use money as they go along.

H.M.JR: My objection isn't to the coupon bond of the low denomination; I object to the fact that it is negotiable.

MR. McKEE: You can control that. You can control that and still have a coupon bond.

MR. ECCLES: Couldn't you, Dan? I don't know how.

MR. BELL: Tell me how.

MR. McKEE: You can register a coupon bond as to principal.

MR. BELL: You mean you register it and you don't allow it to be negotiable?

MR. McKEE: You register it as to principal.

MR. BELL: In other words, you put out a two-and-a-half percent bond. He would clip his coupon and get his interest, but he has to get it unregistered in order to sell it, or he can only redeem the principal at the Treasury.

MR. McKEE: His principal is registered.

MR. ECCLES: John, he can do that now in the series G.

MR. BELL: That is right.

MR. McKEE: You can't get it to the little fellow who is building up these savings deposits either. That is money I am anxious to have.

MR. ECCLES: Compare this with what happened in the last war. In the last war the Treasury financed on a constantly increasing interest rate which meant that the last bond issued sold below par. It kept going down, and they didn't get par. You have to remember in the last war that there was no market committee, there was - nobody knew anything about the local market. There was no Federal Reserve that gave any support whatever. The only support you had was just what the investor - investment people were willing to pay all the time.

Now, under this situation you have a pattern of rates established. Financing is not going to be done on an increasing interest rate. There is a market support, so these people who would buy that bond have a protection that they just didn't have in the last war.

H.M.JR: Well, all of these things - I want you gentlemen to know that we would like to have your advice, and we will listen very closely, and I think we ought to have a meeting fairly soon of the Open Market Committee.

MR. ECCLES: Of course, they were just in here. We were thinking of one some time of all the presidents - in the presidents' conference they didn't get a lot of things settled - sometime in June. That would give us plenty of time for September. At that time you could discuss the bank financing, to be sometime in July. That would be close enough to discuss that.

MR. BELL: That is close enough, huh? (Laughter)

MR. ECCLES: You never decide on a bank financing, anyway, until--

H.M.JR: ... the week before. (Laughter)

MR. ECCLES: That is unimportant - bank financing - you don't have to decide on that--

MR. BELL: I threw out for discussion as to whether there should be some bank financing before July in order to take pressure off the market.

MR. WILLIAMS: Mr. chairman, may I say one last word off the record?

H.M.JR: Yes.

May 26, 1943
3:31 P. M.

HMJr: Hello.

Robert Doughton: All right.

HMJr: Henry talking.

D: All right, Henry. How're you feeling now?

HMJr: I'm still alive.

D: Well, you're very much alive. I talked to Senator George and he said that it - Friday morning would be as early as it'd be convenient for him to meet with us.

HMJr: Well, that's all right.

D: He'd meet Friday with us - Friday morning at 9:30 at our committee room in the Capitol....

HMJr: Yeah.

D: ....if you can get around to do that, but now if it suits you better, we'll come down there.

HMJr: No. That's - that's - that's all right. You - I - I don't know whether you - you told me that this morning.

D: Yes, that's what he said.

HMJr: Yeah.

D: Well, at 9:30.

HMJr: At the Ways and Means?

D: At the Ways and Means. Paul knows where it is.

HMJr: Yeah, and I'll bring Paul with me.

D: Thank you. That'll be fine.

HMJr: Thank you.

D: You're welcome. Goodbye.

May 26, 1943
5:17 P. M.

HMJr: Hello.

Randolph Paul: Yeah.

HMJr: Paul.

P: Yeah.

HMJr: Did you see my various conversations?

P: I saw the first two, but I understand you had one this afternoon.....

HMJr: Yeah.

P: ....which I have not seen.

HMJr: No, because the poor old boy, Doughton, evidently completely forgot that he called me this morning.

P: (Laughs) Oh, for God's sake!

HMJr: ....and went through the whole thing all over again -- word for word.

P: Well, did he - word for word - he must have had it written out.

HMJr: Well, I meant about.....

P: Maybe it's engraven on his soul.

HMJr: ....I mean about coming up at nine-thirty and he'd rather they'd come here because it's a little bit better for George - that business.

P: Oh, I see.

HMJr: Well....

P: Well, of course, the minute I saw that I - I thought I'd better get a little agendum for what we were going to say, and I spoke to Roy about it.....

HMJr: Yeah.

P: .....and.....

HMJr: I - I thought I was kind of good on that -- to get this, you see?

P: Well, he was obviously feeling very conscience-stricken.

HMJr: Yeah.

P: But, there - I think we ought to have a little talk before that time.

HMJr: Well, we can, because I'm all cleaned up now, except for the press statement.

P: How'd you come out today?

HMJr: Well, I came out all right, I think. They're going to do the banks and we're going to do the rest.

P: Yeah. That - that plan worked out in the conference. That's good. Well, look, when do you want to get together? I think we ought to have a little.....

HMJr: It'll be sometime tomorrow morning. I - I've got nothing to do all day tomorrow now, because....

P: Oh, well, that's fine.

HMJr: ....I'm finished with the Fed. So I'll be all right.

P: All right. I think we ought to take a little time to review the situation....

HMJr: Uh huh.

P: ....and.....

HMJr: I can see.....

P: ....we ought to have Roy and Stanley there and then, of course, we.....

HMJr: Are we.....

P: ....we have that angle of it, and we also have the other angle of it on - on this bill.

HMJr: How about nine-thirty tomorrow?

P: All right.

HMJr: Will you be ready?

P: Well, I'd rather make it later.

HMJr: Well, eleven o'clock.

P: Eleven o'clock is better.

HMJr: All right.

P: Eleven o'clock tomorrow morning.

HMJr: Yeah.

P: You're not coming to that dinner tonight?

HMJr: I - I told - I told....

(Remainder of conversation not recorded.)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 26 1943

TO Secretary Morgenthau

FROM Randolph Paul

As you know, the tax bill agreed upon by the conferees cancels 75% of the individual tax for 1942 or 1943, whichever is lower, and leaves unabated 25%. The unabated portion is spread over two years.

According to the Washington Post of May 26, 1943, Knutson said: "I don't think there'll be another tax bill dealing with personal income taxes this year providing the two houses accept the compromise."

Representative Knutson, according to the New York Times of May 26, 1943, said "there was virtual agreement in the conference that the 3 billion dollars of additional revenue provided by the collection of this unabated tax might preclude a bill to raise individual tax rates for this year at least."

This statement is entirely in line with what amounts to a personal commitment by Senator George on the floor of the Senate when he said on May 14, 1943: "My position is that if 25 percent of the 1942 liability of the individual income taxpayer were carried over, as I have suggested, there should be no further increase in individual income-tax rates for the next two years." See more extended quotation in Exhibit A.

It is doubtful whether a veto by the President of the conference bill would be accepted by a large part of the public if the veto were based on the considerations expressed in the President's letter of May 17, 1943. It is true that these considerations furnish a sound reason for vetoing the bill, although there are arguments on the other side. But I am fearful that the public does not sufficiently understand the issue to support the President if a veto were based upon such reasons.

Mr. Blough has made a suggestion which I think may have great strategical and practical value. He suggests that the President call the leaders of the House and Senate into conference and secure a definite commitment from them that

(a) the collection of the unabated 25% will not preclude raising the individual tax rates at least on income not yet earned at the date of enactment of the new bill, and

(b) that they will start immediately upon a rate bill to raise individual income taxes and such other taxes as may be desired.

This commitment, to be effective, should probably be in the form of a written statement. Even such a commitment might be fulfilled by a small token tax, possibly a sales tax.

Refusal to give this commitment could be made a ground for a veto. I think the public would understand such a veto. The veto could also mention equitable and other considerations, but it could be based primarily on the point that the conference bill precludes further taxation which is highly necessary to raise revenue and to curb inflation.

RBP

Exhibit A

From the Congressional Record of May 13, 1943, No. 87, page 4409:

Senator George, in referring to Senator Byrd's 50 percent abatement, stated: "it seems to me to be perfectly clear that a reduction by 75 percent of the lesser of 1942 or 1943 tax liability on individual income taxpayers would almost of necessity result in stabilizing the individual income taxes, at least during the next two years, and might be carried to the next three years, because under the proposal I am making there is added the 25 percent to the taxes for the next two years; that is, 12 1/2 percent due in March 1944 and 12 1/2 percent due in March 1945. I do not think there would be any real danger that individual income taxes could be raised with that added burden on the taxpayer, but no one can pledge what he will do in a war situation like this. There would, it seems to me, be no chance however to increase the individual returns."

Senator Byrd then remarked "the Senator from Georgia is of the opinion that if, for example, a 75 percent tax cancelation were adopted and the other 25 percent spread over a period of two years, that would, to a large extent, safeguard those particular years from a general increase in taxes? Is that true?" Senator George replied "Yes".

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MAY 26 1943

Dear Mr. Bane:

Thank you for your letters of May 19, 1943 telling me of the work of the Federal-State-Local Committee on Fiscal Policies and Practices. I was pleased to learn of the appointment of a small executive committee. I am designating Mr. Roy Blough, Director of Tax Research, as my representative.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Frank Bane
Executive Director
The Council of State Governments
1313 East Sixtieth Street
Chicago, Illinois

Photo file in Diary

File to Thompson

HM:kld
5-25-43

THE COUNCIL OF STATE GOVERNMENTS

1313 EAST SIXTIETH STREET, CHICAGO, ILLINOIS

May 19, 1943

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

My dear Mr. Secretary:

At the meeting of the Federal-State Committee on Fiscal Policies, held here in Chicago on May 17-18, the Chairman, Mr. Long, was directed to appoint an executive committee of five consisting of the Chairman of the Committee and two additional representatives from the States, and the Secretary of the Treasury or his duly appointed representative, and the Director of the Budget or his duly appointed representative.

The committee is as follows:

Henry F. Long, Commissioner of Corporations & Taxation of Massachusetts

C. H. Morrissett - Tax Commissioner of Virginia

Harold C. Ostertag - Assemblyman of the State of New York

Henry Morgenthau, Jr. - Secretary of the Treasury (or his designated representative)

Harold D. Smith - Director of the Budget (or his designated representative)

I hope you can serve on this committee, and it is the Chairman's expectation that a meeting will be called in Washington in the very near future to develop a program of action in the field of federal-state relations.

Very sincerely,

Frank Bane

Frank Bane
Executive Director

FB:mlh

Mr. Blough

THE COUNCIL OF STATE GOVERNMENTS

1313 EAST SIXTIETH STREET, CHICAGO, ILLINOIS

May 19, 1943

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

My dear Mr. Secretary:

The Federal-State-Local Committee on Fiscal Policies and Practices has spent two days here in Chicago discussing the general question of federal-state cooperation and, more particularly, the Report of your Special Committee on Intergovernmental Fiscal Relations.

The Committee instructed me to tell you how much it appreciates the very constructive cooperation which it has received from the Treasury and its staff and to assure you that it is anxious to do anything and everything possible to facilitate effective action in this field of federal-state relations.

To this end it has designated a small executive committee, consisting of Henry F. Long, Commissioner of Corporations and Taxation of Massachusetts; C. H. Morrissett, Commissioner of Taxation of Virginia; Harold C. Ostertag, Assemblyman of the State of New York; the Secretary of the Treasury or his designated representative; and the Director of the Budget or his designated representative. It is the idea of the Committee that this group should meet at the earliest possible time, perhaps the latter part of this month, in order to develop ways and means to effectuate our objectives.

As you know, the Council of State Governments has long been interested in the subject of federal-state cooperation in the tax and fiscal fields. Through its Interstate Commission on Conflicting Taxation and its Tax Revision Council much information, material, and data was assembled and much work was done which should be conducive to widespread cooperation on the part of the States.

And more recently, its program on Wartime Emergency Fiscal Policies, developed in cooperation with the Bureau of the Budget and the Treasury Department and which has been accepted in so many States, has laid a foundation for further cooperative action in this field.

The Committee believes that now is the time for all areas and levels of government to put their fiscal houses in order to insure the winning of the war at the earliest possible time and the establishment of a comprehensive tax and fiscal program for the postwar period.

Very respectfully,

Frank Bane

Frank Bane
Executive Director

FB:mlh

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 26, 1943

TO Secretary Morgenthau

FROM Randolph Paul

You may be interested in the attached clipping on Chester Davis' statement on expenditure rationing.

Attachment

Wall Street Journal
May 26, 1943

Buying Curb

Budget for Consumer Spending May Be Next Anti-Inflation Plan

Food Czar Davis Wants Purchasing Power Rationed Like Commodities

Revives Talk of Special Tax

By S. H. Scheibla
Staff Correspondent of The Wall Street Journal

WASHINGTON — Expenditure rationing may be proposed by the Administration as its next major addition to the anti-inflation program.

Government economists have investigated the possibilities of such a move ever since rising purchasing power and a declining volume of civilian goods have threatened to drive prices out of bounds.

It was not until yesterday, however, that expenditure rationing came in for support in the upper layer of Administration officials directly responsible for price control and distribution of scarce civilian goods.

The supporter was Chester C. Davis, War Food Administrator, who is charged with seeing to it that farm commodities are produced at capacity levels and at prices which will not break through the Administration's hold-the-line order on the cost of living and wages and salaries.

Mr. Davis took the position that rationing of purchasing power would do much to take the pressure off prices and would make rationing of foods much easier to administer. He said that so long as consumers have excess money to spend there will be an apparent shortage of food despite record production.

In the past, the Treasury Department has worked on a number of plans to ration expenditures by imposing severe tax penalties on spending above various levels. Only one of these, the spending tax, which was turned down flatly by Congress last year, was ever made public. Mr. Davis' comments created the impression here that either the spendings tax, in modified form, or some new proposal, will be offered to Congress this year. The spendings tax was a combination tax and forced savings in that a part of the tax would be returned after the war.

More Money to Spend for Food

Mr. Davis' views were set forth in a statement to the National Association of County Officials meeting in Omaha, Nebraska. It was delivered by his special representative, M. Clifford Townsend, former governor of Indiana.

"Much of the talk of food shortage has risen from the fact that we have more money to spend for food than we ever had before and, being human, we have tried to spend it," Mr. Davis said. "As long as that condition of

Please turn to page 2, column 2

excess money to spend exists, the American civilian will continue to clamor for record food supplies.

"Rationing of food—the principle of sharing—should of course modify this scramble to get it. But applying this sharing principle to food alone isn't enough. The cause of the trouble, the excess purchasing power itself, will remain, unless it too is shared—absorbing this purchasing power through much heavier savings and taxation. So long as the wild horses of demand, fed by this unprecedented purchasing power, remain unharnessed, the feeling of food shortage will continue even in this time of greatest food supplies in our history.

Courage in Rationing Food

"Only by rationing both food and purchasing power can these apparent shortages be prevented. And the more courage we use in rationing this unprecedented purchasing power through taxation and investment in our Government, the less we will have to resort to rationing the large supply of food we have on hand."

Mr. Davis credited farmer spokesmen with exaggerating farmers' concern over high price ceilings and profits. "I believe the farmer is far more concerned about simply having a safe price floor that he can depend on for the future. I believes his chief concern is to have the labor, machinery, supplies and prices that will enable him to produce,' he stated.

Advocating compulsory pooling of scarce machinery, Mr. Davis explained he knew it would mean regulations, priorities and sharing. But these nuisance priorities and other red tape will be of real value in adding to the supply of farm machinery, he added.

Farmers Will Get Machinery

He again assured farmers that they would get the machinery they need. "We have made great progress, more than I had expected to be able to report by this time," he said. He added that he was not yet able to give any figures on the amount of machinery that will be available for farmers.

Indicating the possibility of feed allocation, Mr. Davis warned, "later we may have to face the production problem of the most efficient distribution of livestock feeds to enable the maximum food production."

Once more pointing out the need for a proper balance between feed and livestock, he declared that this could be done through farmer cooperation and individual adjustment by the farmers themselves. So far farmers have cooperated in these necessary expansions and restrictions, he said.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 26, 1943

TO Secretary Morgenthau

FROM Frances McCathran

CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Tax: Pay-As-You-Go - After five days of what appeared to be hopeless disagreement, House and Senate tax conferees late yesterday afternoon approved by a vote of 11 to 3 a compromise plan authored by Senators George and Vandenberg. Chief features of this plan, which conferees are confident will be approved by both houses, are: (1) complete abatement for taxpayers owing $50 or less on 1942 incomes (special provisions will be written for tax liabilities slightly over or under that figure); (2) 75% abatement of either 1942 or 1943 tax, whichever is lower, for persons with more than $50 tax liability; (3) unabated tax payable over a two year period; (4) quarterly payments on estimated current earnings for non-wage and salary individuals; (5) 20% withholding tax to start July 1; (6) anti-windfall provision designed to capture taxes on an income more than $20,000 higher than that of a so-called normal year (taxpayer may choose either '38, '39, or '40 as his norm.). Colin Stam, Chairman of the Joint Congressional Committee on Internal Revenue, estimated that the 25% carry-over provision of this compromise plan would net the Treasury about 3 billion dollars more revenue than the 100% Ruml Plan. Conferees said they didn't know what the President's position on the matter would be, but felt confident the House would approve the measure late this week and the Senate shortly thereafter.

2. Poll Tax - Despite the contention of southern Representatives that anti-poll tax legislation would be direct interference of the Federal Government in States' rights, the House passed yesterday and sent to the Senate a measure prohibiting the levying of a poll tax in voting for Federal elections. Southern Senators, however, have already stated their unalterable opposition and indicated their intentions of filibustering the bill to death as they did a similar measure last fall. Northern supporters of the bill, on the other hand, charge these southerners fear franchisement of negroes and "poor whites," which southerners admit would create a very real problem in their states.

May 26, 1943

Dear Marriner:

As you requested in your letter of May 22, and pursuant to our subsequent conversations, I am transmitting to you copies of the transcripts of the morning and afternoon meetings on Friday, May 14, in the Treasury Building with you and the Presidents of the Federal Reserve Banks at which were present also some members of my staff.

I agree with you that the minutes are of such interest to you and to the Federal Reserve System that you should have these copies.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Marriner S. Eccles
Chairman, Board of Governors
of the Federal Reserve System
Washington, D. C.

HEG:pm

By Brown 1:20 5/27/43

File in Diary

(init. copy to Gaston)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

May 22, 1943.

PERSONAL AND CONFIDENTIAL

Dear Henry:

The two meetings of the Federal Reserve Bank presidents and myself with you on last Friday were of such vital importance to the Federal Reserve System as well as to the Treasury that the stenographic transcript or minutes of the two meetings should, it seems to me, be available to us as well as to you. I would, therefore, very much appreciate it if you would furnish me with a copy of the transcript of the meeting in the morning and that in the afternoon so that there may be no question so far as we all are concerned of differences arising as to our recollection of what was said.

Sincerely yours,

Marriner

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

May 26, 1943

Dear Allan:

I was very sorry to learn that you have been quite sick since I last saw you. I called your office several times and was glad to learn that you are better today. I hope that before long you will be back at your desk.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Allan Sproul,
President,
The Federal Reserve Bank of New York,
New York, New York.

File in Diary

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 26, 1943

TO Mrs. McHugh

FROM Mrs. Dennis

The Secretary would like you to remind him to write a note to Mr. Sproul today.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

PERSONAL AND CONFIDENTIAL

DATE May 26, 1943

TO Secretary Morgenthau

FROM Fred Smith

It is with great pleasure that I dispatch the attached document pertaining to "Anoxia -- Its Surgical Significance".

I want especially to call your attention to the pictures and diagrams on page 3, which explain absolutely everything. The right-hand chart is a diagrammatic presentation of the reaction of Mr. Eccles to the Second War Loan. On the other hand, the diagram on page 9 seems to be a rough estimate of Ted Gamble setting up a War Savings Staff.

You will see that carefully studying this book is much more beneficial than pills, especially if you also take the pills.

Yours very truly,

Fred

Fred (Medicine Chest) Smith

ANOXIA—ITS SURGICAL SIGNIFICANCE

HERBERT C. CHASE, M.D., F.A.C.S., New York, New York

Reprint from
INTERNATIONAL ABSTRACT OF SURGERY
(Surgery, Gynecology and Obstetrics)
August, 1941, Vol. 73, 105-120

ANOXIA—ITS SURGICAL SIGNIFICANCE

HERBERT C. CHASE, M.D., F.A.C.S., New York, New York

As one comes to the end of the third decade of the Era of the Surgeon Physiologist he finds that volumes have been written relating to the application of basic physiological concepts to clinical surgery. Water-salt regulation, and acid-base balance have been reduced to simple rules and chemical equivalents. Shock and dehydration are now measured in terms of specific gravity and by hematocrit index. Yet, with all these developments and advances, one of the most life-sustaining and life-giving agents, oxygen, has been neglected by most surgeons.

HISTORY

Galen (180 A.D.) taught that the blood leaving the right ventricle passed through the "artery like" vein to the lungs, mixed with the air to form the "vital spirits" (28). During the lifetime of William Harvey (1578–1657) respiration was considered the cooling system for the blood. Boyle, in 1666, demonstrated that without air, life is impossible. John Mayow, in 1674, established the true principles of the physiology of respiration, and described the "nitro-aereal spirit" in the air and its absorption by the blood in the lungs (22). In 1774, this "spirit" was isolated in pure form by Priestly and called dephlogisticated air (24). Lavoisier, in 1777, also isolated the gas in pure form, named it oxygen, and taught that it combined with carbon to form carbon dioxide and produce, by this reaction, animal heat (18). Following the work of Priestly and Lavoisier, oxygen was hailed as a panacea for all the ills of man and thus it was not long before oxygen therapy fell into disrepute. Interest in oxygen from a therapeutic standpoint was revived during the World War by the work of Barcroft, Haldane, Hunt, Dufton, Stokes, and others.

The physiology of respiration. In presenting the subject of anoxia in a "clinical" journal and to a purely clinical group one may be justified in describing briefly the physiological mechanisms of respiration.

Le Gallois, in 1882, described and established the site of the respiratory center in the medulla (19). This center, the follatio reticularis, which is located in the floor of the fourth ventricle, is a loosely arranged group of nerve cells with intercommunicating fibers and with an abundant vascular supply. The centers are connected directly with the principal efferent and afferent nerve pathways, and with fibers from the carotid and aortic bodies through the vagus and the cranial nerves. They are under both reflex and chemical control. The basic cause of rhythmicity is found in the blood itself, and it is now certain that the two centers continue their intermittent discharges when all sensory nerves are severed. Although basic rhythm rests upon chemical factors in the blood, the rate and duration of their motor discharges are continually influenced by sensory impulses pouring into the medulla over the afferent nerve pathways (Figs. 1 and 2).

The most powerful of these are the sensory impulses which arise in the lungs themselves. In 1868, Hering and Breuer (6, 16) described sensory receptors (Fig. 3) in the smooth muscle spindles in the walls of the bronchioles throughout the lungs, which are mechanically stimulated by lung inflation and muscle stretch, and send a series of impulses to the respiratory centers through the vagus. The rate of impulse discharge increases as inflation and stretching progress. The central effect of impulses arriving from these lung receptors is to stop the activity of the respiratory centers. The outflow of motor impulses to the inspiratory muscles is cut short by the sensory impulses from the inflating lungs, which increase in intensity as inspiration proceeds. Finally, the sensory impulses literally smother and inhibit the motor activity of the centers, inspiration ceases, and expiration begins. Thus the lung is protected against overinflation by its intrinsic "governor" mechanism, just as the brain is guarded against excessively high blood pressure by the carotid sinus mechanism at its vascular gateway.

The carotid-sinus reflex is second in importance to the Hering-Breuer reflex. Two distinct sensory-nerve pathways arise in or near the sinus, their fibers reaching the medulla over the ninth and tenth cranial nerves (Fig. 1). In the arterial wall lie receptors which are stimulated by the stretching of rising blood pressure. In the carotid bodies near by and receiving arterial blood through small and abundant vessels lie other receptors influenced only by the chemical changes in the blood itself (carbon dioxide-hydrion concentration, oxygen lack). This dual system plays an important rôle in the mechanism of respiration. As changes in the blood occur or blood pressure rises (from any cause) nerve impulses travel up to the respiratory centers and partially or completely suppress their rhythmic activity. The effect of rising blood pressure is in the same direction as the effect of lung inflation. As the blood pressure rises the depth of inspiration decreases. If the blood-pressure rise continues, respiration ceases (apnea) to recur only when the blood pressure begins to fall. As the blood pressure is further lowered, respiration increases in rate and amplitude.

CHEMICAL FACTORS IN RESPIRATION

Both the carotid and aortic bodies, recently discovered chemoreceptors, represent persistent remnants of an old chemoreceptor system found in the gills of our marine ancestors. They were formerly associated with the vascular "arches" rising through the gills from the aorta, and appear in the human body as vestigial organs during embryonic life, greatly modified to form the aortic arch and carotid arteries of the adult. The chemoreceptors (corpus caroticus and corpus aorticus) cling to them in the two regions and shift their function from the fluid of the external environment to the arterial blood of the internal environment. They consist essentially of glomus tissue, or thin-walled sinusoidal spaces without a muscular coat, but the walls contain many nerve endings which are sensitive to chemical and pressure changes.

Heymanns and Schmidt and their coworkers have recently been able to distinguish between the mechanical receptors of the sinus wall and the chemical receptors of the carotid bodies (27). The two sensory receptor systems, although anatomically near together (Fig. 1), are entirely independent of each other in function and do not necessarily act at the same time. The principal chemical factors affecting the carotid bodies themselves are carbon-dioxide tension, alterations of the hydrion concentration of the blood, and oxygen lack.

Increased carbon-dioxide. The gas carbon-dioxide is intimately involved in the chemical control of respiration. High blood carbon-dioxide tension has its major effect directly on the respiratory center, but also has a direct chemical effect upon the carotid bodies. The rhythmic activity of the respiratory centers depends upon a number of chemical factors (V.S.). Into this equilibrium carbon dioxide enters in a very important way, and while it is not the sole blood-borne chemical agent involved, it is, by far, the most important. Since carbon dioxide is being continually produced in all living cells it is constantly being formed in the neurons themselves, and when in concentration in these cells, its effect will depend on the rate of blood flow through these nerve centers. When the flow is rapid and carbon dioxide is readily dissipated, respiration becomes slow and shallow. When the blood flow is slow, the reverse occurs.

Blood-borne carbon dioxide may come to the respiratory centers from other organs, e.g., from muscles during exercise when lactic-acid of the blood operates as a secondary chemical stimulant. Furthermore, the blood vessels of the medulla are sensitive to both carbon dioxide and oxygen lack and, in common with other blood vessels of the brain, dilate in response to both. As muscular activity continues, the blood flow through the respiratory centers increases and the acid condition of the nerve cells is somewhat relieved (second wind).

Oxygen lack. The great increase in rate and depth of respiration at high altitudes is well known. This is a further example of chemical stimulus. It occurs at the very time when overventilation causes carbon dioxide to be rapidly blown out of the blood and when the latter is rapidly turning alkaline (pH 7.8). So the hyperpnea cannot be due to the carbon dioxide or other acids, but to the direct effect on the carotid body of oxygen lack when the oxygen of the air falls to 13 per cent or less. This corresponds to an altitude of about 11,000 feet. Sensory discharges travel to the medulla over fibers of the ninth cranial nerve and these impulses are increased as oxygen lack becomes more extreme. This stimulates the respiratory centers and respiration increases rapidly in rate and amplitude. The value of this mechanism is obvious: the oxygen tension in the alveoli is raised, and the supply to the blood maintained. If bilateral denervation of the carotid bodies is performed, the oxygen pressure in the lungs and blood may be reduced to the point of asphyxia and death with relatively little effect on the respiratory movements.

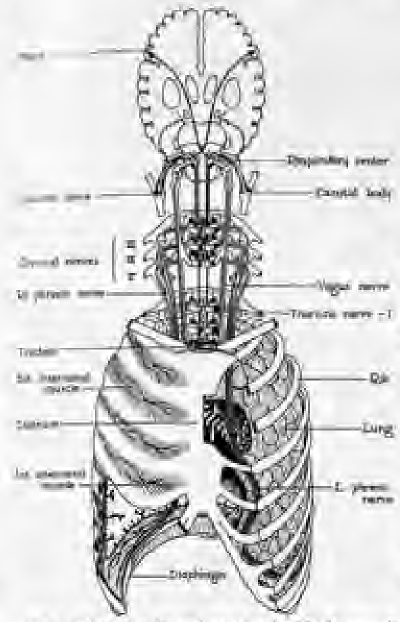

Fig. 1. Principal reflex pathways involved in the control of respiratory movements. Sensory nerves in red, motor nerves in black.[1]

Fig. 2. Smooth muscle spindle in wall of bronchiole.[2]

TRANSPORT OF THE RESPIRATORY GASES

The transport system of the respiratory gases is one of those fascinating and amazing mechanisms of mammalian physiology which words are inadequate to appraise. It is unique and wonderfully efficient in its correlated interdependent factors:

1. The properties of hemoglobin (chemical and physical).
2. The construction of the red blood cell itself.
3. The oxygen diffusion gradient.
4. The "give and take" relationship of carbon dioxide and oxygen in the tissues and in the lungs.

"The more hemoglobin is studied the more precisely do its properties conform to those of the ideal respiratory pigment. . . . In the interior of the red blood cell it exists in a world all its own. By this device, nature has at one stroke increased the efficiency both of the blood and of the hemoglobin" (Joseph Barcroft, 2). Hemoglobin is the carrier of the reserve supply (19.5 per cent by volume) of oxygen of the blood, and the remainder (about .5 per cent by volume) is in simple physical solution in the plasma. From this latter source all oxygen is delivered to the tissue cells, and all oxygen combined with hemoglobin in the reserve must enter into solution with the blood plasma before being available for cellular respiration. The constancy of this oxygen volume in physical solution (.5 per cent) and its efficient maintenance is, therefore, of paramount importance.

[1]From Amberson and Smith. Williams & Wilkins Co. Permission to reproduce extends only to this issue of INTERNATIONAL ABSTRACT OF SURGERY (SURGERY, GYNECOLOGY AND OBSTETRICS).

[2]From Larsell and Dow, Am. J. Anat. 1933, Vol. 52. (The Wistar Institute of Anatomy and Biology.)

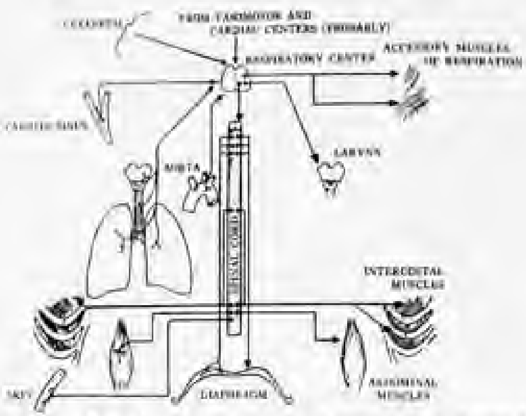

Fig. 1. Sensory pathways affecting the respiratory centers. (From Best and Taylor. Williams & Wilkins Co.)

Each red blood cell is like a little ship with its crew of 240,000,000 men (hemoglobin molecules) transporting 960,000,000 bales (oxygen molecules) on its journey through the blood stream to the tissues where it unloads one-third of its cargo and picks up new cargo (carbon dioxide) for the return voyage; it thus shuttles back and forth between the lungs and the tissues always carrying cargo to and from the living cells.

This efficient transportation depends on the peculiar construction of the ship itself as well as the very nature (Fig. 4) of its crew. First of all, it is a relatively large ship (the S.S. R.B.C.) which carries a large crew of many small men (hb. molecules), each inherently capable of handling his four bales of cargo. The shape and construction of the ship give it a large surface for quick loading and unloading combined with considerable internal volume (90 cu. microns). The crew is imprisoned and cannot leave the ship, and so well guarded they cannot mutiny. The R.B.C. holds hemoglobin within its membrane so that it cannot escape into the plasma and be lost. The blood concentration of hemoglobin is thus maintained. As for the crew, each man has a truck (divalent ferrous iron) with the capacity of loading four bales into the ship at one time.

Hemoglobin is a conjugated protein, its molecule consisting of four smaller units each with a molecular weight of 17,000. Each unit consists of the haem molecule (Fig. 5) containing a single atom of divalent ferrous iron (the truck), linked to a much larger colorless protein, globin. Each ferrous atom is able to hold a molecule of oxygen. Hence, each hemoglobin molecule can unite four oxygen molecules forming oxyhemoglobin. The hemoglobin of muscle has a higher affinity for oxygen than blood hemoglobin, but muscle hemoglobin loses carbon monoxide ten times as rapidly as blood hemoglobin although their affinities are about the same (3). The 960,000,000 oxygen molecules carried by a single red cell will occupy a space of 25.5 cu. microns of the oxygen, if they are taken from the cell and measured as gas. Since the whole red cell has a volume of 90 cu. microns, oxygen occupies a space of 35.5/90 or approximately 40 per cent of the volume of the cell. In normal blood, each red blood cell is surrounded by an equal volume of plasma containing no hemoglobin and .5 cu. microns of oxygen in solution. In each 180 cu. microns of whole blood (90+90), therefore, we find 36 cu. microns in all. The oxygen then is 36/180 or 20 per cent of the volume of whole blood. These estimates closely agree with direct analytical data (e.g. Van Slyke method). The oxygen capacity of the blood then is 20 volumes per cent. This represents full capacity or saturation under normal conditions. The oxygen content of the blood is rarely equal to its capacity and is often considerably less.

OXYGEN DIFFUSION GRADIENT

Under normal conditions there is a steep gradient of oxygen pressure from the atmosphere through the lungs descending steeply to the tissue cell. This can be represented by the flow of water from the great lakes to the sea (Fig. 6). This gradient is from 160 mm. of Hg in the atmosphere, to 100 mm. of Hg in the alveolar air, and from 95 mm. of Hg in the aorta and arterial tree, down to 40 mm. of Hg in the capillary bed. This last drop from 95 mm. to 40 mm. of Hg in the capillary bed maintains the "head" which insures its delivery through the capillary wall into the tissue spaces, where it is taken up as free oxygen into physical solution (.5 per cent by volume) to be utilized by the tissue cells. In alveolar air with oxygen pressure of 100 mm., hemoglobin is not fully saturated. The association value is 96 per cent (Fig. 7) of full saturation. As the arterial blood passes downward through the vessels, the "head" of gas steadily declines, and as it passes into the tissues it enters regions of active oxygen utilization and low oxygen pressure. In fact, the oxygen pressure in many organs and tissues is close to zero.

The amount of oxygen actually in association with hemoglobin varies as the oxygen pressure is changed. A series of estimates made to show the relationship of the oxygen content of the blood at varying oxygen pressures may be "plotted" and is called a "dissociation curve" (Fig. 7). In other words, the dissociation curve, which could be more appropriately called an association curve, shows the degree of saturation of oxygen at the various pressure levels. This is of great practical importance in oxygen therapy as it will at once be noted that increased pressure rapidly increases the degree of saturation. The outstanding and more remarkable fact, however, is the ability of hemoglobin to combine with much oxygen even at low pressures. The amount of oxygen in combination is by no means directly proportional to the pressure of the gas. Hemoglobin picks up oxygen at low pressure and this property is of crucial physiological value (the crew is willing and will always load if cargo is available). It protects us against low oxygen pressures of high altitudes.

In the capillaries the hemoglobin gives up about one-third of its oxygen before it reaches the thicker walled veins where further loss is prevented. The oxygen content of venous blood, therefore, has fallen to about 65 per cent saturation with a pressure of 35 mm. of Hg (Fig. 7). As the venous blood enters the lungs, the oxygen pressure rises again to 100 mm. of Hg. Hemoglobin is resaturated, after which the shuttle begins again.

Fig. 4. Human red corpuscle ×7,623. Size of hemoglobin molecule drawn to same scale indicated by tiny dot within square at left below.[1]

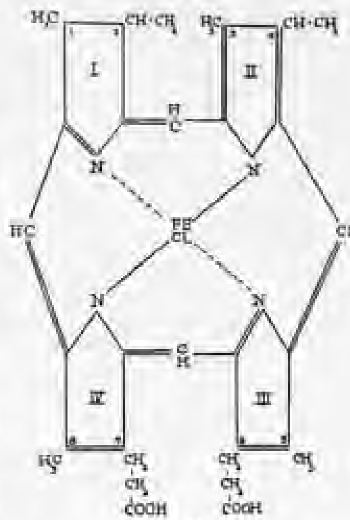

Fig. 5. Hemin.

[1] From Anderson and Smith. Williams & Wilkins Co. Permission to [illegible] extends only to this issue of INTERNATIONAL ABSTRACT OF [illegible] OF SURGERY, GYNECOLOGY AND OBSTETRICS.

Fig. 6.

THE TRANSPORT OF CARBON DIOXIDE

As a result of cellular oxidation, carbon dioxide gas is continually being formed in all living tissues and diffused into the blood. Arterial blood of man contains 44 volumes per cent and the venous blood of man 52 per cent by volume. This extra carbon dioxide (8 volumes per cent) is lost from the blood during its passage through the lungs. Hemoglobin is responsible for the transport of most of the carbon dioxide as only a small amount is carried in physical solution. Most of the carbon dioxide reacts chemically with hemoglobin. A small amount unites with the plasma proteins. The carbon dioxide attaches itself to free amino (NH_2) groups to form carbamino compounds. The largest part of the freshly generated carbon dioxide dissolves in the tissue fluid, passes into the capillary blood, and enters the red cell. Within the cell, part of it unites with water to form carbonic acid. It should now be recalled that hemoglobin, being a weak acid and having somewhat stronger acidic properties when its iron atoms are combined with oxygen, exists in the red cell interior as potassium hemoglobinate, having combined with the cation (K) of the red cell interior. The carbonic acid then reacts with the KHb to form hemoglobin and potassium bicarbonate ($KHb+H_2CO_3=HHb+KHCO_3$). This reaction is greatly facilitated in three ways. First, hemoglobin losing part of its oxygen in the tissues becomes a weaker acid and less able to compete with the stronger carbonic acid for the base (K) of the red cell interior. Second, some of the bicarbonate ions newly produced within the red blood cells diffuse out through the cell membrane into the plasma. Since the cell membrane is not permeable to cations, the K ions cannot accompany them. Instead, chloride ions diffuse inward, exchange with the bicarbonate ions as they diffuse out until a new equilibrium is established across the cell membrane. The chloride shift is thus produced by the bicarbonate shift which is the driving force of the entire mechanism (Fig. 8)—the chemical "give and take" relation of oxygen and carbon dioxide. Third, to go back to the simile of the little ship, there are members of the crew of entirely different size and character who loaf throughout the voyage until the end, and then when the ship begins to reload with return cargo they have a specific duty to perform. I refer to "carbonic anhydrase," which I like to call the "stevedore enzyme." Like all other enzymes, these little biological matchmakers have a specific personality and cause the reaction without entering into it and without gain (*Heiratsvermittler ohne honorar*). Like all other enzymes, carbonic anhydrase is associated with a protein body and is specifically concerned with producing the reaction $CO_2+H_2O=H_2CO_3$. This stevedore enzyme lives only within the ship and with never a shore leave. When carbon dioxide gas enters the red blood cell, carbonic anhydrase immediately acts to combine it with water to form carbonic acid. The regular crew (hemoglobin) then takes over. The carbonic acid reacts with potassium hemoglobinate to form bicarbonate and the shift begins as above described. When venous blood reaches the lungs, new oxygen unites with the hemoglobin and it becomes a stronger acid, better able to compete with carbonic acid for the potassium of the red cell interior. The stevedore functions once again to unload, undoes the match he has made, and the process is reversed. This occurs entirely within the red cell from whence the carbon dioxide moves out through the cell membrane, then through the capillary walls of the alveoli. With each expiration, some of it is lost. Its pressure, however, always remains high in the alveolar air—40 mm of Hg. Consequently only about 8 volumes per cent of the venous-blood carbon dioxide is lost in any one passage through the lungs (the amount depends on the circulation time in the lung).

Each of the two respiratory gases influences the transport of the other. In the lungs, oxygen makes hemoglobin more acid so that it can break up bicarbonate and assist in the expulsion of carbon dioxide. In the tissues, carbon dioxide changes the dissociation curve of oxygen and assists in its unloading (Fig. 8). The higher the tension of carbon dioxide is in the blood, the

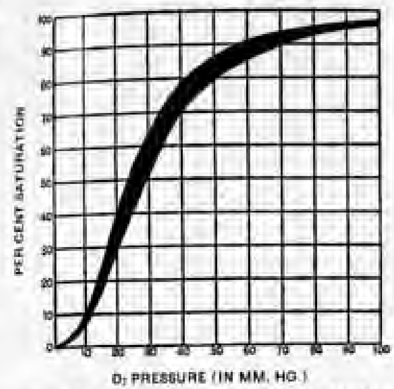

Fig. 7. Oxygen dissociation curve of human blood.[1]

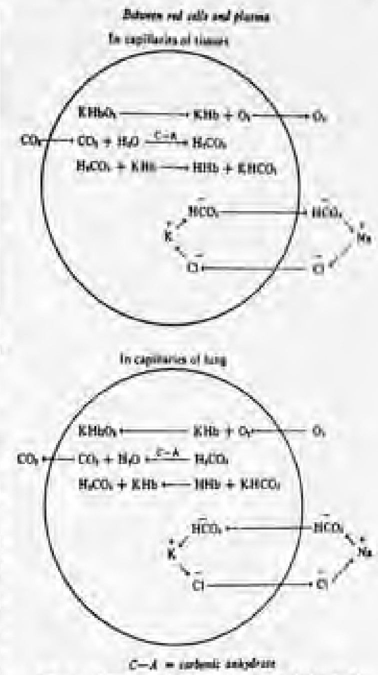

Fig. 8. Gaseous exchange in tissues and in lungs.[2]

[1]—Best and Taylor: Physiological Basis of Medical Practice. Wi[illegible] & Co.

[2]From Best and Taylor. Williams & Wilkins Co.

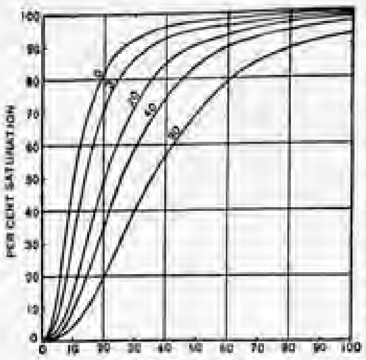

Fig. 9. Oxygen dissociation curve of human blood as influenced by various pressures of carbon dioxide.[1]

lower is the oxygen dissociation curve. The tendency to dissociate is increased in the tissues at the very place and time when passage of oxygen out of the blood is a physiological requirement (The "give and take" mechanism again).

ANOXIA

Life begins with anoxemia and ends with anoxia. It is anoxemia in the newborn that causes the first inspiratory gasp with which life begins, and it is anoxia that lulls life's last effort in death. "Anoxia" signifies a deficiency in the supply of oxygen available to the cells of the body. "Anoxemia" signifies a lowered oxygen content of the blood. A definite understanding of this difference is an important practical consideration. Anoxia may exist without anoxemia (e.g., histotoxic), but anoxemia cannot exist without resultant anoxia.

CLASSIFICATION OF ANOXIA (BARCROFT'S) (11)

1. *Anoxic anoxia* is the type due to lowered alveolar oxygen tension (high altitudes, pneumonia, pulmonary edema, respiratory depression). The tension of oxygen in the arterial blood is decreased in proportion to the lowered alveolar oxygen tension. It is anoxia from a defect at the source, is frequently encountered in surgery, and is destructive in its effects. A sufficient "head" of oxygen is lacking. There is sufficient volume of oxygen, but tension is too low for efficient diffusion into tissue spaces.

[1]From Best and Taylor: Physiological Basis of Medical Practice. Wm. Wood & Co.

2. *Anemic anoxia* is that type due to decrease in the quantity of functioning hemoglobin. Both the tension and volume of oxygen are normal and adequate but the carriers are too few (anemia) or are otherwise occupied (methemoglobin). The defect is in the transport mechanism entirely. The crew is either insufficient in numbers or a part of the crew has been laden with other and useless cargo, e.g., carbon-monoxide poisoning, sulphemoglobinemia.

3. *Stagnant anoxia* is that type in which the blood volume is so reduced or its flow so slow that an inadequate oxygen supply to the tissue cells results. The rate of transfer of oxygen from the lungs to the tissues is so slow that the supply is exhausted before the journey's end. The alveolar oxygen tension is normal and there is adequate supply. Again the breakdown is in the transport system. The ship is fully loaded and all the crew aboard, each carrying his maximum load, but there is neither tide, nor wind, and the ship is "becalmed." This type, very frequent in the surgical patient, is met with in shock, dehydration, and cardiac insufficiency.

4. *Histotoxic anoxia*. Peters and Van Slyke (3) have added to Barcroft's classification of anoxia a fourth or histotoxic type, in which the tissue cells are unable to utilize the available oxygen because of the presence of some poison which interferes with the mechanism of cellular respiration. There is no anoxemia. Oxygen volume and tension are normal and the transport mechanism is adequate. The ship is fully loaded, the crew in good order, and the sailing schedule on time. The cargo is delivered to its destination, but it cannot be utilized by the tissue cells.

A brief consideration of cellular respiration will at once make clear the several ways in which certain poisons, e.g., cyanide, bring about this type of anoxia. Szent Gyorgyi, Dische, Meyerhof, Parnas, and others (29) have in recent years added greatly to our knowledge of the mechanism of cell respiration. L. Corsan Reid (26) clarified and condensed this complicated process into simple graphic form in his "Stoker Furnace" system (Fig. 10). In his diagram, the heat-producing mechanism, the furnace, is compared with the biotic energy-producing mechanism, the living cell. If one compares a biotic energy-producing mechanism to a heat producing mechanism, then the food has for its counterpart the coal; the hydrogen atoms for their counterpart the carbon atoms; the food supply for the fuel bin; the enzymes, or dehydrogenases, are the loading chute; the four carbon dicarboxylic acids are the endless chain; the respiratory carriers are the

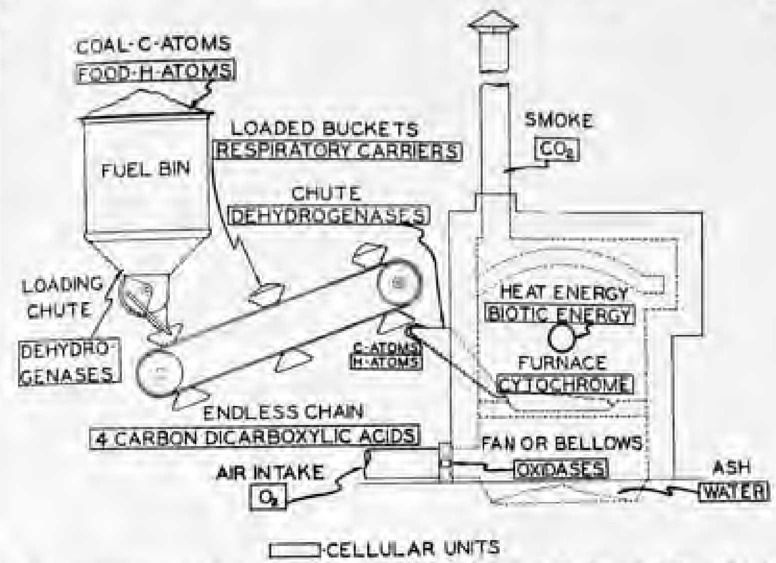

Fig. 10. A biotic energy production mechanism as compared to a heat energy production mechanism. (Anesthesia in Relation to Cardiac Disease by L. Corsan Reid. *J. Anesthesiology*—in press.)

loaded buckets; the cytochrome is the furnace; the oxidases are the fan or bellows, the water is the ash; the carbon dioxide is the smoke; and the biotic energy has for its counterpart the heat energy.

This machine may be wrecked by injury to any link in the chain. The dehydrogenases at either end of the endless chain may be interfered with so that there is no loading or unloading of the buckets, or the buckets themselves may be destroyed by the poison. A common example is sulfapyridine which competes with nicotinic acid for a place in the co-enzyme molecule.

5. *Combined form of anoxia*. To the preceding four well-known types of anoxia, we would like to add, for emphasis, a fifth, the combined form. It is an important fact that several varieties of anoxia often exist at the same time. For example, the patient with shock from hemorrhage has both the anemic and the stagnant types. The patient with a very low hemoglobin and myocardial insufficiency has the anoxic type from pulmonary edema or congestion, the anemic type from too few carriers, and the stagnant type from the reduced cardiac volume output. In other words, mixed types of anoxia are common, and this is an important fact for consideration as a basis for therapy.

EFFECTS OF ANOXIA

"Anoxia not only stops the machine but wrecks the machinery" (Haldane, 9, 15). The effects of anoxia vary greatly and depend upon the degree of deficit and the rapidity of its induction. It constitutes one of the gravest hazards to the surgical patient and one of the most difficult problems for the surgeon. Of these hazards, the effect on the brain and the myocardium is the most serious.

Central nervous system. Ganglionic nerve cells are more susceptible to oxygen deficit than any other cells of the body, and the effects of anoxia on the brain are profound and destructive.

Reflexes are abolished if anoxia exists for a few seconds and coma ensues if the cerebral circulation is interrupted from six to eight seconds.

brain cells are irreparably damaged if anoxia continues from eight to ten minutes. The centers of the brain survive for a longer period, from twenty to thirty minutes, and the spinal centers, from forty to sixty minutes. Even moderate degrees of anoxia produce headaches, visual disturbances, irrational states, delirium, and hyperpyrexia, and if prolonged, coma and death. Coma supervenes when the oxygen saturation of the blood falls to 24 per cent or less. The brain cell needs only salt, glucose, and oxygen for its metabolism, but the latter two continuously.

Recently, Thorner and Levy (30) of the School of Aviation Medicine, U.S. Army, have reported the results of their experiments showing the effects of sublethal periods of pure anoxia on cats and guinea pigs. Vascular and degenerative changes in the nerve cells of the cerebral cortex were described and depicted after immersion of the animals in pure nitrogen for various periods.

Other observers have reported destruction of the cortex and basal ganglia, sclerosis of the pyramidal cells, and, in extreme cases, massive necrosis of the cortical layers (21, 8, 25).

Cardiovascular system. The myocardial co-ordinating mechanism is extremely sensitive to oxygen lack and requires under normal conditions five times the amount of oxygen needed by skeletal muscle. During periods of great activity, the myocardium requires as much oxygen as the entire remainder of the body. Normal heart muscle requires an abundance of glycogen and large quantities of oxygen for its metabolism. The myocardium with fibrosis of its muscle and sclerosis of its vessels demands a greatly increased oxygen supply.

Krogh (17) has pointed out that anoxia increases the permeability of the capillaries. This is an important consideration, especially in the stagnant type of anoxia, and greatly adds to the difficulty. There is a loss of blood volume with concentration of corpuscles in the capillaries and a reduced volume flow which further reduces the delivery of oxygen to the tissues, and thus a vicious circle is established. Krogh further states that the capillary stasis resulting from oxygen deficiency is irreversible after fifteen minutes. The need of early oxygen therapy is apparent. We find then that stagnant anoxia is a type met with most commonly and strikingly in cardiovascular lesions, and in conditions of reduced blood volume (shock and dehydration) and lowered cardiac output, existing both as cause and effect.

If surgery is to be undertaken in the cardiac patient, with the possible addition of shock and dehydration, the hazard is great and the demand for oxygen extreme, and oxygen therapy in high value should be instituted early and continued for a long period.

Respiratory system. Anoxemia here shows its first effects. There is at once an increased rate and amplitude of respiration. This reduces the alveolar and arterial carbon-dioxide tension and results in an increased affinity for oxygen (Bohr effect). Eventually the hyperpnea decreases the pulmonary ventilation, and shallow breathing and cyanosis develop along with mental disturbances, muscular inco-ordination, coma, and death. Concomitant with these respiratory effects there is a steady gradual rise of blood pressure with increased pulse rate and variations in the volume of the individual beats. These volume variations are irregularly spaced (the Brace syndrome (5) in anoxia, Fig. 11).

When the heart can no longer sustain the increased volume output the blood pressure gradually falls as the aortic body reflex mechanism is brought into play. This picture differs from that produced by excess of carbon dioxide, in which there is a steep and rapid rise of blood pressure with an equally rapid descent as the hyperpnea rapidly throws out the excess carbon dioxide. In this syndrome there is a hard, bounding pulse gradually becoming softer as the blood pressure falls, but showing no variation in individual beats (Fig. 11).

Gastro-intestinal system. The effect of anoxia on the gastro-intestinal tract is to produce nausea, vomiting, diarrhea, intestinal cramps, and distention. (These effects will be further discussed under therapy.) The liver has the greatest reserve and greatest regenerative power of all the organs. Anoxia is destructive to both. Certain anesthetic agents produce hyperglycemia. (If the splanchnic nerve fibers to the liver are cut, hyperglycemia does not occur.) This is a defense mechanism and normally in the human subject (after general anesthesia) the blood sugar gradually declines within a few hours, the restoration being brought about by cessation of the secretion of adrenaline and by the compensatory production of insulin. Gellhorn and Packer (13) have shown that anoxia greatly interferes with this restoration and constitutes an added hazard to the surgical diabetic.

Anoxia and kidney function. It is well recognized that anoxemia is a part of all conditions which affect the blood supply of the kidney and a factor in the alteration of function produced by ischemia or by passive congestion. All those conditions which impair renal function—cardiac failure, dehydration, and toxic agents, are associated with stagnant or histotoxic anoxia. However, it should be emphasized that anoxemia, *per se*, directly impairs kidney function and leads to oliguria. Oxygen therapy greatly promotes diuresis.

Anoxia in febrile states. With a rise of each degree of temperature, there is an increase in the basal metabolic rate of from +5° to +7°. This increased demand for oxygen is an important consideration in the surgical patient especially in prolonged fevers, and in the toxic thyroid patient in whom a greatly increased demand for oxygen already exists.

Anoxia and acid-base balance. Normal acid-base balance cannot be maintained in the presence of anoxia. The mechanisms for the maintenance of acid-base balance are:

1. The buffer system of the blood.
2. Elimination of carbon dioxide by the lungs.
3. Selective excretion of fixed acids by the kidney.

Of these defense mechanisms, most important is the buffer action of the red blood cell itself (bicarbonate shift). An adequate head of oxygen is required to effectively maintain this mechanism. Moreover, acid-base imbalance is most often associated with states of dehydration and hyperpyrexia, in all of which anoxemia is an inherent part.

Anoxia and the adrenal cortex. The main function of the adrenal cortex is to regulate the water and potassium-sodium ratio, the blood-sugar level, and the stability of the interstitial fluid. Anoxia greatly diminishes the output of desoxycorticosterone. This fact plus the effect of anoxia on cellular respiration itself makes the effect of anoxemia on the adrenal cortex a pernicious one and one of the principal concerns of the surgeon in the maintenance of blood volume.

THE CLINICAL PICTURE OF ANOXIA AND ITS EARLY DETECTION

The surgeon is greatly indebted to the anesthetist who not only has kept alive the interest and maintained the link between the work of Barcroft, Haldane, and others in oxygen therapy during the World War, but has done most of the spade work in emphasizing the importance of the entire subject of anoxia and has taught us much regarding its recognition and treatment.

No one sign or symptom is in itself an unfailing indicator of the onset of anoxia. The entire composite picture must be patched together and evaluated. In gradually developing anoxia under general anesthesia, there is an increase in rate and amplitude of respiration associated with a gradually rising blood pressure and pulse rate with variation in volume of the individual beats (Brace's syndrome, Fig. 11). If anoxia continues, gradual fall of the blood pressure with rapid, shallow respiration and feeble rapid pulse and, finally, coma and death result. The patient's color is the last and least important consideration. Cyanosis is neither guide, index, nor criterion of anoxia. In fact, patients often die of anoxia without cyanosis. It depends not on the ratio of the amount of reduced hemoglobin to oxyhemoglobin in the blood, but upon the absolute amount of reduced hemoglobin present. Normal blood contains 15 mgm. of hemoglobin per 100 c.cm. When 5 or more mgm. per 100 c.cm. are reduced hemoglobin, cyanosis appears. The woman with a bleeding fibroid with a hemoglobin of 30 per cent dies of anoxia "pure white." She has not enough hemoglobin to produce a maximum 5 mgm. per 100 c.cm. and cyanosis does not appear even in death. On the other hand, the man with polycythemia vera who has a hemoglobin of 120 and 10 million red blood cells is cyanosed at all times and yet is without anoxia. He has plenty of oxygen and plenty of carriers but more than 5 mgm. of hemoglobin exists as reduced hemoglobin at all times and he is constantly cyanotic.

In severe rapidly developing anoxia the effects are immediate and rapid increase in the respiration and pulse, rapid rise of the blood pressure, muscular twitching, convulsions, cardiac inhibition, fall of the blood pressure, coma, and death.

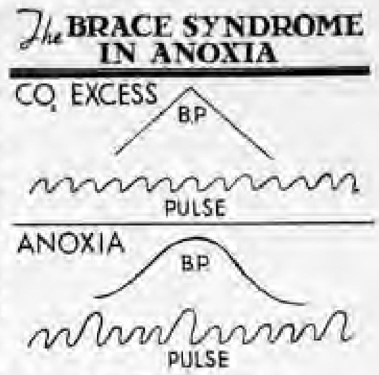

Fig. 11. The Brace syndrome in anoxia.

OXYGEN THERAPY

General considerations. Unfortunately, it is all too common to find surgeons indifferent to or unaware of the great value of oxygen therapy. If interested at all, the verbal order is given without specific direction as to concentration, rate of flow, or method of administration. It is apparently not realized by them that many of the most used methods of administration, the funnel and the nasal tubes, can deliver only from 40 to 50 per cent oxygen and a good deal of this volume is lost in the surrounding atmosphere.

Other surgeons seem to believe with the layman that the oxygen tank is to be dragged in only when the patient is *in extremis* and the family gathered for the demise. This group, which fortunately is growing smaller, seems to believe that the main virtue of oxygen is to make dying easier and that the main indication for its use is the death rattle.

Dangers of oxygen therapy. In normal experimental animals and in normal human subjects, the inhalation of pure oxygen at a pressure of 1 atmosphere over a period of five or six hours is productive of serious effects: impaired vision, rise in the blood pressure, pulmonary edema, convulsions, and collapse. Seventy per cent oxygen given to normal subjects over a period of four days may also produce harmful effects. Eighty per cent oxygen given over long periods of time to normal animals has been shown to produce myocardial damage and pulmonary edema.

The anoxic individual, however, reacts differently and with great benefit and gratitude to oxygen therapy. Boothby has shown that 100 per cent oxygen can be given over long periods of time and with great benefit to anoxic patients, if administration is not continuous for more than two days. After two days, lower concentrations should be used. Barach (1), Fine, Banks, Hermanson (10), and many others have reported the use of oxygen in 95 per cent concentration for long periods of time without toxic effect and with great advantage to the surgical patient. Most observers are now agreed that concentrations of 80 per cent or more are most beneficial as long as anoxemia persists, and that concentrations of 50 per cent or less are, in fact, of no value.

Principles of oxygen therapy. The basic principle of oxygen therapy is the maintenance of an ample supply and "head" of oxygen in the alveolus and an intact transport system in order that it may be delivered with sufficient speed and pressure into the tissues of the body. The normal capillary oxygen pressure (40 mm. of Hg.) must be maintained so that the final gradient is constant, and free oxygen is delivered speedily into the tissue fluids in quantity and in pressure sufficient to maintain in the plasma a volume of [illegible] per cent at all times. Only then will the tissue cell not be deprived. It is the free oxygen in physical solution in blood plasma that forms the final link of life. The oxygen combined with hemoglobin is only the reserve from which this tissue oxygen is being constantly replenished. The reserve must be kept at maximum and the transport system kept on schedule. In anoxia the tissue cell suffers not so much from the lack of oxygen as from lowered tension which interferes with efficient delivery. By inhalation of from 95 per cent to 100 per cent oxygen the oxygen saturation of arterial blood can be increased from 10 to 15 per cent.

METHODS OF ADMINISTRATION

The use of a pressure gauge graduated in liters per minute and the water bottle to add moisture, the latter being important to prevent drying and discomfort in the mucous membranes, are now standard advantages. The funnel and metal nasal tubes (placed in the nares) by which most of the oxygen is lost in the atmosphere are fast disappearing. The most useful and satisfactory apparatuses for oxygen administration are:

1. The oxygen chamber; this is efficient but expensive and unnecessary.

2. The oxygen tent capable of delivering and maintaining pressures from 70 to 75 per cent of oxygen. This is expensive and explosive.

3. The oronasal catheter is simple and efficient. It is capable of delivering from 60 to 70 per cent of oxygen. It must be carefully placed under direct throat vision, measured, marked, and fastened. It must be watched, and kept in place.

4. The B.L.B. mask is capable of delivering up to 100 per cent oxygen. It is simple and efficient, inexpensive, and easily adjusted (Figs. 12, 13, 14). Nursing and feeding are simple when it is used.

TREATMENT OF THE VARIOUS TYPES OF ANOXIA

The successful treatment of anoxia depends entirely and directly on the differentiation of the type, and the recognition of its cause and of the conditions associated with it. It is not enough to administer oxygen: one must correct the underlying condition causing the breakdown in the loading, the transport, and the final delivery.

1. Anoxic anoxia, frequent in surgery, especially during anesthesia, calls for oxygen under pressure, sufficient "head" to restore the lower alveolar oxygen tension and overcome fatigue of the respiratory centers which rarely require additional support (atropine-lobeline).

Fig. 14. B.L.B. mask with two turrets, each for a sponge rubber disc.[1]

Fig. 13. B.L.B. oronasal mask with a double turret for sponge rubber discs.[1]

2. Anemic anoxia calls for transfusions, restoration of blood volume and hemoglobin, plus oxygen therapy.

3. Stagnant anoxia requires measures to restore the falling blood pressure, the circulation, and the cardiac output (saline infusion for shock or dehydration, plasma transfusions, cortin, digitalis), which must be combined with oxygen therapy, best to be started first and ended last.

4. The treatment of histotoxic anoxia must include withdrawal of the poison and specific antidotal medication, together with a high percentage of oxygen to insure full plasma oxygen concentration, in order that cells not entirely destroyed and others unscathed may be aided in carrying on cellular respiration until restored. Oxygen therapy in this type of anoxia should be carried out over a longer period of time than in any other.

The most reliable criterion of successful oxygen therapy is gradual and steady decline in the pulse rate. Other striking features are a steady and rapid decline in the temperature and the respiratory rate, pronounced sedation, diuresis, and marked improvement in the general condition. If these results are not obtained, the method and percentage of oxygen delivery should be carefully scrutinized, and if adequate the diagnosis of anoxia should be doubted. It should ever be kept in mind that oxygen therapy is of no use unless delivery of oxygen to the tissue cells is assured.

OXYGEN THERAPY

In the surgical patient anoxia is, by far, the greatest single hazard. Oxygen therapy lowers the mortality and greatly decreases the morbidity. The prevention of anoxia is of prime importance. This should not mean by the anesthetist only. Oxygen therapy should be carried out in all indicated cases as soon as the patient is admitted, and continued up to the time of anesthesia, throughout this period, and in higher percentage during the postoperative recovery. Only too often the anesthetist is given a patient already anoxic and in acidosis or alkalosis, or having a reduced blood volume because of dehydration and in a state of stagnant anoxia. At other times, he is given a patient with anemic anoxia, or this

[1]Reproduced by courtesy of Dr. W. M. Boothby.

Fig. 14. B.L.B. mask. The nasal mask in position on the patient. The lateral view of the turret shows the sponge rubber discs.[1]

type combined with an added histotoxic anoxia from one of the sulfonamide drugs. Thus the negligent surgeon may add to the hazard of the patient and the difficulty of the anesthesia.

Waters, Wineland, and Seevers (31) have grouped the causes of anoxia particularly pertinent in anesthesia and to the surgical patient:

1. A high basal metabolic rate due to fever, fear, toxemia, and pain.
2. A reduced pulmonary alveolar surface due to disease or mechanical compression from position.
3. Poor oxygen carrying power of the blood.
4. Cardiac insufficiency.
5. Obstruction of the respiration due to edema, inhaled mucus, fluid, or vomiting.
   a. Laryngospasm
   b. Defects in the anesthetic apparatus
6. Anesthetic technique.
7. Respiratory depression.
   a. Deep anesthesia
   b. High spinal block
   c. Central depression from morphine sulfate or barbiturates.

PREVENTION OF POSTOPERATIVE PULMONARY COMPLICATIONS

Lemon (20) has pointed out that 1 of each 50 patients operated upon for abdominal lesions develops some form of pulmonary complication, and 1 of each 185 will die from it. The highest incidence is in upper abdominal operations and in cases in which tight strapping, pain splinting of the diaphragm, or morphine and sedatives have contributed to hypoventilation. Lemon and Marroch made two important practical observations: "A full moveable lung is a safe lung," and "The closer the approximation of vital capacity to tidal air, the graver the risk of postoperative pulmonary complications." The use of oxygen during anesthesia and early in the postoperative period has greatly reduced both the incidence of anoxia and the mortality.

In general anesthesia the rise in rate of respiration, the steady rise of the blood pressure, and the appearance of the Brace syndrome will be quickly interpreted by most anesthetists and promptly corrected. In the spinal patient (7), it is very necessary to maintain an ample supply of oxygen and a high alveolar oxygen tension, from the beginning to the end of the anesthesia and for six to eight hours thereafter. With a drop in the blood pressure there immediately ensues a stagnant anoxia of considerable degree. Furthermore, if the spinal block should be intent or ascent go high enough to obliterate the diaphragm and accessory respiratory muscles, there is added the anoxic type of anoxia with hypoventilation and lowered alveolar oxygen tension. Both conditions demand continuous inhalation of oxygen in high percentage. The nausea and vomiting of spinal anesthesia is due to anoxia and quickly relieved by oxygen with gratification of both patient and surgeon. The use of 100 per cent oxygen over a period of from twenty-four to thirty-six hours postoperatively will prevent postoperative spinal headache in nearly every instance.

Enough has been said of the value of oxygen therapy in shock, hemorrhage, dehydration, and acid-base imbalance. Boothby (4) lists the surgical conditions which can be benefited by early inhalation of 100 per cent oxygen as headache following encephalography, profuse pulmonary edema, massive collapse of the lung, pulmonary embolism, and infections due to anaerobic organisms.

The value of oxygen therapy in postoperative abdominal distention, ileus, and intestinal obstruction has now become convincingly established. All of us have had the gratifying experience of noting in some of our seriously ill patients after abdominal section that there has been a striking absence of distention, nausea and vomiting when, for some pulmonary complication, they have been given continuous oxygen therapy.

[1]Reproduced by courtesy of Dr. W. M. Boothby.

Approximately 70 per cent of the gas in the intestine is nitrogen. Whenever 100 per cent is inspired, the partial pressure of nitrogen in the lungs is reduced quickly to practically zero from the normal 570 mm. of Hg. As a result, the nitrogen of the blood plasma diffuses into the alveoli and is expired because a gas always diffuses from a higher pressure into a region where pressure of that particular gas is lower. Consequently, the reduced pressure of nitrogen in the arterial blood allows this gas to diffuse into it from the gut. From the blood it passes out through the lungs.

McIver, Redfield, and Benedict (23) in 1926 (basing their work on criteria established by the experimental work of Exner in 1875, Stefan in 1878, Hufner in 1897, Boehr in 1909, Krogh [A. and M.] in 1910, and Krogh, A. in 1915) set down their postulates regarding gaseous exchange between the blood and the lumen of the stomach and intestines:

1. An equilibrium will be reached when the partial pressure of gas in the lumen is equal to the mean tension of the gas dissolved in the circulating blood.
2. The rate at which gas passes through a permeable membrane at any time will be proportional to the difference in pressure of the gas on the two sides of the membrane.
3. The actual value of the rate at which the gas passes across the membrane is, for any given pressure difference, determined strictly by the volume of the gas and the area and thickness of the membrane.

Then, McIver *et al.*, by a series of experiments with ligated loops of intestines in cats, studied diffusion rates of carbon dioxide, oxygen, nitrogen, methyl hydride, hydrogen sulfide and hydrogen without impairing the blood supply to the loop. In all cases, there was a change in volume and composition of the gas in the obstructed loop. These changes depended on (1) absorption of injected gases, and (2) diffusion of blood gases into the lumen until an equilibrium was established. The rates of absorption for the various gases were in order of rapidity: carbon dioxide, hydrogen sulfide, oxygen, hydrogen, and methyl hydride (slowest).

Nitrogen exists in the blood and the air in high tension and very little change is required to bring the nitrogen injected into the gut lumen into equilibrium with that in the blood stream. However, when experiments were carried out with the animal breathing through a spirometer and a high percentage of oxygen, the rate of absorption of nitrogen from the loop was considerably increased. Fine, Frehling, and Starr (11), in 1935 in a series of experiments on rabbits, showed that the inhalation of pure oxygen rapidly lowers the nitrogen tension in the blood and thereby increases the pressure difference and, therefore, the rate of absorption from the gut lumen into the blood. This fact is of great clinical importance because it has been shown that the largest component of intestinal gas is nitrogen.

Later, Fine, Hermanson, and Frehling (12), in 1938, showed by clinical trial that postoperative distention and the distention of intestinal obstruction was diminished from 60 to 70 per cent in twenty-four hours by the inhalation of 95 per cent oxygen.

OXYGEN THERAPY IN THYROID SURGERY

The greatest of all sedatives for postoperative thyrotoxicosis is oxygen. The high basal rate, the rapid pulse, the hyperthermia, all demand oxygen in large volume. The air hunger, the restlessness, the burning fever, the fright, and the fear are relieved as if by magic. The pulse rate and temperature steadily decline, the myocardium is greatly fortified, and the general condition markedly improves. Specific remedies, ergotamine and lugols, all have their value and indications, but greater than any, and to be used in conjunction with any or all, is oxygen. It should be given in high percentage, from 95 to 100 per cent and continuously for the first few days and until the pulse rate is well controlled and all toxic symptoms disappear.

Haines and Boothby (14) have pointed out that after thyroidectomy, about 2 per cent of the patients develop tracheal and laryngeal edema, pulmonary edema, bronchopneumonia, or cardiac insufficiency. Oxygen inhalation (100 per cent) is of great benefit in such conditions and is of greatest value when administered early. A rapid crisis-like drop in the temperature, decreases in the pulse rates, and general improvement occur with subsidence or limitation of the process.

COMMENT

Anoxia is today the greatest single hazard to the surgical patient.

Oxygen therapy lowers the mortality and decreases the morbidity in surgery.

A good "head" of oxygen should be maintained in the alveoli of all surgical patients in whom anoxia is or may become an added hazard, and this is a large percentage of such patients.

Pre-operative oxygen therapy in the anoxic patient diminishes the risk of operation and of anesthesia, and decreases the incidence of post-operative pulmonary complications.

Successful oxygen therapy depends on differentiation of the type of anoxia, the immediate institution of measures for relief of its cause, the use of high concentration, precise delivery, and its early employment.

SUMMARY

A brief outline of the physiology of respiration, the etiological classification of anoxia, its significance in surgery, and its treatment, general and specific, is given.

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May 26, 1943

George Haas' Office
(Miss Michener)

Secretary Morgenthau

I keep hearing all the time about the Army and Navy canceling contracts. I wish you would have Tickton look into it and find out just what the true story is. I also have been told that they have a lot of surplus supplies on hand and may want to sell them. I wonder if this story is true. Tickton will know how to do it. I should think he would get the information through Donald Nelson's office, but maybe you'll have to go directly to the Army and Navy and the Maritime Commission. Leave it to Tickton.

May 26, 1943.

Dear Jack:

It was good of you to send me an inscribed copy of the privately circulated pamphlet, "Two Plans for International Monetary Stabilization". I shall be most interested in reading the comments in general, and particularly those dealing with Dr. White and his work on stabilization.

With cordial personal regards,

Sincerely,

(Signed) Henry

Dr. Jacob Viner,
Yale University,
Institute of International Studies,
New Haven, Connecticut.

GEF/dbs

YALE INSTITUTE OF INTERNATIONAL STUDIES

FREDERICK SHERWOOD DUNN, *Director*

To Secretary Henry Morgenthau,
With the Compliments of
Jacob Viner

LUX ET VERITAS

Two Plans for International Monetary Stabilization

by

JACOB VINER

FOR PRIVATE CIRCULATION ONLY

To be published in the Autumn, 1943 *Yale Review,*

TWO PLANS FOR INTERNATIONAL MONETARY STABILIZATION

By Jacob Viner

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Since the one thing upon whose permanence we can count is change, the world which is to come after hostilities cease will be bound to be a somewhat new world. We must not take it for granted, however, that it will also inevitably be a better world. It is within the power of mankind, mostly by taking thought, to make it so. One field in which the world urgently needs remaking through rethinking is the field of international economic relations, and in that field the pattern of international monetary institutions and practices is of key importance.

Some Fundamental Monetary Principles

There is not, and there never has been, anything like unanimity of opinion, whether among experts or among laymen, as to what the ideal pattern of international monetary relations would be. Some find virtue in freely-fluctuating rates of exchange between national currencies. Others hold, either on dogmatic grounds or because they regard the theoretically superior alternatives as unattainable in practice, that the only desirable or the only safe pattern is that of absolutely fixed or frozen exchange rates. Most persons who have views of any sort on this question stand somewhere in between these extremes. Among them, no doubt, are some who would argue that different kinds of worlds call for different kinds of monetary systems and that the design the world adopts for its international economic relations in general should dictate the pattern of its international monetary relations.

There is at least one monetary principle, however, on which almost all persons who believe in international economic collaboration would now agree. Exchange rates are properly matters of international concern. They should not be fixed unilaterally by particular countries regardless of their consequences for other countries. Above all, they should not be deliberately manipulated either as weapons of economic aggression or as beggar-my-neighbor instruments of economic defense. Alfred Marshall, the great English economist, writing in 1887 at the heyday of Victorian utopianism, forecast that "the time will come at which it will be thought as unreasonable for any country to regulate its currency without reference to other countries as it will be to have signalling codes at sea which took no account of the signalling codes at sea of other countries." That time has not yet come. As recently as 1932, it was stated as a matter of course by an official international conference, the Stresa Conference, that "decisions touching upon monetary policy belong exclusively to the sovereignty of each country". But if the post-war world is to handle its monetary problems satisfactorily, the Stresa doctrine must give way to the Marshallian one.

A second principle to which probably a large majority would subscribe is that it should be possible for any individual person or firm having a holding of any foreign currency acquired as the result of a normal commercial transaction to exchange it freely at the prevailing rates for his own currency. In other words, foreign balances arising out of normal trade transactions should for their individual holders be as liquid, as "unfrozen", as domestic bank balances or domestic currency in one's pocket. I believe that if these two principles were fulfilled substantial stability of exchanges would result as an almost inevitable consequence. Neither of these principles will in practice prove capable of realization unless substantial stability of exchanges is both prescribed and facilitated by an international monetary code and an international monetary institution designed to enforce the code and to create the conditions which will make such enforcement possible without injury or hardship to any country.

Pre-War Monetary Systems

Before 1914 for about a century stability of exchange rates prevailed most of the time for most of the world's currencies. This was only to a minor extent the result of international agreement. It was for the most part an incidental, though generally-welcomed, by-product of the adherence of most countries, primarily for internal reasons, to the gold standard or some other closely-related form of metallic monetary standard. The first world war, and especially the economic disturbances which were its immediate aftermath, put an end to this monetary golden age.

In the 1920's most countries strove to return to the gold standard or its substantial equivalent, and many of them succeeded in doing so. But there had failed to be restoration of the conditions which are necessary for the smooth and beneficient working of an international metallic standard, and especially moderation in trade barriers and the initial establishment of exchange rates at levels consistent with the maintenance of equilibrium in international balances of payments without resort to serious deflationary measures at home. The gold standard of the 1920's was a fragile thing, without vitality and internal strength. It maintained a precarious existence largely with the aid of infusions of dollar credits by gullible -- and gulled -- American investors, individual and institutional, in foreign short- and long-term securities. Its weakness became apparent with the sudden cessation of American exports of capital in 1929 and its collapse began almost immediately after the first onslaught of the great depression. England, and with it the whole "sterling area", abandoned it in violent manner in 1931. The United States abandoned it in even more violent manner in 1933. In 1936, with the unduly protracted demise of the "gold bloc", France, Belgium, Holland, and Switzerland, the gold standard survived apparently only in Albania.

The gold standard was largely replaced in the 1930's by more-or-less regulated exchanges, by exchange controls, and by resort to bilateral trading on lines approaching closely to primitive barter on a country-to-country scale. In a few countries, most notably the United States, there was a partial return to a shadowy form of gold standard on a strictly national basis, where constancy in the gold value of the national currency, if maintained at all, was not legally required, was not confidently expected to continue indefinitely, and, because of the absence of general prevalence of the gold standard, did not involve stability of exchange rates. In the late 1930's probably no country was wholly satisfied with the existing monetary situation. But there was no agreement as to the directions in which improvement was to be sought. Some wished for a return to the rigid pre-1914 gold standard, without fundamental change therein. Others dreamed of a new kind of gold standard, an internationally-managed one designed to produce both stability of the exchanges and stability of world price levels, so as to cure the great defect of the traditional gold standard, that it made the world subject to sustained deflationary or inflationary price-trends resulting from fortuitous developments in the discovery of gold-fields and in the technology of gold-mining. Still others, and especially the totalitarian countries, sought a permanent and complete divorce of their monetary systems from gold and a further extension and intensification of exchange controls administered on a national basis and with narrowly nationalistic and indeed in some cases openly aggressive objectives. What, if any, was the American long-run monetary objective it is difficult to determine from the record during these years, when policy was avowedly on a "24-hour basis", and statutes, though after 1933 not practice except for silver, were such as to permit of all sorts of strange doings in the monetary field.

Whether it is to be desired or not, a speedy and general return in the post-war period to something like the traditional gold standard through the autonomous action of individual countries is highly unlikely. Many countries will emerge from the war period with shattered and distorted economies. Many countries will have a heavy accumulation of short-term external indebtedness which they will be unable to liquidate except by a very gradual defreezing process or by conversion to long-term debts with a slow amortization schedule. Many countries will emerge from the war with exchange rates too high in relation to their internal price-levels and to the foreign demand for the things which their currencies can buy. Most of the world's gold will be concentrated in a few countries, especially the United States, and many countries without gold mines or stocks of gold will feel too poor to carry the load of acquiring sufficient gold reserves to permit their return on a secure basis to an orthodox gold standard basis. Some, probably many, countries will have no inclination to subject themselves to the monetary discipline which adherence to an international standard involves and will prefer to retain full monetary autonomy if such procedure will not involve their subjection to punitive measures by other countries or to exclusion from attractive financial or commercial privileges. In some American quarters the notion is current that if only the United States returns to a rigid full-fledged gold standard, with the price of gold in dollars permanently fixed by Act of Congress and with unlimited convertibility of dollars into gold and of gold into dollars at this price, the rest of the world will of its own accord soon either follow our example or, failing this, will peg its currencies rigidly to the dollar, so that either a world-wide gold standard or a world-wide gold-dollar standard will prevail. This seems to me to be day-dreaming, and, considerations of national prestige aside, the dream is not a wholly pleasant one. An unregulated international gold standard would put the world into a monetary strait-jacket which would block the adoption of desirable as well as of foolish policies. A world-standard based on the dollar and managed by the United States might conceivably work admirably. But there is little in our monetary record for the past 150, or 25, or 10 years, or in the character of our legislative procedures and attitudes in the monetary field which would justify confident expectations that we would be passably good managers even in our own interest of a world monetary system if we were free to operate unrestricted by international commitments or an internationally-framed code.

The post-war world monetary system, if it is to have good prospects of being a satisfactory one, will therefore have to be deliberately designed under strictly international auspices. The technical complexity of the problem, the diversity of ends which monetary institutions are expected to serve, the conflicts of interest and even more of opinion between and within countries, will make difficult the reaching of agreement as to principles and as to technical details. The monetary arrangements of the world have their impact upon the material well-being of every one of us. They have also their contribution to make to the determination of whether this is to be a peaceful world or a world always preparing for war and periodically achieving it. The public, at least in the democratic countries, therefore should and will be given a share in the process of shaping opinion as to what are to be the essential characteristics of the international monetary order of the post-war world.

The Keynes and White Draft Plans

Form of Drafts: The task of clarification of thinking, of discovery of basic issues, and of crystallization of opinion, has been facilitated by what seems to me to have been an ideal procedure on the part of the British and the American Governments. In each country a draft plan has been worked out by experts with official standing and of the highest professional credentials in the monetary field, has been made the basis for discussions on the expert level between the governments of the United Nations, and has been issued to the general public for examination, discussion, and possible improvement. These plans are not formal official proposals and neither government is committed to them beyond conferring upon them an official blessing as deserving of being used as a basis for exploration and discussion of the issues involved.

In form andstyle, the two draft plans are strikingly different. The English one, prepared under the direction of Lord Keynes and bearing every evidence of being mainly the product of his pen and his brains, is cast in the essay form. It presents not only a statement of the desired principles and a description of the proposed new institution which is to carry them into effect, but also a reasoned argument in support of the proposals, which, as was to be expected, is a masterpiece of persuasive exposition. The American draft plan, prepared by Dr. Harry White, the Treasury's able monetary adviser, is in very much the form of a draft bill as it would be prepared for submission to Congress, and suffers from the colorlessness of style, the juxtaposition of matters of fundamental importance with items of insignificant procedural or organizational detail, the use of highly technical terminology, and the absence of reasoned argument and of explanatory material which this form of presentation inevitably involves. As far as effectiveness of presentation to the public is concerned, no one who has looked at the two drafts will deny that the advantage is wholly on the side of the Keynes one. But there are compensating advantages for the reader in Dr. White's procedure. It left him with less leeway for ambiguity, or indecision. It imposed upon him the necessity of finding a concrete procedure for implementing every specific proposal made by him. It left an open field for the public in finding reasons for -- or against -- his proposals, whereas the Keynes form of presentation involves some danger that some of his proposals will be judged rather on the persuasiveness of the arguments by which he supports them than on the inherent merits of the proposals themselves. Even when they are substantially in agreement, however, the two drafts admirably supplement each other, and when there are real or apparent differences between them a comparison of them brings to light important issues which otherwise might have remained unexplored. In finding the time, in the midst of their heavy and responsible wartime tasks, to make these constructive contributions to the planning of a better international economic structure for the new world which is to come, Lord Keynes and Dr. White have been good public servants and have earned our gratitude.

In the comparison of the two draft plans which follows only the more important aspects are dealt with, and points on which there are important differences between the two plans are examined with greater particularity than points on which the two plans are in close agreement. The plans have in common the pursuit of at least the four following objectives: (a) control by an international agency over the levels of exchange rates of national currencies; (b) provision by this agency of an effective system of multilateral clearings; (c) regulatory power or admonitory power of this agency with respect to monetary and other procedures followed by particular countries which are such as to disturb or threaten international economic equilibrium; (d) augmentation of and a better distribution of the world's supply of liquid means of international payment. All of these objectives are desirable and important. The most significant differences between the plans are in the extent of the grant of power and financial means and in the types of procedures and methods of promoting these objectives which they propose.

Proposed New Agency: Under each plan a new agency is to be set up by international agreement: in the case of the White plan, a "United and Associated Nations Stabilization Fund;" under the Keynes plan, an "International Clearing Union." Membership is to be open to all countries meeting the stated conditions, and is to be confined to governments, and all transactions (with some minor exceptions under the White plan) are to be conducted with and on behalf of treasuries, central banks, or other official national or international agencies. Under both plans the governing board of the agency is given the power and duty to call for relevant information from the member governments, and to make recommendations to them, whether they are debtor countries or creditor countries, when their policies or practices are such as to threaten the international equilibrium of their own or of other national economies. Penalties can be imposed under both plans upon member countries in the form of charges on excess balances and of withdrawals of the privileges afforded by membership in the agency. As the agency to be established acquires prestige through the years through successful operation and has demonstrated its objectivity and its competence, its comments and recommendations may, however, prove to be its major contribution toward maintaining a satisfactorily operating international monetary system. The desire to avoid public reproof from an agency of this sort may be more effective than financial penalties or rewards in inducing member countries to avoid practices which are inimical to the maintenance of international monetary equilibrium.

In the name proposed by Dr. White for the new agency, its exchange stabilization function receives emphasis; in the name proposed by Lord Keynes, its clearing function receives emphasis. Under both plans, however, the agency will have as its primary operating function the banking function proper, i.e., the transfer of monetary assets on a loan basis from those who are in liquid position to those who are in need of funds. Under both plans the banking operation will be of the "mutual" type; all transactions will be between members, each of whom will in principle be expected to be in a creditor position at some times and in a debtor position at others.

Banking Function: In the White plan, each member makes an initial contribution to the Fund in local currency and gold (and also in part in its own government securities) and member borrowing would normally take the form of borrowing from the fund specific currency holdings which other members had contributed to the fund. There is to be a money of account, the "Unitas," expressed in terms of a specific quantity of gold, but it will have only bookkeeping significance. The Keynes plan makes no provision for an initial fund or for formal contributions by members, and what it contemplates can perhaps most accurately be described as a mutual credit pool. Members in need of foreign currencies can draw on the pool for the loan of "bancor"*, a new international "book-money" to be created by the Union, and a book credit with the Union in terms of bancor must be accepted by a creditor member at a prescribed rate in settlement of its claims on the borrowing member country. When the Union begins operations, it will have no assets. Suppose that its first transaction is with country A, which has a payment to make to country B in terms of B's currency. Country A draws on the Union for that amount of bancor, _x_, which at the prescribed rate is equivalent to its debt to B, and country B is required to accept a book credit for _x_ bancor as settlement of its claim on A. The Union's books now show a credit balance of B for _x_ bancor and a debit balance of A, also for _x_ bancor. If shortly thereafter country B should need to make payments to country A in excess of its momentarily available supply of A's currency, it could ask the Union to transfer its credit balance of _x_ bancor to country A's account, with the result that the books of the Union would again show no credit balances and no debit balances. At all times the sum of the credit balances on the books of the Union would equal the sum of the debit balances. Under both plans the purpose of such banking operations would be to provide suitable credit facilities for countries temporarily short of means of meeting external liabilities so as to make it possible for them to make the necessary payments without pressure on the exchange values of their currencies and without resort to deflationary internal measures, to restrictions on imports, or to the application of exchange control to non-financial transactions.

As far as the purely banking function of the new agency is concerned, the Keynes plan unquestionably provides for simpler and neater bookkeeping procedures for the agency and simpler financial relations between the agency and its members. If the world is to move eventually to a genuinely new international currency, divorced from gold and constituting the sole monetary unit generally usable in making international payments, the Keynes plan will have gone farther in the direction of setting up formal relationships appropriate to the new currency and of abolishing or rendering obsolete some of the formalities of the existing procedure in international monetary transactions. But the simplicities of the Keynes plan in this respect are essentially new simplicities and therefore more puzzling to most persons than the familiar complexities of the procedure proposed under the White plan. On strictly economic grounds I see no important distinction between the two procedures. It may, however, be an advantage of the White plan, especially but not only in the United States, that adherence to it would require immediate legislative authorization of the necessary contributions and some revision of monetary and banking statutes and would therefore legally and politically commit the member countries to the new regime more definitely and unambiguously than would a mere acknowledgement of a contingent obligation to accept bancor credits as satisfactory settlement of future claims on external countries.

<u>Clearing Function</u>: Both plans stress the multilateral clearing function of the new agency, and it is a major purpose of both plans to get rid of the bilateral exchange controls which spread over the world in the 1930's. But it is in each case not the clearing function of the agency which guarantees the free exchangeability of any one currency for any other. "Clearing"

* Why "bancor"? I venture to suggest "mondor".

means matching or offsetting debt by reciprocal debt, and credit by reciprocal credit. In a pure clearing fund no net credit or debit balances can be carried over from one clearing period to another. Such net balances as do appear in clearing transactions represent uncleared margins and must be settled in the ordinary monetary fashion. In the case of each plan, the mechanical performance of the clearing function would make of itself no significant contribution to the restoration of multilateral clearings, for it is the recurrence of uncleared net balances, not the absence of machinery for offsetting debits and credits, which explains the wide resort in the recent past to bilateralistic exchange controls. The real contribution which adoption of either of the plans would make to the restoration of multilateralism in international clearing procedures would be: by promoting exchange stability and expectations of its indefinite continuance; by requiring or persuading countries to abandon bilateralistic policies as fully and as quickly as possible; and by providing for member countries assured credit facilities, on attractive terms, for the temporary acquisition when they have need for them of mreans of making external payments or for postponement on a prearranged basis of the call for making such payments. There is no obvious reason under either plan why actual clearing operations should not again be conducted as they were in the past by the private machinery of the great money markets, which can operate with a despatch, a smoothness, and an economy which are not likely to be matched by any new institution.

<u>Lending and Borrowing Quotas</u>: Under the White plan, each country would be assigned a quota for contribution to the Fund in the form of gold, currency, and government securities, of which only half would be called for at once, with $5 billions suggested as an appropriate figure for the size of the fund when all quotas had been fully contributed. Under the Keynes plan there are no original contributions, and no country is required to make any contribution until other member countries wish to borrow bancors in order to make payments to them. When this occurs, such country makes its contribution by accepting a credit balance in bancors in lieu of payment in its own currency. No specific limits are set to the amount of contribution which any country may be required to make on this basis except as it results from the limits set for the <u>borrowing</u> quotas of the member countries. In theory, assuming the wholly improbable eventuality that all member countries but one were short of the remaining country's currency, that country (say Haiti, or perhaps more likely, the United States) could find itself obliged to contribute to the Union an amount equal to the sum of the borrowing quotas of all the other countries. Assuming that all countries in the world join the Union and accepting the formula suggested by Keynes for fixing the borrowing quotas, namely, 75 per cent of the average sum for each member during the pre-war years of its exports and imports, this would amount to something like $35 billions if the sole contributing country were Haiti and $31 billions if it were the United States. Even in these days these are still sizable sums.

In the White plan the borrowing quotas are, roughly, double the full contributory quotas, with provisions for exceeding these limits under restricted circumstances, and the maximum aggregate loans to members by the Fund, assuming all countries in the world to be members and all members to borrow simultaneously up to their full quotas, would therefore be about $10 billions. Under both plans, however, these overall figures are of little significance. If nearly all countries wanted to borrow simultaneously, both plans would fail. Both plans provide for restraints of various kinds on borrowings by members beyond specified fractions of their quotas. Under the White plan, moreover, member countries, regardless of their quotas, can borrow the particular currencies they need only to the extent of the holdings thereof by the Fund and the willingness and ability of the Fund to borrow additional supplies. The limits on borrowing are on the whole much tighter under the White plan than under the Keynes plan.

Keynes' arguments against rigid lending quotas are very persuasive. If it is taken for granted that the lending agency will operate on sound principles and with wise and objective management and that there will be benefit from its operations as a whole to creditors and debtors alike, then arbitrary quantitative limits on its operations are irrational. Keynes claims that a country which acquires a large credit balance in bancors under his plan is at least as well off as it would be in the absence of the Union and that if it wishes to reduce its credit balance it can always do so, e.g., by removing some of its barriers to imports, by carrying on an expansionist policy at home which would operate to increase its imports and to reduce its exports, and by lending at long term abroad. He might have added that his proposal does not go nearly as far in impairing the position of the creditor countries as do a whole family of plans which have been launched in recent years from various sources, including high American ones, and have been taken surprisingly seriously, especially in prospectively debtor countries. These plans provide in one way or another for "perishable" international money or for evaporation of creditors' claims to payments from abroad if not used within a short space of time in the purchase of debtor country products.

Nevertheless, it seems highly doubtful to me that countries which expect their currencies to be in special demand after the war and therefore expect to be net creditors will be willing to accept participation in any plan under which there is no definite limit to the amount of lending they will be obligated to do. Not only are they likely to insist upon such limits, but they are likely also to demand a tighter rein than Keynes proposes on borrowings from the agency as long as the debtor countries retain appreciable quantities of liquid externally acceptable assets not only in the form of gold, but also in the form of foreign balances or of foreign securities. It is my guess that whatever plan is finally adopted will except for very modest unrestricted borrowing quotas attempt to confine borrowing from the new agency strictly to cases where alternative means of making external payments have demonstrably been exhausted. Such procedure could very much reduce the usefulness of the agency, but it would undoubtedly very much increase its general acceptability. But while the White plan proposes much more rigid limits on the lending obligations of member countries than does the Keynes plan, such limits would do no more violence to the logic of the Keynes plan than they do to the logic of the White plan.

Voting Quotas: Under both plans, shares in the control of the governing body of the agency are to correspond closely to the national borrowing quotas. Under the White plan the quotas are to be based on holdings of gold and foreign exchange,[1] on size of national income, and on volume of

[1]It seems rather paradoxical to make the extent of access to borrowing facilities depend in part on the evidence of the lack of need for it.

foreign trade, but the mode of calculation of the quotas is not more specifically spelt out. As a rough guess, the United States by such a formula might be allotted in excess of 25 per cent of the total votes if all countries enter, and Great Britain, including the Crown Colonies, something under 15 per cent. The White plan requires also an 80 per cent majority vote for almost all important decisions of the Board of Directors of the Fund, so that the United States would have a complete veto power over most of the operations of the Fund. Under the formula suggested by Keynes, which would be based only on volume of foreign trade, Great Britain would have from about 20 to over 30 per cent of the total votes, depending on how many countries participate in the plan, on how much of the British Empire pools its quota with Great Britain's quota, and on whether or not intra-imperial trade is to be included in calculating the quota, whereas the United States would have not over 12 per cent of the total voting power if all countries participated in the plan. It goes without saying that neither formula deserves serious consideration. It is to be hoped that neither of them will be pressed for. I doubt whether the mode of allocation of voting power will prove in practice to be of much importance as far as the workings of the plan are concerned. There will be either substantial agreement on important issues, or restriction of the operation of the plan to the area in which substantial agreement is obtainable, or collapse of the plan. But it is already abundantly clear that political acceptability of any plan will depend in large part on the appearance of fairness in its formula for the apportionment of voting power, and that an acceptable plan will have to include a more balanced formula than those suggested in either the White or the Keynes drafts.

Determination of Exchange Rates: The key provisions in any international agreement with respect to monetary relations must of necessity be those relating to the determination of exchange rates. Under the White plan, the initial value of each country's currency in terms of gold and therefore also in terms of other countries' currencies is to be fixed by the Fund, presumably upon entrance of the country into the Fund. What the procedure shall be for fixing this value is not indicated in the draft. The implication might seem to be that entrance into the Fund of any country would have to be prior to knowledge of what gold or exchange value of that country's currency would be decreed by the Fund and that the decision as to such value would be by simple majority vote, but in neither respect is this a practicable procedure. It is impossible to imagine either the United States or the United Kingdom undertaking to accept the unrestricted decision by an international body by simple majority vote of what the gold or exchange value of its currency shall be, and it is difficult to conceive by what voting procedure a majority decision can be reached as to which of the indefinite range of possible rates shall in any particular case be the governing rate. The Keynes draft is not more helpful. All that it says on this point is that "The member States will agree between themselves the initial values of their own currencies in terms of bancor." Since sixty or more countries may be eligible for membership, this offers no real light as to the intended procedure in the absence of any indication of a required pattern of negotiation and of what the outcome would be if agreement was not reached in particular cases. I find myself unable to suggest a practicable procedure for dealing satisfactorily with this essential problem and suspect that the obscure treatment of it in the two drafts reflects similar failure on the part of the draftsmen. Perhaps the only workable procedure will be for a small number of the most important countries to become charter members of the new institution after agreement among themselves as to mutually acceptable rates, and thereafter to accept additional members upon condition that the rates these members propose to maintain are acceptable to a voting majority of the governing board of the agency.

Under the White plan, the value of each member's currency in terms of gold will not be reducible except upon the initiative of the country in question and with the approval of four-fifths of the votes. If any member country permitted, or found itself unable to prevent, an unsanctioned depreciation of its currency, it would be subject to suspension from membership by majority vote. Since except under extraordinary circumstances each country tends to regard it as against its own interest that the currency of any other country should be depreciated, the requirement of a four-fifths majority approval for downward changes would probably mean in practice that no such changes could legally be made and that, assuming the Fund to continue indefinitely to exist, all exchange rates and the monetary value of gold would be frozen indefinitely for member countries at their levels at the time of inception of the Fund. Under the Keynes plan, a member country with a debit balance to the Union which has been in excess of a quarter of its quota on the average during a period of at least two years may reduce the value of its currency in terms of bancor by 5 per cent at its own discretion, and, subject to the consent of the Governing Board of the Union, by more than 5 per cent and on more than one occasion. If the debit balance of a member state reaches half of its quota it may be required by the Governing Board to reduce the value of its currency if the Board "deems that to be the suitable remedy."

The White plan thus seems to look towards absolutely fixed exchange rates as the normal situation while the Keynes plan on the contrary seems to look toward internationally-regulated flexibility of exchange rates. But in the absence of log-rolling, majority consent to the depreciation of a major currency would scarcely ever be obtainable from an international body, and I believe therefore that the Keynes plan, except for its sanction of an initial depreciation of 5 per cent, would in practice impose as much rigidity of exchange rates as would the apparently less elastic White plan. Neither plan would in my opinion provide as much flexibility of exchange rates in practice as did the traditional but not impregnable gold standard (although I have no doubt that it was the intention of both draftsmen to introduce greater flexibility and that both of them would dispute this opinion as to the probable mode of operation of their respective plans). While both plans provide formal procedures whereby depreciations can occur with the sanction of a responsible international body, this body will be one whose general bias will almost inevitably be against exchange depreciations. On the other hand, both plans set up a contractual barrier of probably high effectiveness against unsanctioned exchange depreciation It is my belief that in an otherwise well-ordered world economy it would be undesirable to rely upon extensive resort to changes in exchange rates as a normal means of maintaining or restoring equilibrium in international balances of payments. I nevertheless think that both plans have unintentionally provided in effect for more rigidity of exchange rates than it will be wise to bind the post-war world to in advance. It seems to me that either plan would be improved if, after it were made to include criteria for permissible reductions in the exchange value of currencies stricter and more guarded against abuse than those proposed by Keynes, it provided that such reductions could be made when approved by say only 30 per cent of the total votes exclusive of those of the country concerned. Exclusion of the votes of the country immediately concerned would have the extra merit that it would put small countries more nearly on a par with large countries in access to the privilege of having an internationally sanctioned exchange depreciation.

Status of Gold: An important question with respect to both plans is their bearing on the status of gold as a medium of international payments. Under the White plan: gold at a constant monetary value fixed by the Fund may be used to meet the contributory quota requirements to any extent and must be used in prescribed minimum ratios; gold may be used to reduce debit balances to the Fund or to acquire the currency of any country through the Fund; the Fund may use its own holdings of gold to secure additional quantities of a scarce currency; member countries may use gold at their pleasure outside the Fund as a medium of international payments, but are not free to change its monetary value; member countries must make available to the Fund, in exchange for their own currency, all their holdings of gold in excess of the amounts held at the time of joining the Fund.

The White plan makes no sharp break with the international gold standard as it operated before 1914. One essential feature of the international gold standard is the acceptability of gold at a fixed monetary value in settlement of international liabilities. Under the White plan such acceptability is not enforced directly on the member countries but is enforced indirectly by requiring the member countries, upon request by the Fund, to receive in exchange for their own currencies without limit gold deposits with the Fund made by other member countries. In fact, the White plan, in providing by international contract for the acceptability of gold, would even establish an extra international sanction for the gold standard.

The other essential feature of the strict gold standard is the obligation to provide gold upon demand for purposes of external payment at a fixed rate in terms of the national currency. This requirement would be operative under the White plan only for gold holdings in excess of the amounts held at the time of entrance into the Fund, and once the prescribed minimum contribution in gold to the Fund had been made there would be no obligation, legal or otherwise, on the part of any member country, and resulting from its membership in the Fund, to hold any gold reserves. It could meet external liabilities without resort to gold either by drawing on its credit balance with the Fund or by privileged borrowing from the Fund of the particular currency needed. To this extent, the White plan does fall short of compelling full adherence to the formal rules of the international gold standard. The importance of this deviation, however, can readily be overestimated. It was the primary international function of the gold standard to guarantee fixity of the exchange rates, and this the White plan aims to accomplish by more direct means. Even under the pre-1914 gold standard, moreover, actual gold transfers played only a residual role in settling international liabilities; aside from clearing or offsetting transactions, there was an elaborate pattern of use of international credits to meet -- or to postpone -- immediate liabilities to payment, which differed only by its lesser formality and the absence of guaranteed credit facilities from the procedures provided for under the White plan. The account of the traditional gold standard given by Keynes, according to which international liabilities had either to be settled by actual shipments of gold or to be allowed to go into default, borders upon conjectural history. It may well be, however, that under the White plan the actual use of gold as a means of international payment would in practice be even less extensive for non-gold-producing countries than it was under the traditional gold standard. Gold will be unevenly distributed after the War, while credit from the Fund will be available upon demand, within limits, at a negligible cost. There will therefore be less reason for countries to want to acquire gold as a liquid reserve and less occasion for its actual transfer in settlement of international liabilities.

In the Keynes plan the value of bancor in terms of gold -- and therefore also the value of gold in terms of bancor and, indirectly, in terms of the currencies of all the member countries — is to be fixed by the governing board of the Union and may be changed freely, upward or downward, at its discretion. The only obligations imposed on the member countries with respect to gold are that they shall not purchase gold at a higher price in terms of their currency than corresponds to the parity of their currency with bancor, and that if their debit balances to the Union exceed half their borrowing quotas the governing board may require the deposit of gold collateral and even the outright transfer to the Union toward the reduction of their debit balances of any gold they may own. Member states may also, on their own initiative, use gold to obtain a credit balance in terms of bancor (and also to reduce a debit balance?) but no country is entitled to demand gold from the Union. The Union may, however, at its discretion, distribute gold in its possession among countries with credit balances with the Union. While any individual country may if it please refuse to accept gold directly from other countries, if there is a demand for its currency by countries having gold supplies it will in effect have to meet that demand indefinitely by accepting in exchange for its currency at rates determined by the Union either gold tendered directly to it or gold assigned to it by the Union or bancor balances created by debtor countries by the sale of gold to the Union. Under the Keynes plan, therefore, there will be available a substitute international currency, bancors, resort to which will be at the pleasure of debtor countries, and the value of this substitute currency relative to gold will be freely variable at the determination of the governing board of the Union. The Keynes plan thus sanctions and facilitates a much more fundamental departure from the traditional gold standard than does the White plan, but nevertheless leaves open the possibility that the international monetary system of the post-war world will operate very much as if a traditional gold standard were still in existence.

<u>Position of Gold Holders and Gold Producers</u>: In recent years the question of the position of the United States as a holder of a great stock of gold and of South Africa, Canada, and other countries as important producers of gold has to many persons seemed more crucial than the role of gold in the mechanism of international payments. Under the White plan, the position of holders and producers of gold would be strengthened, even as compared to the traditional gold standard, since gold would be usable for all its traditional monetary purposes and in addition would have an internationally guaranteed monetary value. Keynes claims that his plan also would strengthen the position of holders and producers of gold: "The fact that a member State is entitled to obtain a credit in terms of bancor by paying actual gold to the credit of its clearing account, secures a steady and ascertained purchaser for the output of the gold producing countries, and for countries holding a large reserve of gold. Thus the position of producers and holders of gold is not affected adversely, and is, indeed, improved." But Keynes is comparing the status of gold under his plan with its status at the present time, not with its status under a firmly established international gold standard. He overlooks, moreover, that under

his plan the monetary value of gold can be reduced at the discretion of the governing board of the Union.

But would it be a point of merit in either plan that it improved, or left unimpaired, the status of gold-holders and of gold-producers? On behalf of gold-holders, it can be argued that since the use of gold already produced is costless, there would be no point in abolishing or impairing its serviceability as a supplement to the stock of internationally-liquid assets in non-gold form which the Fund or the Union will provide, and that, since the gold was acquired in exchange for value rendered, to do so without the consent of the holders and without compensation to them in some form would be a breach of faith equivalent to cancelling the value of poker chips after others had honestly won your pile away from you. There is force in the possible rejoinder that the existing stock of gold is held predominantly by the United States, which is the country which seems least likely of all major countries to need any means of meeting external liabilities in the post-war period beyond what its current exports and its holdings of foreign balances will provide. But Keynes exaggerates the degree of concentration of the world's gold stocks in the United States when, in another connection, he refers to "the remnant of gold reserves held outside the United States." This "remnant", not only at its current monetary value but also in physical quantities, is greater than countries other than the United States have ever in the aggregate held before. At its current monetary value it is greater than were the total monetary holdings of gold of the world as a whole, <u>inclusive of the United States</u>, in 1913 or even in 1929.

It is harder, however, to make out a case on behalf of the gold-producers. Under the Keynes plan gold production could be held in check by reduction by the Union of the monetary price of gold. The White plan provides no machinery for the regulation, direct or indirect, of gold production. From a world point of view, I can see little sense, if something like either the White plan or the Keynes plan should be successfully put into operation, in continuing to provide a guaranteed market at a guaranteed price for whatever supplies of gold the gold-mining industry chooses to add to the present stocks. But since the American special interest in gold is primarily in the protection of the value of gold already in stock while the British Empire special interest is primarily in the protection of the prosperity of the gold-mining industry, I suppose we may expect that whatever international agreement is reached on the future status of gold will be a compromise providing excess protection for both sets of special interests.

<u>Inflation and Deflation</u>: By creating an additional and flexible supply of internationally liquid means of payments both plans would provide needed safeguards against either world or local deflations originating in national balance of payment difficulties. This is the greatest service which the plans would render and is a sufficient service to justify the adoption of one or the other of them even if other aspects of the plans were not to be regarded favorably. In doing so, however, both plans would also furnish additional tinder for world-wide inflation. While each plan makes partial provision for withdrawal in case of need of the extra tinder it will have itself contributed, they both fail to supply any procedure (except for the provisions, of doubtful effectiveness under the new regime, for the lowering of the monetary value of gold) for mopping up or immobilizing on a world-wide scale excess supplies of money or credit

originating from sources outside the proposed agencies. My concern about the possible menace of inflation would probably be regarded by Keynes at least as belonging to a "climate of economic opinion" which has happily passed away and as being out of harmony with "the spirit of the age" which he invokes in support of his proposals. In any case, all of his emphasis is on the value of his proposals because of their expansionist tendencies. Nevertheless, I would insist that both plans require additional provisions for concerted action on an agreed international basis to check inflationary tendencies when they make their appearance on a world-wide scale.

Capital Export Controls: During the 1930's a major factor in undermining the normal processes for maintaining international monetary equilibrium and in bringing about exchange controls of one sort or another as means of coping with the resultant problems were the flights of capital induced by fears of currency depreciation, of social revolution, and of political persecution. Both the White and the Keynes plans provide for capital export controls as protections against such flights. Both plans look toward the establishment of obligations on the part of other countries to cooperate with the capital-export controls of countries from which capital flight is threatened, although the White plan contains a specific provision that such cooperation shall be obligatory only when required by the Fund. When it comes to exchange controls in general, the two plans diverge sharply. Under the White plan the abolition of exchange controls going beyond the control of capital transfers is a primary objective and such abolition is a condition of membership in the Fund. Keynes, on the other hand, looks with approval on complete exchange controls, as promoting "order and discipline in international exchange transactions in detail as well as in general". He refers regretfully to the probability that other countries may not in peacetime be willing to go as far as the present British Exchange Control, which is a far-reaching one indeed, and apparently even has no prejudice against the use of postal censorship as an aid to the enforcement of exchange control.

An exchange control limited to control of capital transfers and unreinforced by postal censorship would no doubt be subject to steady and substantial leakages. There is no doubt also that there would be today less sympathy than was once de rigeur in democracies with the individual who, not because of his gross cupidity but because of his involuntary and unpleasant contact with the processes of social revolution, persecution, oppressive taxation, or discriminatory legislation, finds himself in conflict with the national objectives of his own or of some other country. The fact that exchange controls facilitate direct governmental regulation of national economies is widely regarded today as a consideration in their favor rather than a disadvantage. Many would find a musty and antiquarian flavor in the limitation placed by the Financial Commission of the Genoa Conference of 1922 upon permissible measures of exchange control to prevent capital flight to the effect that: "Every proposition tending to limit the freedom of the exchange market or to violate the secrecy of the relations between bankers and their clients must, in our opinion, be absolutely condemned." Keynes is in this respect riding high on what, for the time being, appears to be the wave of the future. It nevertheless does not seem to me to be either necessary or desirable to include in a draft of a constitution for a better post-war world provisions for making a respectable institution out of what was one of the major plagues in the international economic relations of the 1930's. Keynes, of course, would have exchange controls used only for virtuous purposes. They are by their nature, however, a dangerous instrument. If we are going to be provided with better international monetary institutions than we ever had in the past, if violent exchange depreciations, social revolutions, persecutions of minorities, and gross discriminations against alien investors, are not to be normal expectancies in the world to come, it is not evident why disruptive capital flights should be more of a problem than they were before 1914 or need more drastic preventive methods than would then have seemed decent.

The New Agency in the Transitory Period: We must count on a period of perhaps several years' duration following the cessation of hostilities when the United Nations will be faced with the formidable problems of dealing with acute currency disorder, with relief and rehabilitation needs, with restoration of normal productive activities, and with the enforcement of restitution to the occupied countries of the assets stolen from them by the aggressor nations. There will be in many countries huge frozen balances whose unfreezing will be a delicate and slow-moving operation. What is the role to be of the new international monetary agency during this interim period?

The White plan apparently contemplates the coming into full operation of the new agency immediately upon the cessation of hostilities and proposes the assumption by it of major responsibility for the gradual unfreezing of frozen balances. In Keynes' presentation of his plan there does not appear to be consistency throughout on the question whether the new monetary agency is to begin operation immediately or only after some of the difficulties of transition from wartime to peacetime conditions have been resolved. For the most part, however, he writes as if the Union is intended to be fully operative immediately after termination of hostilities, and to be an important instrument, among others, for handling the transition from wartime conditions to stable post-war conditions.

Every consideration points to the desirability of obtaining agreement among the United Nations as soon as possible on the nature of the proposed monetary agency and on the principles which shall govern its operation. There is much to be said also for as prompt as possible a selection of its key personnel, so that they may become familiar with each other and with the tasks which they will later have to perform. It seems to me, however, that the monetary agency to be established should be looked upon as an agency with predominantly routine peacetime functions to perform for a stable and orderly world. Its personnel should be chosen for qualifications and temperament appropriate to the performance of such unspectacular functions. The emergency salvage and rehabilitation tasks should be left to other agencies specially designed for such purposes. To put on what is intended to be a long-run monetary stabilization agency any important responsibilities with respect to the handling of the difficult problems of the transition period, problems difficult not only technically but because of their magnitude, their political entanglements, their acutely controversial character, and the absence in many cases of solid, established governmental authorities to deal with, would be to put a curse on it from the start. If there is merit in this position, then it would be a mistake also to assign an important role to the new monetary agency in the liquidation of frozen balances, as proposed in the White plan. This should be regarded as a long-term financial operation, to be handled by another agency of a different character.

<u>Proposed Additional Functions</u>: Keynes suggests assigning to his proposed Clearing Union still other functions which seem to me to have little relationship to the monetary stabilization function proper, to blend very badly with it, and to be well-designed to endanger its continued existence and the successful execution of its primary function, as well as its initial acceptability. One such suggestion is that seizure of its credit balance with the International Clearing Union be made use of, if the occasion should arise, as a financial sanction against a country threatening the peace of any other member country. The idea of financial sanctions may be a good one. It is certainly an old one. Leibnitz, as far back as 1712, suggested, in what I fear was an ironical mood, that more effective as a means of maintaining peace than the league of nations proposed by the Abbé de St. Pierre would be the deposit with an international tribunal by the potentially aggressor princes of substantial sums of money proportional to the importance of their countries, such deposits to be confiscated upon their being found guilty of violating the rules of peaceful international relations. A similar scheme, proposed during the first World War by a Swiss jurist, Busch, and which attracted some attention, provided for using the same international fund, along the lines now suggested by Keynes, for the dual purposes of international monetary stabilization and direct enforcement of peace. The two purposes won't mix. If financial sanctions are desirable, they should be provided through another agency. The stabilization agency should not be obliged to carry the political burden of a sanctions-enforcing agency. Moreover, aggressive-minded countries presumably know their own intentions some time ahead. If they contemplated an aggression, they would draw down their credit balances in plenty of time, thus preventing the agency from working effectively either as a monetary stabilization agency or as a sanctions-enforcing agency.

So also with respect to Keynes' suggestion that the proposed agency should be a source of credits for ever-normal granary schemes (very much along the lines of a proposal made by Sir James Steuart in 1759), as well as for international relief, rehabilitation, and reconstruction agencies. These activities, granting their desirability, either should be conducted on a gift instead of a loan basis or should obtain long-term financing. The relation of their operations to international monetary stabilization would for the most part be tenuous and indirect, and there would frequently be the widest possible contrast between the financial principles and the qualifications for suitable personnel appropriate for their operations and those appropriate for the operations of the international monetary agency. There should unquestionably be effective liaison between the various international economic agencies which it will be desirable to set up, and perhaps there should be an over-all international economic board with the power and duty to require the coordination of all of their activities. In general, however, I am sure that it will prove highly expedient, both in obtaining public acceptance of new agencies and in maximizing their prospects of durability and of efficient operation, if separate agencies are set up for separate functions and if the public is asked to digest the briefs presented on their behalf only one agency and one function at a time.

<u>Conclusion</u>: Monetary stabilization alone will not suffice to cure the world of its troubles in the international economic field. Indeed, disturbance in international monetary relations is often rather a symptom of more deep-lying sources of international disequilibrium than an initiating factor. Planning for the constitution of a better post-war world must extend far beyond the monetary field. But Lord Keynes and Dr. White are

right in regarding the monetary aspect as a key aspect and in holding that it will be necessary to reach substantial agreement, at least on a tentative basis, in the monetary field before it will be possible to make much progress in planning for other equally important or even more important fields.

There is an additional reason, though of a lesser order, why it is expedient to deal with the monetary problem at an early stage. It happens to be the problem on which in all probability it will prove easiest to obtain international agreement. For while technically the monetary problem is perhaps the one of greatest complexity in the international economic field and there is no scarcity of divergent opinions thereon, the cleavages in opinion do not to any marked degree follow national lines. There is already evidence for instance that some Americans find Lord Keynes' proposals more to their taste than Dr. White's, and I can see reasons why some Englishmen might well prefer the White to the Keynes plan. My own preference, as I have perhaps made sufficiently apparent, is for a blend of the two, with some deviations from both. But I am convinced that as compared to the pre-war situation adoption of either plan would be a great step forward, in the mutual interest of all countries wishing an orderly and collaborative world.

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

E. R. Stettinius, Jr.
Administrator

May 26, 1943

MEMORANDUM

To: The Honorable Henry Morgenthau

From: E. R. Stettinius, Jr.

Subject: Executive Reports

Transmitted herewith, for your information, are copies of the Executive Reports on lend-lease operations, as of April 30, 1943.

Attachments

9-0399

CONFIDENTIAL
Executive Report No. I

Office of Lend-Lease Administration

ALLOCATIONS, OBLIGATIONS AND EXPENDITURES

FUNDS APPROPRIATED TO THE PRESIDENT

Monthly Report as of April 30, 1943
(Thousands of Dollars)

Appropriation Category	Adjusted Appropriations	Cumulative to April 30, 1943		
		Allocations	Obligations	Expenditures
Ordnance and Ordnance Stores	2,026,400	1,728,081	1,561,082	1,090,815
Aircraft and Aero. Material	2,732,125	2,693,522	2,557,377	1,804,868
Tanks and Other Vehicles	854,281	758,207	638,193	501,739
Vessels and Other Watercraft	2,417,544	2,224,319	1,852,494	1,312,923
Misc. Military Equipment	360,776	360,776	308,253	200,478
Production Facilities	1,110,414	1,105,614	1,040,359	818,843
Agric. and Indust. Commodities	7,543,990	7,463,754	5,580,366	3,804,338
Servicing, Repair of Ships, etc.	531,470	501,634	390,268	368,004
Services and Expenses	800,000	474,319	262,728	207,815
Administrative Expenses	20,000	19,635	18,722	18,514
Total	18,397,000	17,329,861	14,209,842	10,128,337

Procuring Agency	Allocations	Obligations	Expenditures
War Department	5,939,020	5,400,545	4,115,914
Navy Department	2,991,784	2,354,142	1,477,461
Maritime Commission and War Shipping Admin.	1,914,345	1,590,968	1,425,089
Treasury Department	3,077,342	2,303,363	1,482,929
Department of Agriculture	3,388,568	2,544,491	1,611,710
Other	18,802	16,333	15,234
Total	17,329,861	14,209,842	10,128,337

S-0887

"THIS DOCUMENT CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPONIAGE ACT, U.S.C. 50; 31 AND 32. THE TRANSMISSION OR THE REVELATION OF ITS CONTENTS IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW."

CONFIDENTIAL
Executive Report No. 2

Office of Lend-Lease Administration

STATEMENT OF LEND-LEASE AID

Monthly Report as of April 30, 1943
(Thousands of Dollars)

Type of Aid	Cumulative to		Month of	
	Apr. 30, 1943	Mar. 31, 1943	April	March
Goods Transferred	9,214,238	8,494,135	720,103	663,275
Servicing, Repair of Ships, etc.	281,009	262,135	18,874	- 49,779
Rental of Ships, Ferrying of Aircraft, etc	961,697	929,782	31,915	49,892
Production Facilities in U. S.	580,563	572,896	7,667	20,846
Miscellaneous Expenses	64,965	60,570	4,395	3,491
Total Services	1,888,234	1,825,383	62,851	24,450
Total Goods and Services	11,102,472	10,319,518	782,954	687,725

Data on Goods Transferred include value of goods procured from lend-lease appropriations to the President and to the Army and Navy.

Type of Aid	Cumulative to April 30, 1943				
	Br. Empire	China	U.S.S.R.	Other	Total
Goods Transferred	7,030,570	132,615	1,898,910	152,143	9,214,238
Servicing, Repair of Ships, etc.	214,021	1,525	43,604	21,859	281,009
Rental of Ships, Ferrying of Aircraft, etc.	698,426	12,992	151,818	98,461	961,697
Production Facilities in U. S.	-	-	-	-	580,563
Miscellaneous Expenses	43,465	811	1,573	19,116	64,965
Total Goods and Services	-	-	-	-	11,102,472

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CONFIDENTIAL
Executive Report No. 3

Office of Lend-Lease Administration

DETAIL OF ARTICLES TRANSFERRED

Monthly Report as of April 30, 1943
(Thousands of Dollars)

	Cumulative to April 30, 1943				
	Br. Empire	China	U.S.S.R.	Other	Total
Ordnance (Excl. Ammunition)	355,825	15,538	49,597	41,944	462,904
Ammunition and Components	797,532	22,194	218,104	16,346	1,054,176
Aircraft	654,604	39,105	394,240	26,456	1,114,405
Aircraft Engines, Parts, etc.	356,727	3,534	13,411	1,854	375,526
Combat Vehicles	612,890	923	218,527	16,338	848,678
Non-Combat Vehicles	248,412	25,452	246,305	9,070	529,239
Watercraft and Parts	699,225	447	70,810	9,010	779,492
Agric. Products (Foodstuffs)	1,150,275	-	176,415	2,103	1,328,793
Agric. Products (Excl. Food)	297,133	41	3,499	574	301,247
Machinery	277,679	3,970	132,199	1,112	414,960
Metals	458,876	8,643	176,681	1,013	645,213
Petroleum Products	419,426	2,412	20,165	38	442,041
Miscellaneous Material and Manufactures	701,966	10,356	178,957	26,285	917,564
Total	7,030,570	132,615	1,898,910	152,143	9,214,238

8-0087

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 26 1943

TO Secretary Morgenthau

FROM Randolph Paul

Reference is made to my memorandum of May 21, 1943, copy of which is attached, reporting for your information certain transfers by the Bank of China in favor of Madame Chiang Kai-Shek.

It has now been reported that on March 2, 1943, upon instructions of T. V. Soong, the Bank of China paid to the National City Bank of New York for account of Madame Chiang Kai-Shek an additional $50,000, and on April 30, 1943, on instructions of the Central Bank of China, the Chase National Bank paid to the National City Bank of New York for the account of Madame Chiang Kai-Shek an additional $100,000.

Accordingly, we now have reports covering transfers of $370,000 to or for the account of Madame Chiang Kai-Shek since March 1, 1943.

Pursuant to Lauchlin Currie's request, he has been informed of these transactions.

May 21 1943

Secretary Morgenthau

Randolph Paul

For your information:

Foreign Funds Control reports that on May 12 the Bank of China, New York Agency, instructed the Irving Trust Company to issue a cashier's check for $100,000 to the order of Madame Chiang Kai-Shek. The check was then endorsed by Madame Chiang to the order of Lin Kai Kung, a son of Dr. H. H. Kung, Finance Minister of China, and deposited by him to the credit of his personal account, which is unblocked pursuant to General License No. 42. The $100,000 check was issued by the Irving Trust Company and negotiated by the Chase National Bank pursuant to the terms of General License No. 60. On May 17 a transfer of $61,000 was similarly effected, together with a transfer of $59,000 by Madame Chiang through Lin Kai Kung to the account of Lin Kai Kung's secretary, F. C. Woo whose account is also unblocked pursuant to General License No. 42.

It is possible that these funds are to be used for some of Madame Chiang's expenses in the United States. Foreign Funds Control is checking transactions effected through the accounts of Lin Kai Kung and F. C. Woo since Madame Chiang's arrival in the United States and you will be informed if any significant information is developed.

(Initialed) R.E.P.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China via NR

DATE: May 26, 1943, 2 p.m.

NO.: 790

Reference is made to cable on special exchange regulations from the Embassy dated May 24, 3 p.m., no. 768.

We are told by Adler that tacit approval has been given by the Stabilization Board to the new special regulations on exchange for embassies and consular offices of foreign governments by "taking note" of such regulations and raising no objections thereto. The Stabilization Board has furthermore requested the Finance Ministry to issue instructions to the Central Bank requiring the latter to send to the Stabilization Board a report on the exchanges which are sold to and purchased from embassies and consular offices of foreign governments each month.

In view of the circumstance set forth above, and the fact that there has been clarification of Article 3, it is assumed that we may take advantage of the new rate - unless we receive instructions to the contrary, and until other possible arrangements may be made. The new rate will be of benefit to the Government, and staff members will be given much needed relief, even if it is only temporary.

The Embassy understands that the new rate is similarly to be used by the British mission and other foreign diplomatic missions.

ATCHESON.

C O P Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, Chungking

TO: Secretary of State, Washington

DATED: May 26, 1943

NUMBER: 790

CONFIDENTIAL

In connection with this message I refer to the telegram no. 768 concerning special exchange regulations sent by this Embassy on May 24, 1943.

We have been informed by Adler tacit approval has been given by the Stabilization Board to the new special exchange regulations for foreign consular offices and embassies. This was done by "taking note" of them and not (repeat not) raising our nation to them and also by requesting that instructions be given to the Central Bank by the Ministry of Finance for the bank to report to the Board monthly exchanges bought from and sold to foreign consular offices and foreign embassies. We assume that, in the light of this circumstance and as article three has been clarified, we may take advantage of the new rate in the absence of instructions to the contrary and pending the making of other possible arrangements. The new rate brings much needed relief to the members of the staff, if only temporary, and benefits the government.

The British and other foreign diplomatic missions are similarly availing themselves of the new rate according to our understanding.

ATCHESON

Copy:bj:5-31-43

Treasury Department
Division of Monetary Research

Date May 29, 1943 194

To: Miss Chauncey

The Secretary might like to see this pleasant reference to the work of our Treasury men in North Africa.

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

U. S. CONFIDENTIAL
BRITISH SECRET

COMBINED COMMITTEE FOR FRENCH NORTH AND WEST AFRICAN CIVIL AFFAIRS

The following communication has been submitted by O.L.L.A., and has been sent after clearance with those concerned.

COB Airgram No. 130, 26 May 1943

From: CCNA

To: NAEB

Subject: Report of Conditions in Tunisia

Ref: BOC Airgram 33

The report upon conditions in Tunisia prepared by Treasury representatives as Airgram 33 has been carefully considered by the various agencies and committees participating in CCNA. It has brought much favorable comment and CCNA wishes to express its appreciation. Please thank the men who prepared the report and assure them that its content which you transmitted so promptly has been of real value.

DISTRIBUTION "A"
Copies furnished London by courier.

5-28-311

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OFFICE
SECRETARY OF TREASURY

1943 MAY 27 AM 11 53

NOT TO BE RE-TRANSMITTED

TREASURY DEPARTMENT COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 172

Information received up to 7 a.m., May 26, 1943.

1. NAVAL

Two convoys have passed through the SICILIAN CHANNEL from West to East without incident. One of H.M. Destroyers shot down an enemy aircraft North of BONE on the 21st, taking 3 prisoners. Another of H.M. Destroyers on 23rd, sank a Northbound Auxiliary of 400 tons in the SICILIAN CHANNEL, taking 8 Italian prisoners. Greek Submarine PAPANICOLIS sank 2 small enemy vessels North of CRETE on the 8th, taking 10 prisoners. One of H.M. Submarines sank 2 small Schooners off CORSICA on the 13th and bombarded BALVI Airfield on 20th.

2. AIR OPERATIONS

WESTERN FRONT. 23rd/24th. DORTMUND. Corrigendum to Optel 171. For "712" aircraft read "724". 25th. Five escorted Mitchells bombed ABBEVILLE Airfield with unobserved results. Two Mitchells and two escorting Spitfires missing. At noon 18 enemy Fighter bombers with escort and cover of 16 Fighters operated against BRIGHTON. 3 were brought down by anti-aircraft fire and a 4th by Typhoons. At dusk 12 Fighter Bombers attempting to raid FOLKESTONE were immediately engaged by 6 Spitfires which destroyed 5 of them without loss. The enemy jettisoned their bombs, only 1 of which fell on land causing no damage. 25th/26th. Aircraft despatched: DUSSELDORF - 759 (27 missing), Airfields - 19. Preliminary reports - DUSSELDORF - owing to layers of heavy cloud, not yet possible to estimate success of attacks. Fires were scattered over a fairly wide area and 2 large explosions were seen.

PANTELLARIA. 23rd. 73 Mitchells and Marauders with an escort of Warhawks, some of which carried bombs attacked the docks and town. A medium sized ship was hit and a small ship sunk. 2 Aircraft missing.

SARDINIA. 23rd. 38 Lightnings bombed docks at CARLOFORTE and sank 3 small ships. Zinc works at IGLESIAS were also attacked.

SICILY and ITALY. 23rd/24th. Wellingtons dropped over 45 tons at MESSINA ferry terminus. Bursts were seen on railway sidings and near the power station. 24th. Liberators dropped 108 tons on SAN GIOVANNI and REGIO ferry termini. Many hits on the objectives were reported and a tanker was set on fire. MALTA based aircraft dropped 11 tons on railway sidings at CATANIA, while sea mines were successfully laid at the entrance to the harbour.

3. HOME SECURITY

BRIGHTON. 25th. 21 H.E. bombs were dropped and BRIGHTON and HOVE were machine gunned. Some railway lines temporarily cut but main line traffic now restored though an arch of the viaduct to LEWES was severed. Some gas-holders destroyed causing serious loss in capacity of the district. Fatal casualties so far reported two service and twenty civilian.

May 27, 1943
9:50 a.m.

FINANCING - ORGANIZATION PLANS

Present: Mr. Bell
Mr. Paul
Mr. Smith
Mr. Tietjens

MR. SMITH: Originally in this story we had a sentence that said that the presidents of the Banks, acting as fiscal agents of the Treasury, were doing something or other.

They asked us to strike that out because they said that up to this point the Banks were not acting as fiscal agents of the Treasury.

MR. PAUL: By the "Banks" do you mean the Federal Reserve?

MR. BELL: They were acting as chairmen of the War Finance Committees as fiscal agents. The Secretary appointed them as chairmen of the War Finance Committees without reference to the fact that the banks are fiscal agents.

MR. SMITH: We rewrote the story and moved it up into another part of the story - said that the Secretary was appointing the Banks as fiscal agents of the Treasury to handle financing - the borrowing from financial institutions.

This morning they called up and said they wanted that stricken out because if we say the Banks are appointed as fiscal agents, then it has got to legally go through the Board and the Council has to get into it and find out whether it is legal, and so on.

They want us to change it back and say that the Secretary is appointing the presidents of the Federal Reserve Banks to do it, without any mention of the fiscal agents.

MR. BELL: I would like to dig out of the files all the letters I have written asking the Federal presidents as fiscal agents to do certain things since 1933.

(Mr. Tietjens entered the conference.)

H.M.JR: To boil it down, we are getting out a statement - I didn't even know this was coming but I smelled something - we had a statement prepared - where is that statement?

MR. SMITH: It is on the way down here. Chick is mimeographing it.

H.M.JR: In the statement I say I am appointing the Federal Reserve Banks as my fiscal agents to sell Treasury securities to financial institutions. They say their counsel says that is illegal, that I can't do it - that I have got to appoint the president of the Federal Reserve Bank to do this thing.

MR. TIETJENS: The statute says the banks shall act at your direction as required by you - shall act as fiscal agent. (See attached outline of history.)

MR. BELL: "On November 24, 1915, Secretary McAdoo made public an announcement of his appointment of the Federal Reserve Banks as depositaries and fiscal agents of the United States, effective January 1, 1916."

H.M.JR: Look, Bell, why don't I get them on the phone, because I think this is worth fighting about.

MR. PAUL: I think - of course I haven't gone over this yet, but I want to be sure that we--

H.M.JR: Bell has lived with this for his whole lifetime.

MR. BELL: He notified the Chairman of the Reserve Board and the Federal Reserve Board and each Federal Reserve Bank that he had done it.

MR. PAUL: Who did?

MR. BELL: McAdoo did.

H.M.JR: But their point is I can appoint the presidents but not the Banks.

MR. PAUL: It doesn't sound sensible.

H.M.JR: Isn't it funny that I asked you to study it yesterday, and this morning the thing pops?

MR. PAUL: The last sentence says, "It should also be noted that during the past year rather general use has been made of Federal Reserve Branch Banks in fiscal agency work."

H.M.JR: I don't appoint the manager - do I appoint the president of the Federal Reserve Bank to look after Foreign Funds?

MR. BELL: No, you designate the Federal Reserve Banks as fiscal agents - you told them as fiscal agents to look after Foreign Funds - never went through the Board.

H.M.JR: You see, I did this thing last night for two reasons. I am sick and tired of dealing with the Federal Reserve Banks, see, and second, I thought I would appoint the bank as fiscal agent and have that authority flow from the Office of the Secretary of the Treasury to them, which includes the board of directors of the bank and everybody else - you see, have a clean-cut thing.

I think what Eccles wants is to have me have to go through the Board to the president of the Federal Reserve Bank.

MR. BELL: That is what they have tried for a long time, and we just never let them get away with it.

H.M.JR: We had it last night - the thing is out - we sent it out on the wires.

MR. BELL: It has gone out on the wires?

MR. SMITH: Not to the newspapers - to our people, that is all.

H.M.JR: It went out last night?

MR. SMITH: It went out last night.

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

May 27, 1943
9:55 A. M.

Operator: Go ahead.

Ronald Ransom: Hello.

HMJr: Hello. Ronald?

R: Yes, Henry.

HMJr: Would you mind, while I'm talking to you, to send for Elliott Thurston plus your general counsel?

R: Yes. Just.....

HMJr: Would....

R: ....just one minute. I'll be glad to do so.

HMJr: (Talks aside: What paragraph is this in? One, two, three, four.)

R: They're on the way.

HMJr: Ronald?

R: Yes.

HMJr: Eccles isn't in so I need your help.

R: Yes.

HMJr: Last night we cleared this publicity statement. Elliott Thurston told Fred Smith everybody had seen it. Is that right?

R: Well, I haven't.

HMJr: Well, anyway, Elliott Thurston....

R: It's just been put on my desk.

HMJr: Well, he....

R: I - I suppose Elliott meant that everybody had seen it who was working on it over here, you see?

HMJr: Well, anyway.....

R: Yeah.

HMJr: ....he told us it was cleared.

R: Yes.

HMJr: Now - now at ten o'clock or thereabouts, he said that Eccles raises the question with your general counsel - raises the question after this - I'll read it: "In order to facilitate the sale or issue of the Government securities to commercial banks, mutual savings banks, insurance companies, Government bond dealers, Mr. Morgenthau has authorized the Federal Reserve Bank, as fiscal agent of the Treasury, to handle the sales of these financial institutions separately."

R: Yes.

HMJr: And Thurston said that your general counsel says that we can't do that and that we've got to appoint the presidents of the banks as our fiscal agents. Now I've got Bell here; I've got Paul; and I've got Tietjens....

R: Yes.

HMJr: ...and to be - to use the vernacular, they think your general counsel is all wet.

R: Maybe he is. I've been a lawyer myself, and I've known lawyers to be wrong before.

HMJr: Well, to - I - I mean I'm asking the Federal Reserve Banks to do things all the time as my.....

R: Surely.

HMJr: .....fiscal agent.

R: Surely.

HMJr: Hello.

R: Yes. I said, "Surely." I know you do that all the time. I don't know why they can't be named as fiscal agents...

HMJr: And we've.....

R: ....as before.

HMJr: ....and we've never named the presidents of the Federal Reserve Banks as our fiscal agents and -- let me ask -- (talks aside: Is there a single instance?) Oh! The - the point is, they just wanted to ask the presidents of these banks to do it, you see?.....

R: Yeah.

HMJr: ....and not use the words - well, I - I - I frankly don't want - I'll be very frank. I don't want to ask the presidents.

R: Yes.

HMJr: I want to ask the Federal Reserve Banks to do this....

R: Yes.

HMJr: ....under the statute.

R: Yes, and under all the circumstances of the case.

HMJr: And under all the circumstances of the case. I - you - you - I'm - you understand me.

R: Yes.

HMJr: And the statute is perfectly clear on this.

R: Well, I've sent for our general counsel. Mr. Thurston's already arrived and Mr. Dreibelbis is on his way up, I understand. He'll be here in just a minute.

HMJr: Well, we....

R: He may have something there, but if so, I think it's likely - I don't think we have to get technically legal about this. It seems to me you could say, "Mr. Morgenthau has

(Cont'd.)

R: (Cont'd.) authorized the Federal Reserve Banks to handle sales to these financial institutions separately." In the meantime -- I have a copy of the thing on my desk, you see.....

HMJr: Yeah.

R: ....and it looks to me as if you can avoid any dilemma, if there is a dilemma, by a slight change in the wording, so that you don't ask the presidents; you ask the Federal Reserve Banks, which is what you want to do.

HMJr: That's what I want to do.

R: And which, under the circumstances, seems to me reasonable enough.

HMJr: Yeah. But....

R: But.....

HMJr: ....but we'd like to say the Federal Reserve Banks as fiscal agents.

R: You'd like to use the term "as fiscal agents."

HMJr: Yeah.

R: Well, I - I don't myself see the slightest impropriety, but we have a pretty good lawyer. I'd like to ask my lawyer, although I don't always take his advice.

HMJr: Well, another thing, this thing - we sent this out last night and to change it would only draw attention to it....

R: Yes.

HMJr: .....and frankly we feel quite strongly over here about the thing, because - well....

R: Personally, I am very anxious that it should be available for your press conference this afternoon. I think.....

HMJr: Ten-thirty.

R: .....that's very.....

HMJr: Ten - ten-thirty.

R: Ten-thirty?

HMJr: And we sent it out all over for release at 10:30.

R: Oh, you've sent it out for release at ten-thirty....

HMJr: Yeah.

R: ....so that it will be out and a change now, you think would.....

HMJr: Well, we'll never catch up with it.

R: Oh, you'd never catch up with it. Well, wait, our - our general counsel is.....

HMJr: Yeah.

R: ....has come in. Now let me ask him something. (Talks aside.) Oh. I find out that the Chairman was himself concerned. It wasn't a question of legal language or ?

HMJr: I didn't get that.

R: I say I find now that it wasn't a legal problem; that our general counsel did not - wasn't concerned about that legal aspect of it; but that Marriner Eccles had some doubt himself.

HMJr: Well, hell, he saw this last night, Ronald. We didn't rush him.

R: No.

HMJr: He - he had all the time he wanted last night....

R: Yes.

HMJr: ....and I don't know.....

R: Let me - let me - let me ask about that. Will you wait just a second?

HMJr: Sure. I'd like to get it cleaned up.

R: (Talks aside) Oh!

HMJr: Hello.

R: I'm just getting it straight at this end.

HMJr: All right.

R: Elliott Thurston tells me that the reservation Marriner had was not as to the language, but as to whether that was the - the proper legal statement and as long as our general counsel doesn't seem to have any reservations about it, it probably hadn't been cleared as a legal question with Marriner. That, Thurston says, is the status of it here.

HMJr: No, I don't get that very clear - do you.....

R: I'm sorry. Let's - let - let me start fresh.

HMJr: If you don't mind.

R: Yes. Marriner did not know whether the use of the term "fiscal agents" at that point......

HMJr: Yeah.

R: ....was all right from a legal aspect.

HMJr: Yeah.

R: He asked our - our - Dreibelbis......

HMJr: Yes.

R: ....and now Dreibelbis tells me he has no reservation about it at all.

HMJr: Good.

R: Now I haven't had a chance to consult Marriner. Let - let me make another statement.

HMJr: Yeah.

R: You want this out - it has gone out, actually, so that at your ten-thirty press conference this is what you're going to stand on.

HMJr: Well, I'm not going to - if - if - if you want to make a big issue, well......

R: Oh, God! I don't want to make a big issue of it.....

HMJr: I - I mean.....

R: ....no, no, no. ~~I - I want.....~~

HMJr: ....after all I've gone through, I - I want....

R: (Laughs) Uh huh.

HMJr: ....I want to - I want.....

R: Get through with it. Let's finish.

HMJr: No. I want to do it with a - leaving a good after taste.

R: Well, I don't think this'll leave any after taste....

HMJr: But I - I don't.....

R: ....not as far as I'm concerned.

HMJr: Well, I mean I don't want to say - just this thing and Marriner say, "Well, damn it, if he hadn't had that in, I could do it. Now I've got to make a statement," and all the rest of that.

R: (Laughs) Well, wait - wait a minute. I think I can clear that. (Talks aside.) Wait just a minute. I'll let Mr. Thurston make a statement to you that he's made to me, which is perfectly satisfactory to me. As I take it, it'll be satisfactory to you.

HMJr: Wonder....

R: Will you wait just a minute?

HMJr: Surely.

Elliott Thurston: Mr. Secretary.

HMJr: Good morning.

T: Good morning.

HMJr: How are you?

T: I'm surviving. I hope you are.

HMJr: I am too.

T: (Laughs) The Chairman merely -- you know his punctilious mind -- was wondering whether any legal question was involved and wanted to have an opportunity to clear that.

HMJr: Yeah.

T: I think everybody who has seen it is satisfied there is no legal question and it's per.. - perhaps preferable this way.

HMJr: Yeah.

T: So that I don't see - I've already shown this to Matt Szymczak.....

HMJr: Yeah.

T: ....and to John McKee, and they're satisfied with it. So I am and so is Mr. Ransom.

HMJr: Yeah.

T: So it seems to me that that's the end of that.

HMJr: Well, if that's the way you feel, then we'll - we'll consider the matter closed.....

T: And you can put me in the guillotine if.....

HMJr: I won't.

T: I know, but if - well, (laughs) Marriner will.

HMJr: I'll send.....

T: Well, I - I'm pretty sure that that's all there was to it.

HMJr: I'll - I'll send you a box of candy.

T: All right. (Laughs) Thanks ever so much. Just a second.

R: Well, that's all right now, is it?

HMJr: Sure, because our - our people here says there isn't - there's all the precedent in the world for this.

R: Well, so does our lawyer, so we - we can't have an argument on that.

HMJr: And if the lawyers agree, what more can you ask?

R: That's an un.. - unusual precedent and let's hope it'll occur again.

HMJr: Well, then ev.. - everybody's happy?

R: I am.

HMJr: Okay.

R: I know no one who is unhappy.....

HMJr: And Elliott Thurston's happy?

R: ...on this statement.

HMJr: And Elliott....

R: He says he is.

HMJr: All right.

R: Fine.

HMJr: Thank you.

R: Good bye.

H.M.JR: What did Thurston say this morning?

MR. SMITH: Thurston said that that brought up a ticklish legal question, that if we were going to use it that way they would have to consult all their lawyers. That was the term he used - "all their lawyers."

He said, "I have talked to one of them this morning, and he is satisfied that if we are going to use it that way we have to give him some time to look into it."

I haven't told you this before, but he said, "Between us, another good reason for not leaving that in there is because some of the Federal Reserve presidents might think that is an insult."

H.M.JR: Didn't he also say they would have to take it up with the Board for ratification?

MR. SMITH: Yes, sir. He said that the lawyer he talked to said it would probably have to go through the Board and get an O.K. from the Board before they could accept this arrangement as the fiscal agent.

MR. BELL: I hope you never create that precedent.

H.M.JR: In the first place, I deliberately struck out the word "presidents." I deliberately put in the words that this would be the Federal Reserve Banks as fiscal agents.

Bell wasn't here. I knew what I was doing would certainly be down his alley because he has had that fight as long as I, but--

MR. BELL: Longer.

H.M.JR: But I didn't see why the hell I should, after what I have been put through, have to go again and ask the presidents of the Federal Reserve Banks - I am asking the banks.

You heard Ronald Ransom say, "I understand why you are doing this." He as much as said, "I don't blame you", didn't he?

MR. BELL: Yes. I was amused at that - for him to say, "I understand why you want it."

H.M.JR: Well, but isn't that - I am just amused that I should have asked you fellows yesterday to look this up, and then you had it and had it on time.

Another thing I had in the back of my mind was that if these were fiscal agents, then I don't have to go through the Federal Reserve Board. Do I, Dan?

MR. BELL: Not at all. You shouldn't.

H.M.JR: And all the time, Bell, I am fighting for your interests. (Laughter)

This way they are doing it as my fiscal agents, and, by gawd, if they don't do it--

MR. BELL: You would be surprised at the number of things that we are asked by certain ones to do as fiscal agents - have been asked to do in the last year that we have never been asked to do before.

H.M.JR: We are asked to do?

MR. BELL: Particularly transfers from banks.

MR. PAUL: They ask you?

MR. BELL: They asked us to put that in. I objected to it at first. I said it was a regular international banking transaction with which we had no business. Your lawyers (Paul's) said we ought to put that in as fiscal agents. I don't think it is a fiscal agency function, but the two lawyers on both sides--

MR. PAUL: There is a depositary and fiscal--

H.M.JR: While we are here, take me to school and give me the history of the fiscal agency. Take a couple of minutes and give it to me.

MR. TIETJENS: There isn't a lot to it. The Federal Reserve Act when passed provided that when required by the Secretary of the Treasury the Federal Reserve Banks would act as fiscal agents.

That was in 1913. For about two or three years the Treasury never asked them to do anything about it.

MR. BELL: We had no Public Debt transactions then.

MR. TIETJENS: There wasn't much to do. In '15 the committee - there was a committee appointed by the Secretary of the Treasury to look into the matter and see what the Feds could be used for. And then about a month later after that committee reported, McAdoo made a public announcement that he was appointing the Feds to be fiscal agents.

He said, "I don't want to rush these people. They have had a lot of organizational work to do; but in order to give them a start I want them to take over the deposits from the national banks in the Federal Reserve cities."

And that is about all there was to it in the beginning.

Then when the Liberty Loan drive came along in '17 he made another announcement. He said, "I am going to ask the Federal Reserve Banks to undertake to receive subscriptions to the Loan and to sell the bonds for us and do some other things."

MR. PAUL: There is that precedent.

H.M.JR: They use that. They say they did the selling in those days, and that is why they should do it now.

MR. BELL: I might say there in that connection--

H.M.JR: They use that - that they did it then and they should do it now.

MR. BELL: We were really the big factor in the money market. We switched money from one section of the country to another through our depositary systems at that time, and we were really in control of the money market from many angles and we had the subtreasury system operating at that time.

MR. TIETJENS: In 1920, then, you gave the Feds the functions that the subtreasury had been performing.

H.M.JR: Just to clear my conscience, this did go out last night, didn't it?

MR. SMITH: Yes, it went out last night. I told Thurston this morning that if that change were made we were not going to be able to catch very many of them because a lot of them had it.

Incidentally, he said last night when we talked to him that Eccles had called up Sproul, and that was when they struck out the other fiscal agent thing. Sproul apparently had something to do with that.

H.M.JR: Here is an amazing incident. We had it in here (indicating release) that what they have been doing up to now they have been doing as our fiscal agents. (Copy of release attached.)

MR. SMITH: Where it says, "We arrived at this plan after consultation with the Board of Governors" and so on, they contended that sitting in this board room listening they weren't fiscal agents - they were something else.

MR. TIETJENS: Visitors? (Laughter)

MR. SMITH: They were guests of the Treasury. (Laughter)

MR. BELL: I think that was right because the way I read that, the fiscal agency referred to the banks and not to the presidents. I think they are right, that it should have come out.

H.M.JR: I took it out because I didn't want it in twice.

MR. SMITH: We wanted to move it up there.

H.M.JR: You notice I took out this business about the national sales director and I took out the word "administrator", too. The public isn't interested in that.

All right, gents.

Exp. Loans

+ Pres FRBk + pest a/c meatt

May 27, 1943

Mr. C. S. Young,
Columbia Club,
Indianapolis, Indiana.

Following press announcement was made today regarding organizational set-up for future sale of Government securities:

(Here take in press release)

MORGENTHAU

DWB:NLE

(Initialed) D. W. B.

Room 278

Under Secretary

Exp. Loans

May 27, 1943

To Presidents, Federal Reserve Banks:

Boston, Mass.
New York, N. Y.
Philadelphia, Pa.
Cleveland, Ohio
Richmond, Va.
Atlanta, Ga.
Chicago, Ill.
St. Louis, Mo.
Minneapolis, Minn.
Kansas City, Mo.
Dallas, Texas
San Francisco, Calif.

The following press announcement was made today regarding organizational set-up for future sale of Government securities:

(Here take in press release)

During the next two weeks representatives of the Treasury will confer with you and your Executive Manager regarding possible personnel transfers to State organization. In meantime I shall appreciate it if you will, as far as practicable, hold your organization together until these decisions are made.

MORGENTHAU

(Initialed) D. W. B.

DWB:NLE

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, May 27, 1943.

Press Service
No. 36-82

As a result of the highly successful Second War Loan Drive which brought 18½ billion dollars into the Treasury in three weeks, Secretary of the Treasury Henry Morgenthau, Jr., announced today that the method of selling bonds through volunteer salesmen would be "streamlined and amplified."

As the first step, according to Mr. Morgenthau, the existing Victory Fund Committees and War Savings Staffs in the various states will be combined into a single organization.

This consolidated organization will function under the direction of state chairmen who will report directly to the Secretary of the Treasury and will be responsible for the continuing sale of War Savings Bonds through the voluntary payroll allotment and other regular purchase plans. These state organizations will also be in charge of War Loan drives and will concentrate on the sale of increasing amounts of bonds to individuals and to corporations.

In order to facilitate the sale of issues of Government securities to commercial banks, mutual savings banks, insurance companies and government bond dealers, Mr. Morgenthau has authorized the Federal Reserve Banks as fiscal agents of the Treasury to handle sales to these financial institutions separately.

"We arrived at this plan," the Secretary said, "after consultation with the Board of Governors of the Federal Reserve System, and with the presidents of the 12 Federal Reserve Banks. I believe that this new arrangement makes the best possible use of what we learned in the first two War Loan Drives.

"One of the chief considerations in setting up this improved plan was to make it possible for everyone to concentrate on the sale of bonds to individuals. We are already making great progress, having sold twice as many bonds to individuals in the Second Drive as in the first, and having exceeded the quota we set for individuals in the Second War Loan Drive by nearly a billion dollars."

-oOo-

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 27 1943

TO Secretary Morgenthau

FROM Randolph Paul

Outline of history of fiscal agency relation between the 12 Federal Reserve Banks and their Branches and the Treasury.

Section 15 of the Federal Reserve Act, approved December 23, 1913, (U.S.C., Title 12, §391), provides as follows:

> "The moneys held in the general fund of the Treasury, except the 5 per centum fund for the redemption of outstanding national-bank notes and the funds provided in this chapter for the redemption of Federal reserve notes may, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States; and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits." (Underlining supplied.)

The first action under this section followed a report on September 14, 1915, made by a Treasury Committee appointed by Assistant Secretary Malburn to consider the possibility of utilizing the Federal Reserve Banks as fiscal agents. On November 24, 1915, Secretary McAdoo made public announcement of his appointment of the Federal Reserve Banks as depositaries and fiscal agents of the United States effective January 1, 1916. A letter to this effect was also forwarded to the Federal Reserve Board and the formal designation transmitted to the Chairman and Federal Reserve Agent of each Federal Reserve Bank. In this letter the Secretary stated that he had determined to appoint the Federal Reserve Banks depositaries and fiscal agents in the manner indicated in the Federal Reserve Act but in order that the banks would not be embarrassed by the addition of an unduly large volume of business upon undertaking their functions in this connection, he had decided to make a beginning by transferring to each of the banks the funds which the Government then had on deposit with the national banks in each of the Reserve cities. The duties of the Reserve banks as fiscal agents were not specifically defined in the letter but it was stated that each bank would be required to perform on behalf of the Government the services which were then being rendered by the national bank depositaries "as well as any other services incident to or growing out of the duties and responsibilities of fiscal agents."

Prior to our entry into the First World War no use was made of the Federal Reserve Banks in their capacity as fiscal agents in connection with Public Debt transactions. However, on May 1, 1917, Secretary McAdoo informed all of the Federal Reserve Banks, as well as the Federal Reserve Board, that it was his purpose "to invite the Federal Reserve Banks, which are fiscal agents of the Government, to cooperate" in the impending Liberty Loan by undertaking certain fiscal agency functions in connection with the receipt of subscriptions, the receipt of payments and other details of the sale of Liberty Bonds. For the performance of these functions the banks were to be reimbursed for expenses but were to be paid no other compensation. The response of the banks was, of course, favorable and from that time on their services as fiscal agents have been availed of in connection with Treasury financing.

An Act of Congress, approved May 19, 1920, abolished the offices of the Assistant Treasurers and the subtreasury system. That Act authorized the Secretary of the Treasury to transfer to the Federal Reserve Banks as fiscal agents most of the functions exercised by the subtreasury system regarding coin and currency, the receipt of Government deposits and the payment of Government checks and warrants. This he did. The subtreasuries had also been performing a few functions in connection with the Public Debt such as the payment of interest coupons. These functions, too, were transferred to the Federal Reserve Banks. Substantially all of the functions exercised by the banks by virtue of these transfers from the subtreasuries are on a non-reimbursable basis.

From the beginnings, which have been outlined above, the duties and the services which have been performed by the Federal Reserve Banks as fiscal agents have been added to and defined from time to time through memoranda of information issued by the Treasury to the Banks and through the issue circulars of Public Debt obligations, all of which have contained designations of the various Federal Reserve Banks as fiscal agents in connection with the issues. The files disclose that for many years these matters have been handled directly with the Banks themselves, as contemplated by the statute, and not through the former Federal Reserve Board or the present Board of Governors or individual officers of the Banks.

No attempt has been made to digest the various memoranda and other documents bearing on the details of the arrangements between the banks and the Treasury. Only the salient points have been noted.

It should also be noted that during the past year rather general use has been made of Federal Reserve Branch Banks in fiscal agency work.

May 27, 1943
10:22 a.m.

HMJr: Hello.

Operator: Mr. Mack. Go ahead.

HMJr: Cliff?

Clifton Mack: Good morning.

HMJr: Good morning, Cliff.

M: Yes, sir.

HMJr: Cliff, you know ever since Mr. Swope left, and used to be sort of your guardian angel, I've been looking for another one.

M: Yes, sir.

HMJr: And I think you'll be pleased to know that I'm going to ask Mr. - Assistant Secretary Sullivan.

M: Oh, John Sullivan.

HMJr: Yeah, to take you under his wing.

M: Very good.

HMJr: And I'm sure that will be pleasing to you.

M: Well, that's - that's good.

HMJr: And he'll be here to hold your hand and consult you and, if necessary, guide you.

M: Well, say that's - that's fine.

HMJr: I thought that would please you, and now I - I should have given you that extra help a long time ago, but I just didn't get around to it.

M: Yes, well, that's fine. I had some things here that I wanted to take up, and I'll just take them up with him then.

HMJr: Well, instead of doing - you can go right to Sullivan and he's available.

M: Well, all right then. Fine.

HMJr: And Norman Thompson will fix up a little order making it legal, so to speak.

M: Well, very good, and - and I'll - I'll be in touch with him then.

HMJr: Good.

M: Very good, and thank you.

HMJr: Thank you.

M: Yes, sir.

HMJr: Goodbye.

THE SECRETARY OF THE TREASURY
WASHINGTON

May 27, 1943

TREASURY DEPARTMENT ORDER NO. 49:

Effective from and after this date, the Procurement Division is assigned to the supervision of Mr. John L. Sullivan, Assistant Secretary of the Treasury.

Treasury Department Order No. 44, dated February 1, 1942, is modified accordingly.

H Morgenthau Jr.

Secretary of the Treasury.

May 27, 1943
10:30 a.m.

HMJr: Hello.

Harry White: Hello.

HMJr: Harry?

W: Yes, sir.

HMJr: Leon Henderson, evidently talking in New York, said the following: "The former O.P.A. chief charged the Treasury Department of contributing in making of inflation by failure to adopt a forced savings plan and the public for failure to save." As I remember it -- and I want to check my memory with you -- that we urged very strongly on him for over-all rationing, didn't we?

W: Oh, yes.

HMJr: And he never would do it.

W: They were strong opponents....

HMJr: Now....

W: ....they and the Budget.

HMJr: Would you take him on because, you see, the Budget and what's-his-name - they keep digging at us all the time on this thing. Would you....

W: How much - how - have you read it in the press so you'd....

HMJr: Yeah.

W: Well, I would be inclined to - my first reaction is that if they make much of it, yes. If they let it slide, no.

HMJr: I see. But I am correct that we urged him that?

W: We urged the expenditure rationing....

HMJr: Well....

W: ....to him and they - yes, we had a number of conferences.

HMJr: Well, and - and over-all rationing, on all commodities, didn't we?

W: Oh, yes, yes. Oh, we pushed him on that - that was still earlier.

HMJr: Yes.

W: That was still earlier. You remember that meeting in your office in which Hamm said they were pushing it as rapidly as possible, and we took the position they weren't pushing it enough.

HMJr: They were only doing two articles, was that it?

W: Yeah, that - something like that.

HMJr: Yeah.

W: Now I can easily get Miss Chauncey to trace that specific meeting down. I can run it down very quickly....

HMJr: Will you....

W: ....if you want to glance over it.

HMJr: Well, I - I'll talk to Smith and ask his advice whether I should hit it now, but you might look it up for me.

W: All right, I'll have it ready for you.

HMJr: Thanks.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

PLEASE READ BEFORE YOUR PRESS CONFERENCE

DATE May 27, 1943

TO Secretary Morgenthau

FROM Fred Smith FS

I think we should be careful about giving the impression that we are now "against" Mr. Davis. This article leaves the definite impression that Treasury experts are going to buck something again.

Wouldn't it be possible to say that Mr. Davis and the Treasury are thinking along the same lines -- their spending has to be rationed one way or another. We believe the simplest way to do it is through a tax, but we are not exactly sure how Mr. Davis wants to do it. As far as we know, he hasn't said he doesn't want to do it with a tax, if this is a true statement.

[illegible]
not pay the excise tax of 7 cents a package, are not included in these figures.

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Congress To Question Davis on his Proposal To Ration Spending

Treasury Officials Prefer Spending Tax, Say It Would Be Easier to Handle, Boost Revenues

From THE WALL STREET JOURNAL *Washington Bureau*

WASHINGTON — Food Administrator Chester Davis is slated for two appearances this week on Capitol Hill where he will be questioned on his proposal for spending rationing.

Today he is scheduled to appear before the Senate Banking Committee on a bill requested for the extension of the Commodity Credit Corp.'s life for four years and adding $1 billion to its lending power.

Mr. Davis aired his views on rationing buying power in a statement to the National Association of County Officials meeting in Omaha, Neb., Tuesday.

Banking committee members are interested in the Food Administrator's support of rationing of purchasing power to lift the pressure on prices and thus easing administration of food rationing.

Mr. Davis is invited to appear before the Senate Agriculture Committee on Friday on the O.P.A. program for rolling back prices of meats, coffee and butter. This Committee's membership opposed subsidies and has been most vocal against O.P.A. policies. Rationing of spending power also is opposed by the ~~group, and the committee intends to question~~ Mr. Davis on the subject.

Treasury tax authorities also are not in agreement with Food Administrator Davis on the desirability of rationing consumer spending.

~~They prefer a spendings tax modeled~~ along the line of the proposal presented last year to the Senate Finance Committee—and rejected.

Expenditure rationing, as seen by some Government authorities, is a system of direct limitation on the amount that each individual could spend of his own income for certain essential goods.

The spendings tax would be designed to super-impose on regular tax levies a burden proportioned to the amount of non-essential spending by an individual in a given year.

The Treasury believes:

1. The administrative problems of the Davis plan are exceedingly complex.

2. The spendings tax, in addition to curbing inflationary spending, would bring in more revenue to the Government.

Randolph E. Paul, Treasury general counsel and top tax expert, referred questioners to an address covering the subject he made last November 30.

In this speech Mr. Paul said that expenditure control would be highly effective in fighting inflation, but he cast doubts that its complexities would be accepted by the people.

May 27, 1943
2:22 p.m.

HMJr: Harry?

Harry Hopkins: Yeah.

HMJr: Henry talking.

H: Yeah.

HMJr: Just - this is a follow-up on your friend, Ruml.

H: Yeah.

HMJr: Did you do anything about it?

H: No, I haven't.

HMJr: Well, this is a reminder.

H: All right, old boy.

HMJr: How's that?

H: Fine. (Laughs)

HMJr: Before you leave tonight.

H: Yeah, all right.

HMJr: Be good now.

H: Yeah, I will.

HMJr: Thank you.

H: Goodbye.

May 27, 1943
2:30 p.m.

TAXES

Present: Mr. Paul
Mr. Blough
Mr. Surrey

MR. PAUL: We have two basic problems here; one is the pending bill and the other is the next bill and what we are going to say.

H.M.JR: Let's do the pending one first. Bring me up on what has happened.

MR. PAUL: I was over at Byrnes' - I didn't have anything to do between twelve and twelve-thirty, so I drifted over. I mean, I didn't have anything that I could put my mind on but that, and I drifted over there and I then got tied up so I spent my whole time talking with Baruch and Russell. So I didn't learn anything more over there this morning.

H.M.JR: What is their interest?

MR. PAUL: Baruch just happened to be calling on Byrnes, so I was introduced to him and spent some time talking to him. He brought up the subject.

H.M.JR: What I thought I would do, unless you fellows think - I thought I would call up Byrnes and simply say, "Look, Jimmy, just by fortunate accident I learned of your visit to the President this morning and, after all, as far as I know I am still supposed - the Treasury is supposed to be handling taxes. You don't keep us informed. You have people to come down to see us and all the rest of that, and don't tell us about it. It makes it very, very difficult, and I just wondered whether you intend to present the new tax bill. Where do we stand?"

Now, he will get angry, but what of it? I mean, should I sit here and take this thing indefinitely?

MR. PAUL: I know what Byrnes will say, that he went over on another matter and the President brought this up.

H.M.JR: Then why hadn't he let us know?

MR. BLOUGH: Is that a new visit to the President?

MR. PAUL: This is this morning.

H.M.JR: The President told me - he said, "Byrnes has been here; I have three alternatives."

MR. PAUL: What were they?

H.M.JR: One to veto it, I suppose one to sign it, and I suppose one to let it become a law without his signature. I suppose those were the three alternatives. He didn't tell me that, but I, being a very quick man on the trigger, supposed those were the three without referring to counsel. I am very proud of myself. (Laughter)

MR. PAUL: Well, is he going to have a statement accompanying it if he does?

H.M.JR: I don't know. The President said, "Confidentially, I am going to sign it." Then I said - I don't know which came first, but I said I was going up on the Hill first, then I said that I was going to see these people and I said we were going to ask for sixteen billion cash.

I said, "You remember you spoke of sixteen billion in cash or savings, and I am going to ask for cash. I want to get that thing cleared up."

So Knox was there, and he said, "Don't you gain four billion on this present bill?"

I said, "Something in that neighborhood." He said, "If you gain four billion you get twelve. Isn't that really what you want?"

So I said, "I don't know. Well, that sounds about right." So the President said, "Go ahead and ask for what you can, and"--

MR. PAUL: That gets over to the other question.

H.M.JR: Then the President said, "What we want to do is get on a basis where we are paying for one-third of the war through taxes." I said, "Mr. Roosevelt, you are wrong on that. We are on that basis. We are trying to get on a fifty-percent basis."

He said, "You shoot at fifty percent. Get all you can."

I thought this; I have been around this town a long time, and in the room here, Byrnes hasn't got any use for me, anyway. He takes an opportunity when I have to go out of town because my wife is in the hospital to inch in on me, and I think I might just as well have a head-on clash.

MR. PAUL: I didn't let him know this morning. I didn't have any chance to let him know.

H.M.JR: I can say that I am calling up because I am going to see these people tomorrow. You can't let these people ride all over you.

MR. PAUL: I certainly think, if the President signs the bill, there ought to be a statement with it expressing his dissatisfaction with it. I think that is the least he can do. I mean, he ought not to sign that thing without any protest at all.

MR. BLOUGH: He certainly ought to indicate that he, for one, doesn't accept in any sense of the word the statements that this is the equivalent of a new tax bill.

H.M.JR: Just don't get me mixed up, because the President kept addressing himself to the bill to come.

He said, "You can tell them this for me. If I don't get more revenue before the end of this calendar year, I am going to put the entire blame on Congress."

MR. PAUL: You mean, a bill before this--

H.M.JR: I suggested - and I didn't follow through on it before the President - but when he wrote that letter saying that we want sixteen billion--

MR. PAUL: I want to talk about this sixteen billion. That is the second problem. You said to take up the other question first of this bill, and they do interweave to some extent. But I think this bill - you say the President is going to sign. Well, that is his decision, and I can understand there are arguments on both sides, and there will be an awful lot of gaff if he doesn't sign it.

H.M.JR: If he had asked me - which he didn't - if he had said to me this morning, "What do you think?" - which he didn't - I would have said to sign it. I think the American public is sick and tired of it. But he didn't ask me.

MR. PAUL: Of course they are sick and tired of it. But certainly he ought not to take that bill completely lying down.

H.M.JR: Which do you want to talk about first?

MR. PAUL: That is the main point on that.

H.M.JR: What is that?

MR. PAUL: If he has disposed of the question of signature.

H.M.JR: Well, he has.

MR. BLOUGH: He means signature versus allowing it to become a law without his signature?

H.M.JR: No, Roy, don't make the problem difficult. The President said, "I have decided to sign the bill."

Now, what he is going to say when he signs it, he didn't say. From the way Byrnes is acting, I don't even know whether he will ask us.

MR. PAUL: You will know more about that question after you talk to Byrnes - maybe you will and maybe you won't, but anyway, going to the other question - I want to bring out some points and I asked Roy to get some dope together - detailed figures on it.

The President made his sixteen billion dollar statement in January, 1943, and that was before the Ruml controversy came up. It anticipated sixteen billion of collections for the fiscal year 1944, which begins July 1. We immediately went to work on a revenue scheme which would produce sixteen billion and we had one, and we had alternative plans - five or six alternative plans - late in January. Those were built on the assumption that the collection at the source would start April first, or at the latest, July first.

Now it is the end of May, and it is obvious that while we will have collection at the source, and while we will, under this conference committee bill, raise the revenue - raise the receipts for the fiscal year 1944 - by about three billion dollars, that leaves us thirteen billion short. We can't have a bill, under the most optimistic hopes, before September or October. So that leaves us only about seven or eight months in the fiscal year in which to get sixteen billion.

Now, if you want to have your hair stand on end--

H.M.JR: Try it! (Laughter) See if you are a magician.

MR. PAUL: We have got some rates together. I think we have to do something about revising our sixteen billion figure.

H.M.JR: You mean if you want to get it in seven months. Is that it?

MR. PAUL: Yes, it is different if you talk about sixteen billion on an annual basis.

H.M.JR: Let's stick to that.

MR. PAUL: But the sixteen billion of the President's was not.

H.M.JR: I know, and it didn't say "billion;" it said "money or savings." So I would - as far as I am concerned I would stick to sixteen billion cash on an annual basis.

MR. PAUL: When you say cash you mean taxes, no part of which will be refundable?

H.M.JR: That is right. I would like to aim - roughly, they estimate a hundred billion dollars is going to be spent, and I would like to take in fifty billion dollars in cash.

MR. PAUL: In non-refundable taxes.

H.M.JR: Non-refundable taxes.

MR. PAUL: I use those words, "non-refundable taxes."

H.M.JR: I would like to - the President said to aim for - I would like to aim to finance this war half through revenue. That is what I would like to have for a goal.

We started with sixty-six and two-thirds, and now we have slipped to fifty percent.

MR. BLOUGH: Is the President disturbed about the taxes from the inflationary point of view?

H.M.JR: When I saw him - to give you the picture - he invited me over for some reason - posthumously he was presenting this medal to the father and mother of the Coast Guard man who died - afterwards Knox went around to see about battleships.

Knox was very decent, and he let me speak first. So whatever I have been telling you I had to say in front of Knox, with Knox chiming in, interpreting for me, so I wouldn't say it was the most perfect setting for a conference, you see.

MR. BLOUGH: I agree.

H.M.JR: And I have told you everything. The President was in this frame of mind - "At least, Henry, what you asked isn't as much as Knox asked, because he wants seventy-seven billion, or something like that, for a warship." But that was the setting.

Now, I don't think, frankly - I mean, this sort of thing bores the President. It is the greatest difficulty to get him to think - it has always been like that.

MR. BLOUGH: If it reflects his whole attitude - if it is simply a matter of financing a third or even a half of the Government's revenue, and he isn't concerned about the effect on the price ceilings and things like that, I am very sorry, because it seems to me that is one of the major problems.

H.M.JR: I am not saying he is or he isn't. I am simply saying that he had in his mind a third. I said, "You are wrong." If I had said to him, "This is necessary to help out on price ceilings, he would have said, "Of course, you are right." But if I had given the question, he would have said, "Sure, you are right." Now, I didn't, which doesn't mean it isn't in his mind.

MR. BLOUGH: I understand.

H.M.JR: I mean, the man was in between. He had just done a very emotional thing - had this mother and father in - and here I am standing in front, and Knox on the side wanting the battleships, and Knox interrupting me, so if I had said, "This is most important," he would have said, "Of course it is." Whatever words I had put in his mouth, he would have answered, "You are right." So that doesn't mean he is or he isn't. Does that give you the setting?

MR. BLOUGH: I think so, yes.

MR. PAUL: What are you going to say if they ask you about a sales tax tomorrow? George is certainly going to press that point, that if you want that much revenue, you are going to have to take a sales tax.

H.M.JR: I will have to think about it. What I was going to do - this was going to be my tactics, plus the guidance from you gentlemen - you and I go up and say, "Now, look, gentlemen, I am not here to discuss the present bill, but I am here to discuss the fiscal needs of the Treasury, and I want to finance this war on a fifty-fifty basis. Now, what help can I expect from you?" Make them talk.

If they say - I said, "I am here to ask"--

MR. PAUL: That you want to prevent inflation. Inflation is a fact now, not something you talk about in the future.

H.M.JR: This is a very serious thing. Don't let me forget - "...and I want to tell you gentlemen that I will expect to make some speeches on this thing. I would like you to know it beforehand."

MR. PAUL: I think you had better get a clearance for all speeches. It doesn't do any good not to say anything.

H.M.JR: I said I am going - you mean the Treasury?

MR. PAUL: Yes.

H.M.JR: "The people, myself and my associates in the Treasury, we are going to go, and I want to let you know now we are going to talk about this thing. We are going to explain it to the people. We want you to know about it. We don't want any hard feelings about it, but we don't feel that we are carrying out our responsibility if we don't go to the country on this thing." But don't let me forget that.

MR. PAUL: I will make a note.

H.M.JR: I want to serve notice on them that we are going to go to the country on it. My gawd, if Chester Davis can talk about every damned thing in the world, why can't I?

MR. PAUL: Chester Davis was talking about rationing there. There was some relevancy to his food problem. I was inclined to kick first, then I realized it wasn't a tax measure.

Certainly they are going to bring up the sales tax.

H.M.JR: Well, I am going to say, "All right, if that is what you have got in mind, I am up here to learn." I am going to--

MR. PAUL: Well, you are going to say what is going to be the Treasury's position.

H.M.JR: Well, I will say this, "If you gentlemen want us to present to you a plan where we can raise sixteen billion dollars over a period of twelve months, we will be very glad to."

MR. PAUL: That is, you are going to avoid answering that sales tax question at the moment?

H.M.JR: Well, I will say that we would like to have a chance - and I want to say again, if we don't get the chance here, we will explain it to the country how we think we can raise that money in the best way. I am going to say, "Everybody else is talking about it and I have kept my mouth shut too long, so that everybody is writing that we are not interested in the inflation problem."

I mean, I am sorry - Blough, for gawd's sake talk up if you think I am wrong. You are not here for ornament. You are a nice ornament, but that isn't why I invited you. (Laughter)

MR. BLOUGH: I don't think you are wrong. When it comes to putting up a sixteen billion dollar program, it is going to be awfully tough - it is just going to be very tough.

MR. PAUL: I know it is tough, Roy, but we have got to--

MR. BLOUGH: And therefore there will be some relevancy in their pressing for a sales tax.

MR. PAUL: It is just as tough to have a sales tax - tougher on the lower incomes. You said you didn't want to use the words "serve notice" - I do want to use the words "serve notice" in this friendly sense that unless the Treasury can get some help from some other quarters like the President, we cannot approach anything like sixteen billion dollars on an annual basis because the word is going all around the capitol "no more taxes." George says for two years; the rest of them say for this year, and we went all through it last year. We have been through it. We have heard those people talk ad nauseam about how the people can't stand any more taxes (except the sales tax) and nothing can stir them out of that attitude but a hard public demand that they do something about taxes. And there I think the approach is more inflation than it is revenue, because that is the kind of thing that is going to affect people's lives immediately much more than having the debt later.

I think we have got to face that fact right now. We are not - we can talk, we can go to the country - you can make speeches, and we will get some credit later for having said these things, but we are not going to get anything done unless we have a--

H.M.JR: You may.

MR. PAUL: But not by ourselves.

H.M.JR: Oh, no, but we have got to take the lead. OWI is very much interested in this. They will help us.

MR. BLOUGH: I think at the time this bill is signed would be an excellent time for the President to sound off on the next bill.

MR. PAUL: The President is the only one who could get the papers on this.

MR. SURREY: Unless he does something they won't even start meeting until September.

MR. BLOUGH: They are trying to put it over until the first of September or later on the grounds you won't have any more retroactive taxes since we have pay-as-you-go, and therefore it really doesn't matter.

H.M.JR: Gentlemen, you are going to get very little help out of the President. You never have on this thing.

MR. BLOUGH: If we put some words in his mouth, would he say them?

H.M.JR: You fellows can write it.

MR. PAUL: There is this distinction between this moment and all past moments with respect to the President, and that is that always before it has been mostly a question of revenue or future inflation. Now it is the very immediate problem. The President has been talking right along; he has said many of these things already in broad generalities.

H.M.JR: Well, look--

MR. PAUL: The whole price program is going to fail if we don't.

H.M.JR: Get together the strongest statement you can and I will be tickled to death to send it over to him after going over it with you - over my signature to him.

MR. PAUL: I think it is unfair to you and to me. We are really expected to get this revenue, or to stop inflation, and we are blamed when it doesn't get stopped. We are in a position where we have the responsibility, but no implements. We cannot do the job.

H.M.JR: Well, I would do it strictly as a Treasury matter. I wouldn't bother to consult anybody across the street. I would get up a good Treasury memorandum.

MR. PAUL: I consult them largely to learn things from them.

MR. BLOUGH: I do think, though, in that connection--

MR. PAUL: In fact, incidentally, neither Ben Cohen nor Russell yet know anything about this signing business. Byrnes doesn't tell them. He doesn't keep them informed.

MR. SURREY: Did George and Doughton know about it?

MR. BLOUGH: Don't let them know about it, for heaven's sake.

MR. PAUL: They have no knowledge of it. The only people that know anything about it are the people in this room now.

MR. SURREY: You may be able to still get them to commit themselves to an early start, which is the first immediate thing we need on the bill.

MR. BLOUGH: I do think that when you get into some difficulty in trying to get them to move down there - and I think you will get into difficulties - that a succession of statements by Prentiss Brown - and Byrnes, if you like - and others who have a responsibility in the inflation picture to the effect that their task is being made immeasurably harder by not getting promptly a revenue bill, may have some beneficial effect. I don't know how much, but I don't see how it could hurt.

MR. SURREY: Put the heat on them - everybody taking a crack at them.

MR. PAUL: But we are in a terribly unfortunate position. Byrnes and Brown are going to say when the prices go up - when inflation isn't going to be controlled - that it is the Treasury's fault. We are going to be the goat.

MR. SURREY: If we come out ahead--

H.M.JR: That is another reason why I want to send a memorandum over to the President in connection with this bill - entirely independently. I want it a Treasury measure. Let me sign it and send it over.

MR. PAUL: I am all for that, but I just want you to realize the almost sheer impossibility of it.

H.M.JR: I got that. Let's keep moving, Randolph.

MR. PAUL: They may ask you for a memorandum, but I think you can leave to me the rest of the discussion. For instance, if they say anything about corporate rates, or the Victory Tax, I have got that all worked out here, and I don't think you need to go into it.

H.M.JR: When will you have ready for me the memorandum to go to the President in connection with this bill?

MR. PAUL: We have a draft now. I think we ought to take plenty of time on that.

MR. BLOUGH: It will have to be re-done.

MR. PAUL: I wonder if he is going away.

H.M.JR: Yes, he won't be available before Monday.

MR. BLOUGH: Monday is soon enough.

MR. PAUL: Couldn't we have it in his hands Monday morning?

H.M.JR: The trouble is - I will know when I meet with the boys - I may be going to Chicago. That is the only trouble.

MR. PAUL: We can have the thing - when will you be leaving?

H.M.JR: Well, I think we would be leaving, most likely, on Monday for Chicago.

MR. BLOUGH: Have it Monday morning easily. It doesn't come up on the Hill until Tuesday. If we could have until Monday morning--

MR. PAUL: It isn't voted on in the House until Tuesday.

H.M.JR: If you can get it in my hands Monday morning--

MR. BLOUGH: That would be good.

H.M.JR: It means you would have to finish it Sunday night.

MR. PAUL: We will finish it Saturday.

H.M.JR: Finish it Saturday?

MR. PAUL: Maybe you would have a chance to look at it Sunday.

H.M.JR: I would. You get it to me. The operator will know where I am.

MR. SURREY: If the President is going to sign the bill he should sign it as soon as possible. They can't distribute their forms until the bill is signed.

H.M.JR: I think, then, there should be two memoranda; one explaining the mechanical necessity why it should be signed promptly, and I think that Sullivan should collaborate on that - the mechanical necessity of prompt signature.

MR. PAUL: You write a memorandum to Sullivan on that point we just decided.

MR. SURREY: Yes.

May 27, 1943
3:00 p.m.

FOREIGN FUNDS (Madam Chiang Kai-shek)

Present: Mr. Paul
Mr. Pehle

MR. PEHLE: I know you and Mr. Paul are seeing Mr. Currie this afternoon. If you are seeing him about what I think, I have a little information.

H.M.JR: Madam Chiang?

MR. PEHLE: Yes. Two hundred and ten thousand dollars have gone out of her account since January 1 to Mr. K. L. Kung. It has been deposited in his account in the Irving National City Bank.

We are following it from there. I think he is the son of the finance minister.

H.M.JR: He is.

MR. PEHLE: Two hundred and ten thousand dollars.

H.M.JR: I thought the memo said that altogether she has drawn three hundred fifty or three seventy.

MR. PEHLE: She has. That has gone into her accounts.

H.M.JR: This two hundred ten is out of the three fifty?

MR. PEHLE: Yes, sir.

May 27, 1943
3:05 p.m.

LAZARD FRERES

Present: Mr. Paul
Mr. Pehle

MR. PAUL: John, you may as well go ahead on this.

MR. PEHLE: Have you given him the memorandum?

MR. PAUL: It is right here. It is pretty long. The last page has the conclusions - three or four points.

(Memorandum addressed to the Secretary from Mr. Paul, dated May 27, 1943, handed to the Secretary, copy attached.)

H.M.JR: You say he didn't know anything about Ulitex but then you found something in his files showing he did know about it.

MR. PAUL: He has been a liar right through that.

MR. PEHLE: He has been lying quite a bit, and also he did stop paying any attention to the business. He has just neglected his responsibilities terribly, no question about that. Also he has lied.

MR. PAUL: Did that have anything to do with his other--

MR. PEHLE: I think so.

H.M.JR: His other?

MR. PEHLE: His other interests.

MR. PAUL: That is in a separate memorandum.

H.M.JR: He uses a separate firm for his own stuff - he uses Root, Clark and--

MR. PEHLE: No, Lazard Freres were using them to some extent, too.

H.M.JR: A million and a half you want him to put up as against this Les Fils Dreyfus?

MR. PAUL: Only temporarily.

MR. PEHLE: We have blocked that much money in Les Fils Dreyfus over here, so we have it protected.

MR. PAUL: We formerly discussed five hundred.

H.M.JR: What is this?

MR. PEHLE: The bottom memorandum shows his participation in the partnership all through; and the money, you recall, debarred from his wife was fully collaterized throughout.

H.M.JR: Do I have to sign this thing?

MR. PEHLE: No. I set it up that way only because you signed the previous memorandum.

H.M.JR: Which one did I sign?

MR. PEHLE: I don't recall, but ordinarily I wouldn't have set it up this way. I can change it for Mr. Paul's signature.

H.M.JR: I don't care.

MR. PEHLE: But I am so convinced we are doing the right thing.

MR. PAUL: I think you should sign it for the same reason that is covered in point three - that it should go over to Justice.

H.M.JR: Where are your initials?

MR. PEHLE: They are only on the copy. I would be delighted to put them on.

(Memorandum initialed by Mr. Pehle.)

H.M.JR: You are going to send it to Justice, for whatever it is worth?

MR. PAUL: I don't think anything will happen, but I think you are in the clear now.

(Memorandum signed by the Secretary.)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY [illegible]

TO Secretary Morgenthau

FROM Randolph Paul

The investigation of Lazard Freres is now completed and a final report has been prepared. In general the investigation discloses that the firm endeavored to comply with the freezing control regulations in the handling of clients' accounts. However, in handling the affairs of the partners of Lazard Freres, Paris, the New York firm paid little or no attention to the prohibitions of the freezing Order, its chief concern being to conceal the ownership and nationality of funds.

The most striking violations of the freezing Order consist of certain transactions in which Lazard Freres, New York, permitted Les Fils Dreyfus et Cie, Basle, Switzerland, to withdraw funds totaling $1,530,000 which Les Fils Dreyfus had deposited with Ulitex, a Panamanian holding company controlled by Les Fils Dreyfus and the partners of Lazard Freres, Paris. These transactions were effected in September and October of 1940 without Treasury licenses, the funds being transferred from the account held with Lazard Freres, New York, by Ulitex to accounts of Les Fils Dreyfus with American bankers.

All of the principals involved were questioned concerning these transfers, including Andre Meyer and Pierre David-Weill who were partners of the Paris firm, and Frank Altschul and Louis N. Singer of the New York partnership.

Singer, Comptroller of Lazard Freres, New York, admitted under oath that at the time of the foregoing transfers he already had a strong suspicion of the predominant French interest in Ulitex.

Meyer, who was in New York at the time these transfers took place, admitted in his sworn testimony that he knew that these demands were being made by Les Fils Dreyfus, that Ulitex was a French national under the Order, and that Singer, in the absence of any positive information concerning Ulitex, would probably comply with the instructions received from Dreyfus without previously obtaining Treasury licenses. He further testified that he made no effort to advise Singer of the facts. He offered as explanation for his conduct the fact that Pierre David-Weill and his family were still in France and that he feared that a disclosure that David-Weill had interests such as that in Ulitex might have prejudiced David-Weill's personal safety no less than that of his funds.

Altschul disclaimed any knowledge except the most rudimentary of the business affairs of Lazard Freres, New York, since 1938. He testified that he had that year sought to retire as a general partner but had been dissuaded from doing so by the French partners, and that he had agreed to continue in the firm only on the condition that he be relieved of all responsibility for the active conduct of its affairs. Altschul stated that he had given no attention to the freezing Order except to instruct Singer to comply with it and in case of doubt to consult the firm's attorneys, Cook, Nathan, Lehman, and Greenman.

In a sworn statement, Altschul contended that up until the time of our investigation he had been completely unaware of the existence and operations of Ulitex and other personal holding companies which the partners of Lazard Freres, Paris, organized and controlled. With respect to correspondence found in his files relating to such holding companies, he declared that he had forgotten about such matters. When confronted with the fact that he held powers of attorney for two such companies and had exercised them on a number of occasions after the freezing control became effective, Altschul contended that he had signed documents placed before him without paying any attention to their implications. He explained that he assumed that all legal questions had been cleared by the firm's lawyers before the documents were submitted to him for execution. However, material found in Altschul's personal files and the records of the law firm of Root, Clark, Buckner, and Ballantine disclosed that Altschul participated actively in the organization of these personal holding companies and was fully familiar with the purpose underlying their establishment.

You will recall that Lazard Freres, New York, has filed an application for a license to reorganize. The firm proposes to admit Andre Meyer and Pierre David-Weill as general partners and Frank Altschul as a limited partner in the new firm. It is also contemplated that one or more Americans not now connected with the firm be admitted as general partners. It is understood that Schubart of the Bank of the Manhattan Company is one of the Americans under consideration.

After a full consideration of all the facts and in the light of the long history of the firm and its established reputation, we believe that the situation does not warrant terminating its operations. The violations of the freezing control were on a personal rather than on a commercial basis and were not designed to interfere with our war effort. Accordingly, we propose, if you agree, to handle the situation as follows:

1. As a condition for continued operation under Treasury license, to require the firm to deposit with the Federal Reserve Bank of New York, in a contingent vesting account, the sum of $1,500,000. The firm would be given to understand that the required deposit would be reduced to $500,000 as soon as we are fully satisfied as to the disposition of the $1,530,000 that was transferred to Les Fils Dreyfus.

2. To allow the firm to reorganize in accordance with its application as soon as it has made the foregoing deposit in the contingent vesting account. It is believed that the proposed reorganization will have a beneficial effect in so far as the enforcement of Treasury regulations is concerned since it will place the firm in the charge of the persons who are most vitally interested in its welfare and who are assuming all of the risks.

3. To bring the more important violations to the attention of the Department of Justice for such action as it may deem appropriate. I do not believe that the Department of Justice will decide to prosecute this case but it would seem in order to present the matter to it for consideration.

Attached to this memorandum is a report of the participation of Altschul in the capital and income of Lazard, New York.

Mr. Irey and his staff cooperated fully. Nothing was found in the files of the Bureau of Internal Revenue that was contradictory to our findings. The Bureau of Internal Revenue has been advised of the material found in the investigation and regarded of interest to them.

If you are in agreement with our proposed course of action, please indicate below.

Approved: H Morgenthau Jr.

Confidential

Participation of Frank Altschul in the Capital and Income of Lazard Freres & Co. since 1926

Frank Altschul entered the firm of Lazard Freres in 1916. In 1925 he became the active head, although Paul Baerwald was nominally the senior partner. Since 1928, when Baerwald became a limited partner, Altschul has always been the senior partner. Baerwald retired from the firm at the end of 1929.

In tracing the changes in Altschul's share of the partnership capital and income, it is convenient to relate them to the basic changes in the partnership contracts.

January 1, 1926 - December 31, 1929

During the years 1926-29, the partnership capital increased from $11,000,000 to $23,600,000. While the capital of the partnership doubled, Altschul's share more than tripled, increasing from $1,800,000 to $6,700,000. On December 31, 1929, Altschul accounted for over one-fourth of the total capital.

Throughout this period Altschul received 4 percent interest on his capital. In addition, he derived from the partnership 22 percent of the net profits in 1926 and 1927 and 27 percent of the net profit in 1928. Of the net loss experienced by the firm in 1929, he was charged with 27 percent.

January 1, 1930 - June 30, 1934

In the four and one-half year period, January 1, 1930, to June 30, 1934, the partnership capital shrank from $23,600,000 to $9,700,000. Part of this decrease is due to a transfer of $5,000,000 of the Paris partners' capital to the London office of Lazard Freres. Primarily as a result of this transfer, Altschul's share declined relatively less than the total capital so that at the end of the period, he accounted for approximately 40 percent of the total capital. Interest on capital was paid at the rate of 4 percent during the years 1930-32 and at the rate of 1½ percent during the remaining one and one-half years of the period. During the entire period, most of which found the firm operating at a loss, Altschul's share of net profits and losses was 32 percent.

July 1, 1934 - December 31, 1937

Actual capital, as a result of increase in market values of securities, showed an appreciable increase during this period. During the last quarter of 1937, Altschul withdrew, in the form of securities, most of the $5,600,000 which was his share of the capital.

Interest on capital continued to be paid at the rate of 1½ percent and profits were distributed in accordance with a complicated formula. The formula provided that if the firm showed a net profit during the year an additional 2½ percent was to be paid on capital. Altschul was entitled to 27 percent of the residue of net profits after this and other deductions.

January 1, 1938 - August 31, 1940

On January 1, 1938, upon formation of a new partnership, Altschul contributed to capital $1,018,000, consisting principally of securities he had previously withdrawn. At this time he accounted for only 17 percent of the total capital, compared with 32 percent prior to his capital withdrawals during the last quarter of 1937. By the end of August 1940 his capital had increased to $1,400,000. Between January 1938 and August 1940, he received no interest on his capital, although interest accrued on the other capital accounts. In place of the interest, Altschul received dividends and interest on the securities contributed by him to the capital, and he was permitted to trade in the securities. In addition, he was to receive 1 percent of any net profits.

Lazard, Paris, underwrote all losses from January 1, 1938 on and guaranteed certain minimum sums to each of the other partners. Altschul was guaranteed $25,000.

A net loss was experienced by the firm in every one of these years.

September 1, 1940 - December 31, 1942

On September 1, 1940, Altschul substituted cash for the securities which he had contributed to the firm's capital and raised his capital contribution from $1,400,000 to $1,500,000. According to Altschul, Russell, another partner of the firm, thought Altschul's contribution should be more liquid. In order to avoid the sale of his securities, Altschul borrowed the cash from his wife, pledging his own securities as collateral. He received 4 percent interest on this capital, $60,000 per annum, all of which he turned over to his wife. Their respective tax returns for the year 1940 show that he paid $20,000 to his wife that year for interest. This sum represented the interest accrued on the capital during the last third of the year, when the new partnership agreement was in effect.

Lazard, Paris, continued to bear all losses and to guarantee Altschul $25,000 per annum. This guarantee was dropped in 1942. Nevertheless, the records indicate that Altschul was paid that sum during the year. Altschul's share of net profits was increased on September 1, 1940, from 1 percent to 5 percent. After 1941, his share was reduced to 4 percent of the net profits.

The more significant changes in Altschul's share of the partnership capital during the period 1926-42 are summarized in the following table.

Date	Altschul's Share in the Firm's Capital 1/	Altschul's Share as a Percentage of the Firm's Total Capital Percent
Jan. 1, 1926	$1,800,000	16
Dec. 31, 1927	3,700,000	24
Dec. 31, 1928	7,800,000	24
Dec. 31, 1929	6,700,000	29
Dec. 31, 1930	4,400,000	26
Dec. 31, 1931	3,100,000	41 2/
June 30, 1934	4,000,000	41
Dec. 31, 1936	5,600,000	32
Jan. 1, 1938 3/	1,000,000	17
Dec. 31, 1939	1,400,000	26
Sept. 1, 1940	1,500,000	33
Dec. 31, 1942	1,500,000	37

1/ Adjusted for unrealized profits and losses.

2/ In July 1931, Lazard, Paris, withdrew $5,000,000 of its capital to assist Lazard, London, which was in difficulties at the time. As a result, Altschul's relative share of the capital was increased considerably.

3/ In November 1937 Altschul withdrew most of his capital, in the form of securities. On January 1, 1938, however, upon formation of a new partnership, he returned some of these securities to the firm as his capital contribution.

May 27, 1943
3:25 p.m.

FINANCING

Present: Mr. Bell
Mr. Gamble
Mr. Buffington
Mr. Smith
Mrs. McHugh

H.M.JR: Where is the timetable?

MR. GAMBLE: Tentative, Mr. Secretary. George is trying to locate Perry Hall. He is out of town at his summer place. He sent him a telegram and expects a call back from him during the afternoon.

I have arranged tentatively for Patterson, Pope and Madden to be on deck in New York Saturday afternoon at two-thirty at the New York State headquarters.

H.M.JR: At the New York State headquarters?

MR. GAMBLE: Yes.

H.M.JR: I wonder whether we are going to do business there or at the Customs House.

MR. GAMBLE: We can do it at the Customs House if you prefer.

H.M.JR: Anyway, that would be New York?

MR. GAMBLE: That is Saturday afternoon. Then on Sunday - New Jersey - D'Olier and Manning - at ten o'clock Sunday morning.

The Connecticut people I have not been able to locate. Hewes is enroute to Vermont for the week end, and that may be out for Monday morning.

H.M.JR: As far as I am concerned, Hewes is out, too. That is the assistant secretary that was here - Hewes.

MR. BELL: I assume it is.

H.M.JR: He is the fellow that gave me the dirty--

MR. GAMBLE: The meeting in Chicago is for nine-thirty Tuesday morning. That is Swift, Collins, Scherer, and Patton. Patton is the executive manager of the Victory Fund Committee.

MR. BUFFINGTON: So many of our contacts have been with those executive managers that I thought probably in talking with them they could give us more regional information than we would get by going to them directly.

H.M.JR: This would be Saturday afternoon for New York?

MR. GAMBLE: Saturday afternoon for New York; Sunday morning for New Jersey; Tuesday morning in Illinois - Chicago - and two p.m. - we could put this meeting all together, if you wanted to do it, because the same regional manager, same executive manager, is involved in this whole area. We have Indiana - I think it might be well to keep them separated - we have Indiana at two p.m., Tuesday afternoon, and Michigan at three-thirty p.m. Tuesday afternoon. That will take most of the day Tuesday.

H.M.JR: You are going to do them all in one day?

MR. GAMBLE: I think you can. One of the reasons I think you can do them all in one day is because in the instance of Indiana, for example, there has always been a pretty well set organization, and I think it is just a question of you getting some of that picture.

H.M.JR: What are you going to do about the president of the First National Bank of Detroit?

MR. GAMBLE: I think he should be present, and I think - of course Patton will be present, and I have also told George I thought the top Victory Fund man from each one of these States should be present.

MR. BUFFINGTON: Why not get the State chairmen of Ohio, Indiana, Wisconsin?

MR. GAMBLE: Wisconsin and Iowa are not coming.

H.M.JR: Where would we meet?

MR. GAMBLE: Illinois State headquarters in the Bankers Building - very centrally located. We will have a room there - not part of our property, but they have arranged for meetings of this kind there.

H.M.JR: I think it doesn't take me much longer to get to the Customs House in New York than it does to go across town to the other place. I mean, I sort of hate to hold all my meetings in Dick Patterson's office.

MR. GAMBLE: We can hold the New York meeting in the Customs House. It is very easy to arrange.

H.M.JR: I think you and what's-her-name might go up tomorrow, Mrs. McHugh. This time I will take - what's his name?

MRS. McHUGH: Westwater.

H.M.JR: I will take Westwater with me to Chicago. We might as well break him in.

MR. GAMBLE: I made tentative hotel reservations in Chicago.

H.M.JR: Where?

MR. GAMBLE: The Drake.

H.M.JR: Where is the Drake?

MR. BUFFINGTON: Up on the north side, right off the Lake - out of the way. I think you would do better at the Palmer House.

MR. GAMBLE: That is congested. We could try the Blackstone.

H.M.JR: I don't know what the Blackstone used to charge me, but they used--

MR. BUFFINGTON: No more than the Drake now. I only thought of the transportation with the Drake. It is up ten blocks out of the Loop.

H.M.JR: It would be quieter, wouldn't it?

MR. GAMBLE: Quieter than any of the Loop hotels.

H.M.JR: What do you think?

MR. BUFFINGTON: Either one.

H.M.JR: I don't think I will take Westwater along. We are not doing any speeches. I don't think we need him in Chicago. I was thinking of speeches. We could get stenographic help in Chicago, couldn't we?

MR. GAMBLE: Yes.

H.M.JR: It would make it very uncomfortable. Of course we could send him on by train. There'd be four - five.

MR. GAMBLE: No problem about help.

H.M.JR: We will be there Saturday; we will be there Sunday, and part of Monday. You have somebody coming in Monday?

MR. GAMBLE: I still hope to get these people, but there is no particular point in having Hewes if you are satisfied in your own mind that you don't want Hewes.

H.M.JR: I don't want Hewes.

MR. GAMBLE: I don't think it makes it any easier for you to meet with these people. For the same reason I am not having Ford at this New York meeting - I think you spare yourself a lot of unpleasantness.

H.M.JR: Hewes is a dirty so-and-so. What is the use? I will never forget my experience with that fellow. There he sat here as fiscal assistant secretary, and I found out that the estimates he had given to the President at that time amounted to two or three billion dollars off. And I said to him - I remember going over to see the President - I don't know if you went--

MR. BELL: Bailie, I guess.

H.M.JR: The President went just as gray as a sheet - I never saw him so upset. I came back and saw this fellow Hewes and said, "Why didn't you tell this to the President?"

He said, "He never asked me." And he was the man that caused all those unpleasant stories. I don't want anything to do with the man. If you catch a man a louse once, why do you have to catch him twice?

MR. GAMBLE: I don't know the gentleman.

H.M.JR: I do, take it from me. We can find a lot of good insurance people up around Connecticut. There are some fine people up there.

MR. GAMBLE: You know how we happened to get him, don't you? We had Hewes' brother, and they have done good work. The record is very good.

I understand when they appointed this fellow that you were in Europe - you were in England - and they checked him with McReynolds and others at the White House, and they all gave him - they gave a good report on him.

H.M.JR: All right.

Now, you (Mrs. McHugh) make the arrangements.

MRS. McHUGH: Shall we make return reservations, too?

H.M.JR: You plan to come back Monday on the four-thirty.

MR. GAMBLE: You can use a good part of Monday afternoon for flying out there.

H.M.JR: Now, we are going to have the top Victory Fund fellow there, is that right?

MR. BUFFINGTON: In both places - Chicago and New York. I think he can do a lot in guiding us on these regional people.

H.M.JR: Bell, I think we ought to let - I said I would ask the presidents of the Federal Reserve to help - I think you ought to let the presidents of the Federal Reserve know that we are coming and that this is our schedule, and let Randolph Burgess know we are coming. I want to ask his advice - those two and the same in Chicago.

I would let the New York Fed know, the Chicago Fed know, and Randolph Burgess in New York, so they can hold themselves available.

Got any suggestions?

MR. BELL: No.

H.M.JR: If you want to learn how to take oxygen, Mr. Smith can tell you. (Laughter)

MR. BELL: You don't need me, do you? I would like to stay home.

H.M.JR: Are you serious?

MR. BELL: Yes. I have a youngster home, and I haven't visited with her at all. She is leaving Tuesday night for three months. Unless you particularly need me - I don't see that you do--

H.M.JR: Well, don't let's be polite with each other. I took it for granted that you were going. I just took it for granted, but if you don't want to--

MR. BELL: Not unless you particularly need me.

H.M.JR: It would be useful, but it isn't one of these musts.

MR. BELL: I would like to stay home, if I may. I planned to stay off last Saturday and didn't. After all, she is leaving for three months, and I thought I would like to stay home over the week end.

H.M.JR: You heard me count.

MR. BELL: You said four and then the fellow outside--

H.M.JR: No, I would like to kind of--

MR. BELL: These fellows know the men. I don't know any of these State people - just Patterson, and that is all. They know them a good deal better than I do. As a matter of fact, I know very few of the State people.

H.M.JR: Let's take Westwater along and break him in.

MRS. McHUGH: Do you want to take him in the plane going up, or shall we make reservations on the train?

H.M.JR: He had better go with me in the plane. I want to kind of get him used to this business. I have to start sometime. There will be typing, and he will have to take a portable typewriter to use on the plane.

MR. BELL: Is he a typist?

H.M.JR: He was Chief Wilson's secretary.

Just tell him he can go up on the plane with me and to take a portable typewriter with him, because after five thousand feet Mr. Smith can't type. (Laughter)

MR. BUFFINGTON: Would you want Ned Brown in Chicago? I thought of you asking about Randolph Burgess, and I wonder if Ned Brown in Chicago - I don't know how well he is - he has just gotten back here recently, has been ill for several months.

H.M.JR: Who is on my ABA committee?

MR. BELL: He is on your committee. That is one thing I want to ask you - what the schedule is. We didn't settle that thing this morning.

MR. BUFFINGTON: You might want to have Hemingway, who is president of the ABA, come from St. Louis to Chicago so he can begin to get the feel of this picture from the commercial bank point of view.

H.M.JR: That is what I suggested.

MR. BELL: The Secretary suggested a meeting of the full committee sometime before he went away.

MR. GAMBLE: I should think that so far as getting a job done in the meetings that we are talking about, if you confine yourself to your own people it would be more productive of results.

H.M.JR: Let's put this man in the First National of Chicago on notice, and why don't we ask them - how about having a meeting here, say, Thursday?

MR. BELL: Next Thursday?

H.M.JR: Of the full committee.

MR. BELL: I will get in touch with Hemingway.

May 27, 1943
4:43 P. M.

HMJr: Hello.

Operator: Mr. Byrnes is still out of his office. She said he hasn't returned yet and they haven't heard from him.

HMJr: All right. Just leave word that this is the third time I've called him.

Operator: Yes, I know. I've talked to the same girl each time.

HMJr: Let me talk to her, will you?

Operator: All right. Go ahead.

HMJr: Hello.

Miss Leibel: Yes, Mr. Secretary.

HMJr: Is this - who is this, please?

L: This is Miss Leibel.

HMJr: Miss Leibel, you know, this is the third time I've called.

L: We have the message here, Secretary Morgenthau, and just the minute he comes in we will call you.

HMJr: You can't reach him?

L: No. He's over at the other side of the House, I believe.

HMJr: I see. I see. Well....

L: I will call you just the minute he sets foot in here though.

HMJr: All right. Thank you.

L: You're welcome.

May 27, 1943
4:47 p.m.

HMJr: Hello.

Operator: Mr. Burgess.

HMJr: Hello.

Randolph Burgess: Hello, Henry.

HMJr: Hello, Randolph.

B: Well, what's the score?

HMJr: Well, we - I don't know whether you saw it on the ticker or not.

B: Yes, I saw that.

HMJr: Well, we've asked the Fed. to do the banks and dealers and the insurance companies, and we'll do the rest. We've had an amicable settlement....

B: Yeah.

HMJr: ....and I've had some very nice telegrams today from the presidents of the Federal Reserve who weren't there....

B: Yeah.

HMJr: ....promising me their support.

B: Yeah.

HMJr: There'll be no public row....

B: Yeah.

HMJr: ....and we'll go along, I think, all right.

B: Yeah, yeah.

HMJr: And that's - so we - it's got down - that was the best deal I could make.

B: I see.

HMJr: And we'll build up our State organizations, rebuild them and make them as strong as possible....

B: Yeah.

HMJr: ....and wherever possible, where they're good, we expect to keep the Victory Fund people in the picture.

B: That's right, yeah.

HMJr: Now - now I'm coming up tomorrow again to see Mrs. Morgenthau, and then over the week-end I'm going to try to set up New York.

B: Yeah.

HMJr: Now are you going to be home over the week-end?

B: Yes, I am.

HMJr: You're not going away?

B: No, I'll be there.

HMJr: Well, I - I want your help and your advice.

B: Right.

HMJr: And I'll be in touch with you, and we expect to ask Perry Hall to stay on....

B: That's fine.

HMJr: ....in charge of the banks and....

B: Yeah.

HMJr: ....that sort of thing....

B: Yeah, yeah.

HMJr: ....as sort of chairman of - of that committee.

B: Yeah, yeah.

HMJr: And I don't know whether we'll need your help on that or not, but if we do I'm going to call on you.

B: That's fine.

HMJr: But, anyway, I want you to sit there with me and I want to talk the thing over, and as we go along setting up New York I want your help.

B: I'll be delighted, Henry.

HMJr: Then we're asking the A.B.A. to come down Thursday to talk about financing and explain this whole thing to them.

B: That's next week, Thursday?

HMJr: Yeah, you're on that.

B: Yeah, yeah, yeah.

HMJr: See? And I'm going to try to do New York and Chicago myself to set the pattern....

B: Very good.

HMJr: ....and then after that I'll let the boys go ahead.

B: Yeah, yeah.

HMJr: But - but in New York, particularly, I want the benefit of your advice.

B: Yeah, yeah.

HMJr: And I've told the Fed. presidents in each territory as I go in I'm going to ask their advice and they're going to give it to me.

B: That's fine. Well, they ought to be on the committees and so on....

HMJr: And they're going to give me their support without being personally responsible.

B: Yeah, yeah.

HMJr: And we - we've left pretty good feeling all around.

B: Well, I think it can be worked out all right.

HMJr: Pretty good feeling all around.

B: Yes. Well, that's good.

HMJr: And I don't think there's going to be any recriminations in public. They said they'd stand by that statement.

B: Yeah.

HMJr: So we'll see.

B: Yeah, yeah.

HMJr: It isn't what I started out to get, but I tell you, Randolph, if I had to go through in all the districts what I did in New York,it would be Labor Day and I wouldn't have an organization.

B: (Laughs)

HMJr: And I - and I'd be getting bitter and they'd be getting bitter.

B: That's right.

HMJr: Now this way there's no particular feeling, and I think we can do it. It's harder but - they didn't win; we didn't win; so there you are.

B: Yeah, yeah. Oh, well, I think it can be worked out.

HMJr: And - and I'll be in touch with you over the week-end.

B: Very good. I'll be right here.

HMJr: Thank you.

B: First-rate, Henry.

HMJr: Goodbye.

May 27, 1943
4:59 P. M.

HMJr: Hello.

Operator: Mr. Eccles.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Marriner Eccles: Hello.

HMJr: Marriner?

E: Yes, Henry.

HMJr: Good afternoon.

E: How are you today?

HMJr: I'm all right. I thought you'd like to know I got four very nice telegrams from your bank presidents offering their cooperation. I'll send you copies of them.

E: Yeah. Well, I told all of them in - in talking - in talking to them and reporting this yesterday I said to them that four of the presidents and the Board had met with you....

HMJr: Yeah.

E: ....yesterday and I reported to them what - what the situation was, and that the Board and the four presidents had pledged their full cooperation and support. You had asked us if we would give it. You said that you wanted it. See?

HMJr: Yeah. That's right.

E: "And now," I said, "if you feel as the other presidents do about the matter and as the Board does, why, it would be appropriate for you to say so."

HMJr: Yeah.

E: And so I suppose that....

HMJr: Well, they were very nice telegrams and I was very pleased, and I'll send you copies of them.

E: Yes. Well, all right. I'll be glad to get them.

HMJr: And we had no trouble at our press conference.

E: They didn't ask any questions, huh?

HMJrL Not - well - but nothing - perfectly innocuous. I mean....

E: Well, I'll tell you, this - this is a technical matter and it might, with all the war news and everything, it - that if something does come out in - by columnists or - or editorials or otherwise, if nobody says anything in response....

HMJr: Yeah.

E: ....it'll be - it'll be - it'll be forgotten in a few days, and I....

HMJr: Well, the only fellow that I was at all suspicious of was Wilcox.

E: Yeah.

HMJr: I - I asked him to stay behind.....

E: Uh huh.

HMJr: ....and he knew quite a lot about it. He said "Well, now look, Mr. Morgenthau, I haven't published anything so far, have I?" I said, "No." And I said, "Well, keep on being a good boy." And he said he would.

E: Uh huh. Well, he - he, of course.....

HMJr: But he knew quite a lot, but.....

E: His stuff is only read by the bankers, and....

HMJr: I know.

E: ....of course, whatever Wilcox puts out is....

HMJr: But he seemed to know a lot, and - but he said he wasn't going to write anything - he said,"I'll just write a straight news story."

E: I told everyone of the presidents.....

HMJr: Yeah.

E: ....that the - that the press statement was - was all they knew.....

HMJr: Yeah.

E: ...that - that with their Board, with their own officers, and with the members of the Victory Fund Committee in the District, any questions that were asked, "Simply say that you know as much as I do; that here - this is the press statement, and not....." - and I told them to not go behind it; that if anything came out I didn't want anybody in the Federal Reserve System to be in a position where it could be traced to their door.

HMJr: Yeah.

E: And so they - the presidents said, well, they - they understood that, and they would say that all they knew was what was in the press statement......

HMJr: Good.

E: ....and they would stand back of that. Now I - now I think that you'll find that.....

HMJr: Well, I.....

E: .....that they will do just that.

HMJr: Well, I think what you've done has been enormously helpful and I appreciate it.

E: Well, God knows, I - I want to avoid....

HMJr: Yeah.

E: ....I certainly want to avoid any embarrassing flare-up now.

HMJr: Well, so do I.

E: Yeah.

HMJr: And there's been - Schwarz here -- you know, Chic Schwarz -- he's had no questions; everything's quiet.

E: Well, I think this thing's going to get over okay.

HMJr: Good.

E: All right, sir.

HMJr: Thanks for your help.

E: Goodbye.

The Record on the Statement
"I was opposed to including the commercial banks in this financing"

February 16, 1943 - 11:00 a.m.

MR. McKEE: You made a statement, Mr. Secretary, that you don't want to defer the April drive. Is there any real reason you have for that if you could get your money from some bank paper before to carry you through to the end of that month?

H.M.JR: I don't see what we would accomplish. What would we accomplish by it?

MR. McKEE: Just more experience for your new director, whoever he may be.

MR. ECCLES: There is a certain amount of financing got to be done by the banks and the question is, what advantage is there to have the bank financing after the drive instead of maybe before, and delay the drive. Our thought was this, that you would have somewhere, I imagine, between two and three billion of balances on the fifth of April. You could put out either a short note, which would be a bank issue, one and a quarter percent note, or some seven-eighths certificates - a couple of billion - as of the first of April. That, together with your balance - and I would run right down, before your drive, down to the overdraft, because I think that helps your whole situation to do that - at least the Reserve end of it - and it will likewise - up to the time the drive starts, you have created the most favorable condition for the drive, to the extent that you have used up your balances.

It would seem to me you could possibly carry over to the first of May instead of April, and then you would undertake at that time to make a drive strictly to the public - no banking in the picture - leaving the opening - we will just assume as a safe amount, eight billion as a public drive, and state that you will, at the end of the drive make available to the banks at that time, or some time after the drive - it has been suggested, for instance, that a two percent bond - it has been last October since the two's were offered, and there has been considerable demand for the two's. I know we have sold over a hundred million out of our portfolio, showing there is a real demand. So if you should include a two, you might at the end of the drive make available those two's to the banks without indicating until the end the amount that it is going to be.

In other words, fix the amount for the public, leaving what you want to use the banks for - the amount you are going to give them as indefinite because that would depend on what you might get. You might get ten billion from the public.

Now, in that case you could delay it here for thirty days - your public drive - by using the certificates, which merely means that you get more from the banks before the drive instead of more after the drive. And that would give the question of your organization a little chance to shake down and give these fellows in the field a chance, as Al says, to get set up after some decision is made. It is a terrific job in the time available.

We all favor putting it off for about a thirty-day period, or three weeks, at least, and selling the banks before a couple of billion - before the drive - in a pure bank issue, instead of during the drive.

March 2, 1943 - 3:00 p.m.

MR. ECCLES: * * * In the first place, you only need reserves for the portion that is to be taken by the banks. If the banks were not included in this drive at all, which is according to our recommendation that they shouldn't be - we have recommended right along that the pattern should be changed and we still feel that way about it; but we have understood the Treasury has made up its mind that it wants to include the banks, so although it is contrary to our recommendation, our views haven't changed any on the question. We hope that we will get to the point.

MR. BELL: The Secretary liked the December pattern, and it worked right well. It has gone out all over the country that the April drive will be larger than the December drive, and you can't make it larger unless you include the banks. The banks add impetus to it. We think it does a lot of good.

MR. ECCLES: The Treasury, of course, has the final say in the matter, but we are unanimous in feeling that it is a wrong pattern to pursue, and sooner or later it will get you in trouble.

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6/27/43

The Record on the Statement
"I would not have included the seven-eighths
certificates in the drive"

March 2, 1943 - 3:00 p.m.

MR. ECCLES: * * * We think that a certificate is a bad instrument to include in the basket for the public, that it isn't something that needs to be sold.

It is oversubscribed and as long as we are maintaining the pattern of rates, you are merely selling something that can be turned back to the Fed at a profit immediately. That is what happens to the certificates.

We feel that to let people meet their obligations to take Government securities merely by taking certificates is not doing a selling job, that you can finance the whole war on certificates and bills if you want that kind of financing, but we think that if you are getting into a selling job you ought to sell them not a money market instrument, but something that has a longer maturity and something that you don't just have to resell them again in another year if they should hold it that long.

We feel that to pile up certificates now only means that in a year from now the volume of your maturities will be increasingly larger - will be large, in any case - but they will be possibly larger than they need to be at a time when the amount of financing that you have to do is still very much larger than at the present; so you will have a refunding operation on top of you to the extent that we continue to rely as much as we are on these short securities, at a time when you need to borrow even more than you are now borrowing - considerably more.

* * * * *

MR. ECCLES: Then there would be the tax notes - that is, the C note. * * * we think that the C note * * * would possibly take the place of the certificate if the certificate was not available. Most of the purchasers would purchase those in lieu of a certificate if the certificate wasn't available at the time.

There was the thought - and I don't know, we didn't discuss it long - I don't believe the feeling was unanimous - that if a certificate is eliminated from the basket that a note - a one and a quarter percent note - might take its place. That note would fall due in December '45?

* * * * *

MR. BELL: Do you think that the corporations and others outside of the banks that have been taking the certificates would go for the note, too?

MR. ECCLES: Some of them would. It would take a little better selling job. You would have to sell them. Of course, the certificate has been a very profitable thing for them. A lot of them have learned they can buy that certificate and wait until it has run for four months, sell it, and buy some more, and get one and a quarter percent for four-months paper. That is the difficulty with the certificate.

It really provides for the purchaser not only cash but it enables him to get one and a quarter percent on his daily balances. These corporations, some of them, are wise to that. They are going to become more wise to it. We have provided a perfect mechanism to use money that otherwise has no use.

The Record on the Statement
"I think that the Reserve people generally felt that $8 billion was the minimum that could be gotten outside the commercial banks at that time." (It was generally assumed that $5 billion was to be gotten from the commercial banks.)

March 2, 1943 - 3 p.m.

MR. ECCLES: With reference to the total amount - that is the only thing that we haven't discussed or mentioned. Our group, the Board and the presidents, were unanimous in feeling that we should not go more than fourteen billion. I would say there was a considerable number who felt thirteen billion should be the top of what we should try to get in April.

MR. BELL: You mean the total public debt receipts in April should be that figure?

MR. ECCLES: That is right.

MR. BELL: You are including savings bonds?

MR. ECCLES: The whole thing.

MR. BELL: Treasury bills?

MR. ECCLES: The whole thing. It would be better to do that and then fill in between then and August or September - or whatever period you decided the next financing - with your certificates or with bills or bank financing that was needed in between. We felt it would be better to go after thirteen billion and then maybe get fourteen or fifteen than to--

* * * * *

March 9, 1943 - 11:05 a.m.

MR. ECCLES: I am saying our view is thirteen - our recommendation is thirteen. We understood you had talked fourteen, but we just feel that to set it at that goal is too high. We would recommend the thirteen, and you would possibly get your fourteen or fifteen.

* * * * *

MR. SPROUL: If it is known that you are going to get five billion from the banks, then the subtraction would be eight billion, as far as the quota is concerned, is what you would get from the public; but you would in fact strive to get nine or ten billion from the public if you could get it.

H.M.JR: But here in the room you would cut down the ten to what?

MR. SPROUL: I would cut the ten down to eight here in the room.

H.M.JR: And for the public?

MR. ECCLES: Then go over your quota.

MR. SPROUL: Then go out to get nine or ten or whatever you can get from non-bank investors.

H.M.JR: Now that is your position, Eccles?

MR. ECCLES: Yes, I am in favor of the thirteen.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 27, 1943

TO The Secretary

FROM Mr. Gamble

You have asked for a short memorandum on the attached. On May 20, I wrote a letter to Mr. Broderick, copy of which is attached. This is in reply to a letter Mr. Broderick wrote to Bill Robbins, and which was left with me by Peabody. If you want anything further on this, please let me know.

Attachments

May 20, 1943

My dear Mr. Broderick:

Your letter of May the 14th containing an excellent suggestion has been referred to me by Mr. Robbins and Mr. Peabody. I am inclined to agree with Mr. Taylor that it would be more practicable to have a permanent message something to the effect: "Buy an extra bond this pay day".

You mention in your letter that you think it would be fairly easy for you to handle this. You have our blessings and thanks.

I would appreciate knowing how you make out.

Sincerely yours,

Ted R. Gamble
Assistant to the Secretary

Mr. John P. Broderick
Publicity Director
Victory Fund Committee
Federal Reserve Bank
33 Liberty Street
New York, New York

TRG:jdg

TREASURY DEPARTMENT MAY 25 1943

INTER OFFICE COMMUNICATION

DATE May 12, 1943

TO Secretary Morgenthau

FROM Stuart Peabody

I have a report from John Broderick, Publicity Director of the Second District, on the "Buy a Bond for Your Buddy" promotion.

This was started in Buffalo on the first anniversary of Pearl Harbor. They provided a certificate for everyone who bought a bond on that particular day. The certificate was in a form suitable for framing and bore copy to this effect:

> "This is to certify that John Jones has today purchased an extra United States War Savings Bond in the amount of $__________ in honor of __________ a member of the services of the United States of America."

The purchaser also received a small postcard certifying that he had bought a bond, the idea being that he would send this card to the friend in the service stating that he had bought it in his honor.

On this one day they sold about $2,456,630 to 40,000 people. The Post Office alone accounted for $504,917 and the postmen delivered 6,725 certificates the next day. It is interesting to know that half a dozen people bought bonds in honor of Eisenhower who wrote each of them a letter.

Buffalo then apparently dropped the idea and Poughkeepsie was the only town of record that took it up in the past campaign. In Poughkeepsie it was organized and promoted by the Newspapers and Radio Station WKIP, all of which are issuing agents. Any bond bought through them carried with it a certificate similar to the one used in Buffalo and in this case the issuing agent sent the card to the man in the armed services advising him that the purchase had been made.

Mr. Broderick spoke to Mr. I. R. Evans, President of the First National Bank in Poughkeepsie. During the campaign they sold about $58,000 of bonds in this manner which Mr. Evans said did not sound very big in dollars but he pointed out that inasmuch as newspapers printed every day the list of the people who bought bonds and the soldiers in whose honor they bought them, a great deal of publicity resulted.

This would certainly seem to be an excellent plan and one worth going further with.

CC - D. W. Bell

May 27, 1943

Dear Eugene:

I am sorry I was out of the city at the time of the War Bond baseball game last Monday night, otherwise I certainly would have taken up your invitation. The more I hear about it, the more I realize that I missed a great deal.

You will be interested to know that we have had excellent reports about it. The District of Columbia War Savings Committee a few days ago informed our Special Activities Section that this War Bond baseball game represents, in their opinion, the best all-around special activity yet undertaken in this locality.

This appreciation seems to have been shared, also, by several of our state War Savings administrators in the city on official business, who were able to attend the game.

I think you know that we appreciate all the patriotic effort that you and your Sports Department put into this project. We will add it to your already long list of substantial contributions to the War Bond program.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Mr. Eugene Meyer,
The Washington Post,
Washington, D. C.

Copies in Diary

(init. copy to Smith)

FS:cf

STUART PEABODY
350 MADISON AVENUE
NEW YORK

May 27th, 1943

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

Dear Mr. Secretary:

Although, as I told you, no letter from you was necessary, it was welcome for two reasons.

The first is that the nice things you said were most gratifying.

The second is that your letter gives me an opportunity to write to you what I could not express verbally at our brief meeting the day I left.

It sums up about like this: The experience I had in Washington in your service was one I would not have missed under any circumstances. Wrapped up in the word "experience" were many things---the trip to the Coast, the newsreel debacle at the White House which turned out well in spite of everything, even the routine meetings in your office, which were seldom routine. But beyond all of these, your understanding consideration and genuine friendliness.

I am looking forward with real enthusiasm to the periodic renewal of what to me has been a most satisfying relationship.

Sincerely yours

Stuart Peabody

May 27, 1943

Ted Gamble

Secretary Morgenthau

You asked me to see the movie last night which I understand was prepared by War Bonds. I also take it that you want my frank criticism. Frankly, I was ashamed of it, and we've got to stop being amateurs and get into the ranks of being professionals on the work that we do. We can get the best people in America to help us make a movie. I thought last night's movie was about a fifth-rate one, and it was at least twice too long. I would hate to see it go out. I hope it doesn't have to in its present form. For heaven's sakes, show it to Skouras and let his people criticize it and give us something good. I want to know who is responsible for making it, because certainly I have no confidence in his judgment. Don't show me pictures like that unless you want my frank criticism. From now on we can't afford to have anything except the best, and I'm counting on you. Finished

May 27, 1943

Ted Gamble

Secretary Morgenthau

Please talk to me today about getting yourself a very, very able assistant. Done -

May 27, 1943

Dear Mr. Tripp:

It was a good thought of yours to send me a copy of your memorandum to the Gannett Publishers, giving them the figures and praising them on the work they did on the Second War Loan Drive.

I am frankly astonished and of course tremendously pleased at what you were able to do within your own organization as well as at the very fine results we obtained through the newspapers generally, largely through your efforts.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. F. E. Tripp
Elmira Star-Gazette, Inc.
201 Baldwin Street
Elmira, New York

HEG:ds

File in Diary

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Dear H.M. Jr. I'm damned proud of this
Regards
Tripp

May 25, 1943

TO ALL GANNETT PUBLISHERS
AND ADVERTISING MANAGERS

AT THE OUTSET OF THE SECOND WAR LOAN I sent you a telegram asking you to "get going and go like hell". That, as in the scrap drive, you did more than your part is evidenced by the result in sponsored advertising carried by our newspapers during the drive in April.

Apart from the outstanding support given by the news and editorial departments, which was tops, the advertising accomplishment alone, which can be figured in lines and dollars (which the editorial effort cannot) is amazing and as your general manager and also as Chairman of the Allied Newspaper Council I congratulate and thank you.

I shall not here attempt to list the national figures. These you have read and will find for future reference on Page 6 of the May 22, 1943 issue of Editor & Publisher. I do however want to make the following observations which I think will surprise you:

By numbers of newspapers the Gannett Group constitutes .9% of all of the daily and Sunday newspapers in the United States. By circulation we are about 1.1% of the nation's total. Yet The Gannett Newspapers carried 579,698 lines of War Loan advertising of the 30,585,481 lines carried by all daily and Sunday newspapers. Therefore Gannett Newspapers carried 1.9% of the nation's total - ~~almost~~ twice the average carried by all papers. The value to the Treasury of the national daily and Sunday total was $3,362,890.92 The value of Gannett Newspaper lineage was $65,265.85, or 1.9% of the total.

As if this were not enough the New York State figures are even more astonishing. The New York State total for all daily and Sunday newspapers was 2,002,413 lines. Of this total the 16 New York State Gannett Newspapers carried 569,761 lines or 28.4% of the entire lineage of the State of New York.

If this doesn't prove the efficiency, patriotism and go-getter ability Gannett Newspaper advertising men then I am the Sultan of Zulu.

Yours very truly,
THE GANNETT NEWSPAPERS

F.E. Tripp

F. E. Tripp G-M

MAY 27 1943

Dear Mr. Chairman:

You have requested my opinion as to the merits of the Bankhead bill (S. 1078), to require the Secretary of the Treasury to spend $25,000,000 per year for newspaper advertising of Government war bonds, with at least $12,500,000 of advertising required to be placed yearly with weekly, semiweekly, triweekly and monthly newspapers. In addition, the bill would in effect establish the Secretary of the Treasury as advertising administrator for the Government, in control of the advertising budgets of other Government agencies and under duty to prescribe regulations to safeguard the freedom and independence of the press and its right to criticize public officials.

I am opposed to the enactment of this bill, primarily because it might jeopardize the continued success of the Government's vital War Loan program under my direction. Moreover, the broad regulatory powers over the press which the bill would confer upon the Secretary of the Treasury are foreign in nature to the functions of that office, and I would not care to assume the exercise of such powers.

The War Loan campaign has been a voluntary, united effort of the whole American people. The Second War Loan Drive, concluded early this month, was, as you know, an overwhelming success. The total goal of 13 billion dollars was exceeded by 5 billion dollars.

An army of volunteers labored devotedly to realize that success. Workers, advertisers, advertising media, retailers, theaters, and others contributed wholeheartedly to this vital cause. Newspapers, both country papers and the great metropolitan dailies, gave invaluable support in the handling of news and features and in the promotion of sponsored advertising. Magazines, farm publications, outdoor advertising, and other media cooperated splendidly. The radio stations of the country gave us hundreds of shows throughout the drive. The movies placed their nation-wide facilities at our disposal all during the campaign. Advertisers, as a patriotic service, contributed unparalleled amounts of their own space and time to war bond advertising. Business houses, industrial firms, stores and theaters all cooperated earnestly in promoting the drive.

In sum, the War Loan campaign has been a national voluntary effort which has received the unstinted support of all segments of business and industry without thought or expectation of compensation.

Our successful financial mobilization will require other War Loan Drives in proportions at least equal to the Second War Loan Drive just ended. The full total of our war expenditures this calendar year will be more than 100 billion dollars. About 70 billion dollars, less whatever amount of new taxes Congress may provide, must be raised by borrowings from all sources during the calendar year. New money raised during the four-month period January through April, including that raised during the Second War Loan Drive just ended, amounted to 25 billion dollars. We must, therefore, raise the remaining 45 billion dollars during the balance of this year. With this staggering task before us, I should be disappointed to see our efforts impeded, or perhaps even thwarted, as I believe they might be, as a result of the enactment of the bill under discussion.

The bill makes provision for purchase of advertising space only in newspapers. It makes no provision for expenditures in magazines, farm publications, outdoor advertising, radio, movies, or other media. The Treasury has received, and is continuing to receive, tremendous amounts of free space and time from these media. Individual advertisers also continue to donate large amounts of their own space and time to war bond advertising. I fear that the discriminatory selection of one class of advertising media for Government support would tend to discourage continued contributions by other media and their advertisers and would have an unfortunate effect upon the heretofore remarkable voluntary responses of all classes of business concerns and individuals. It has been the purpose to make the bond purchase program an integral part of our national war effort springing from a patriotic sense of obligation and a desire to contribute all one can to the national effort. That purpose has in large measure been achieved, I believe, and I should dislike now to see introduced a confusion of motives or a policy of discrimination with reference to any class or group.

One in my position, responsible for our tremendous war financing program, must be sensitive to the great contributions made to that program by the newspapers of this country. I do not profess to have an especial understanding of the economic position of any classes of newspapers that are intended to be the beneficiaries of the present bill. I do believe, however, that there would be grave danger to the success of the war financing program if it were to be made the specific vehicle for an avowed policy of Government assistance to any classes of newspapers.

I have confined my comment to those aspects of the bill of immediate concern to me in my official capacity as Secretary of the Treasury. Beyond that, however, I hold strong personal feelings as to the unwisdom and danger of the bill in opening the road toward Government subsidy of the press. On that score, I expect that the Committee will invite the views of Government officials directly concerned with relations between the Government and the press.

I urge that the bill not be enacted.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your Committee.

Very truly yours,
(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Robert F. Wagner,
Chairman, Committee on Banking
and Currency,
United States Senate.
TJL:ims 5/20/43

By Sturgis 4:55 5/27
Photo file incoming in Diary
File to Thompson

78TH CONGRESS
1ST SESSION

S. 1073

IN THE SENATE OF THE UNITED STATES

MAY 4 (legislative day, MAY 3), 1943

Mr. BANKHEAD introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

To aid in the stabilization program and the war effort by paid newspaper advertising in connection with the sale of United States bonds, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That in order to provide for the more effective use of idle currency in aid of the stabilization program and the war effort, and in order to improve the credit structure by relieving the Federal Reserve banks and the various other members of the banking system of the United States of the necessity of purchasing additional vast amounts of United States bonds and other obligations, the Secretary of the Treasury is hereby authorized and directed to purchase and pay for during each fiscal year, beginning with the fiscal year ending June 30, 1943, not less than $25,000,000 nor more than $30,000,000 of advertising space in newspapers published in the United States for the purpose of advertising the sale of bonds, notes, and other obligations of the United States, and for the publication in such newspapers in connection with such advertising of information, sales arguments, and appeals relating to, and promoting or encouraging, such sales. The advertising space so purchased shall be divided equitably among newspapers of general circulation which are entered as second-class matter under the Act of March 3, 1879, as amended: *Provided,* That not less than one-half of the total amount made available during each fiscal year pursuant to this Act shall be expended for the purchase of such advertising space in weekly, semiweekly, triweekly, and monthly newspapers.

SEC. 2. The Secretary of the Treasury is authorized to prescribe such regulations consistent with the provisions of section 3 as may be necessary to carry out the provisions of this Act.

SEC. 3. The Secretary of the Treasury shall, in cooperation with recognized existing publishers' associations to be designated by him (including one such association representing only daily newspapers, one representing only weekly newspapers, and one representing only newspaper advertis-

ing agencies), prescribe regulations for carrying out the newspaper advertising program herein provided for so as to—

(a) secure the best financial results for the United States consistent with such program;

(b) completely safeguard the freedom of the press;

(c) fairly allocate advertisements to individual newspapers;

(d) prepare material for submission to newspapers for use as advertisements;

(e) avoid interference in any manner with the independence of any newspaper or its responsibility in serving its readers;

(f) keep the war finance campaign in all of its phases as nonpartisan as possible; and

(g) protect editors and publishers in their right to publish criticism of the policies or conduct of the Secretary of the Treasury or of any other public official whenever they determine that such criticism is justified.

SEC. 4. For the purpose of carrying out the advertising programs in their respective agencies, the Secretary of Agriculture, the War Food Administrator, the Price Administrator, and the Chairman of the War Manpower Commission may, with the consent of the Secretary of the Treasury and under the regulations prescribed by him pursuant to section 3, each spend for advertisements in newspapers such part of the total amount to be expended under this Act as the Secretary of the Treasury may approve.

SEC. 5. There are hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, such sums as may be necessary to carry out the provisions of this Act.

SEC. 6. The authority conferred by this Act shall terminate six months after the cessation of hostilities in the present war as proclaimed by the President.

United States Senate

COMMITTEE ON BANKING AND CURRENCY

May 5, 1943

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

Dear Mr. Secretary:

I am enclosing a copy of S-1073 which has been referred to the Senate Committee on Banking and Currency.

The Committee would greatly appreciate an early opinion as to the merits of this proposed legislation. Kindly send your reply in triplicate.

Very sincerely yours,

Robert F. Wagner

Chairman

Encl.

May 27, 1943

John Sullivan

Secretary Morgenthau

What did you do about getting the report on the Second War Loan into the Congressional Record? Please let me know. See Sullivan's memo 7/5/37-

MEMORANDUM

May 27, 1943.

TO: The Secretary

FROM: Mr. Sullivan

JLS

I am attaching hereto a copy of the Congressional Record for Monday, May 24th in which Mr. Doughton inserted your report on the Second War Loan campaign. Senator George was engaged in debate and I felt it unwise to ask him to leave the floor. However, I sent a copy to him and explained the situation to his secretary.

The Story of America's Greatest War Loan

EXTENSION OF REMARKS

OF

HON. ROBERT L. DOUGHTON

OF NORTH CAROLINA

IN THE HOUSE OF REPRESENTATIVES

Monday, May 24, 1943

Mr. DOUGHTON. Mr. Speaker, under leave to extend my remarks in the Record, I include the following story of America's greatest war loan, a report by H. Morgenthau, Jr., Secretary of the Treasury, May 25, 1943:

During the 3 weeks between April 12 and May 1, the American people invested $18,500,000,000 in the future of their free country. This was the most tremendous financing task in the history of the world. I feel that the people should have the facts about this successful undertaking. It will make them proud—but more than that, it will give them a better understanding of the even greater tasks yet to be done in financing the most expensive war in history.

Before the war the Axis boasted that Democracy's armies would be weak and flabby. Now they know better. And now the people on the home fronts all over the world realize what kind of people they are fighting. They know that you and I and all of our neighbors are in this war to the finish. The fact that we sold $18,500,000,000 in the Second War Loan is proof enough.

WHAT THIS PROVES

We exceeded by more than five billion the goal we set for ourselves. This is a measure of our enthusiasm and patriotism. The result proves many things. It proves that the American people stand solidly behind their Commander in Chief, that they recognize this as their war, and they are willing and eager to finance it.

It proves, also, that the American people are not going to sit back and wait for any forced savings plan in order to finance this most expensive war in all history. This, I might add, is vitally important to me.

I believe in the American people; I believe that they will go to the very limit of their capacity if only they understand the urgency of the situation.

From reports that have come to me from all over the country, and as a result of what I saw and heard on a 7,000-mile trip from which I recently returned, I have come to some definite conclusions as to the reasons for our success. It seems to me that the explanation is found in the spirit of the American people and their deep-rooted determination to fight this war through to victory.

THE WAR SPIRIT SELLS BONDS

When the people really become aflame with the war spirit, all the other problems seem to solve themselves. Labor and management get together; production rises to an all-time high; and bond sales go up automatically. That checks with what all our figures tell us.

War spirit, labor-management relations, production, and bond sales all go hand in hand.

Military terms to describe this Second War Loan victory—and it is a victory—are only partly appropriate. There can be no comparison between the self-denial needed to finance the war adequately and the suffering and death which our fighting men must face.

Yet, there is a close relationship, a very definite similarity between the war on the home front and the war on the fighting front. Neither is won in a single engagement. On both fronts the war must go on through a succession of gains until the final and complete victory is won. We can speak of this success in the Second War Loan drive only as a victory in a minor engagement. It is like the taking of a single fortified point while the main battlefield and the main forces of the enemy still lie ahead.

The real battle is still ahead of us. All that we learned in this Second War Loan Drive, all the enthusiasm that we gained, will be useful in the bigger job that we still have to do.

THERE IS NO EASY WAY

There is no automatic and easy process for winning battles on the home front any more than there is an automatic and easy process for winning battles in the field. The war must be won and the war must be financed by the voluntary, united effort of the whole American people.

What success in financing means to our fighters is illustrated by a conversation I had recently with the Chief of Staff. General Marshall came over to the Treasury to have lunch with me and, before he left, he said:

"Mr. Secretary, I want you to answer a question for me and to answer it with complete frankness. Can we military leaders plan to fight this war in an orderly way—in the surest and most effective manner—or must we take extraordinary risks for fear the money will not hold out?"

My answer was:

"General, the American people will take care of that. What they have done in this Second War Loan drive—the money they have produced and the spirit they have shown—is proof enough for me that they will not let our fighters suffer from lack of support until we achieve complete victory, no matter how long that may be, nor how much it may cost."

That was my answer to General Marshall. I know it is the answer of the American people.

HERE IS WHAT HAPPENED IN THE SECOND WAR LOAN

In the second war loan (as in the first, last December), some of the money was borrowed from commercial banks. We didn't give them all they wanted, but limited them to set amounts. Here are the banks' purchases:

Commercial banks:

- First War Loan December 1942, $5,000,000,000.
- Second War Loan April 1943, $5,000,000,000.

Much of the money for our bond drives comes from insurance companies and other corporations. They are looking for sound investments and they know that there is no sounder investment than a United States bond. Here is the record for these organizations:

Insurance companies and corporations:

- Goal, $8,500,000,000.
- First War Loan December 1942, $5,500,000,000.
- Second War Loan April 1943:
  - Actual sales, $9,750,000,000.
- (Excludes dealers and brokers.)

But the most important of all sources of funds is individuals. In selling War bonds to individuals we have made great progress, although, of course, much remains to be done. Here is a record of our sales to people in the December drive, compared to our goal and actual sales in the Second War Loan:

Individuals:

- Goal, $2,500,000,000.
- First War Loan December 1942, $1,500,000,000.
- Second War Loan April 1943:
  - Actual sales, $3,250,000,000.

THE PEOPLE HAVE THE MONEY TO FINANCE THE WAR

When the Government buys war material, the money goes to the public in the wages, salaries and profits of the people who make and sell the war goods. In other words, when we spend billions on the war, the same billions become income to people and businesses.

The question is: Who gets the money—and how much of it can we expect to get for War bonds?

Some of it goes to corporations and some of it to individuals.

Our own economists and consulting economists point out that the bulk of the money which we must get in 1943 from individuals must come from those people earning less than $5,000 net. The average worker—the shipyard worker, the machinist, the woman war worker, the white-collar employee—these will have seven-eighths of the current income after taxes. As our drives continue, more and more of our money will have to come from these people, until every person receiving income above the barest subsistence level will have to pitch in.

Where the money is:

Workers under $5,000 a year, seven-eighths of all the income.

All other, one-eighth of all income.

We know that all the people who are making reasonable wages and salaries are putting a certain amount into life insurance, into savings bank deposits, and are paying off debts. Knowing how much of the total amount of savings is being invested this way, we can estimate the amount of savings which will be left in the hands of individuals.

This is the money, not used for the necessities of life, nor invested in life insurance, nor used for the payment of debts, that will supply the funds with which to buy War bonds.

We aimed to get 55 percent of the amount of this money accumulating in the first 4 months of this year (in place of the 47 percent which was so invested in the last half of 1942), but because of the success of the Second War Loan, we actually secured 60 percent. Our tentative program calls for aiming at 65 percent in the present 4 months and at 75 percent in the last 4 months of the year.

Look at the total incomes of the country and where the money goes in the chart below. You can see that savings are going

(Chart not shown.)

into War Bonds in growing amounts and that present goals call for further increases.

Although we are a long way from being able to say, "The job is done," I think we should be proud of the fact that so many American people have bought War Bonds. If you count every person in the United States—the working people and the housewives, the children and infants, the lame, the halt and the blind—we can say that almost half the entire population of the country own at least one bond.

FIVE-SIXTHS OF ALL PEOPLE EMPLOYED HAVE BOUGHT BONDS

If you only consider the 60,000,000 people who have jobs, or who are in the armed services, you find that 5 out of every 6 are War bond holders.

DURING THE SECOND WAR LOAN 33,700,000 $25 BONDS WERE SOLD AND 4,800,000 $50 BONDS

The Second War Loan has been one of the most tremendous transactions in history. For one indication, look at the fact that 33,000,000 E bonds—people's bonds we call them—were sold. These can be purchased only by individuals, who are limited to a $3,750 investment in this particular bond during any one year. Of the 33,000,000 E bonds, nearly 27,000,000 were of $25 and $50 denomination.

How did all these bonds get distributed? Mostly by volunteer workers—workers who became bond salesmen and spent spare time, day and night, serving their country on the home front. In all, there were more than 1,000,000 people in the service for the drive. They have done an admirable job, and to them the Nation owes a great debt.

Ten out of every 1,000 men and women in the United States were voluntary bond salesmen during the second war loan drive.

A QUICK LOOK AHEAD—HOW WE MUST GET THE ONE HUNDRED BILLIONS NEEDED FOR WAR THIS YEAR

The armed forces know how much equipment and manpower it will take to beat back the Axis during 1943. Your Treasury also knows how much money will be required to supply the armed forces with equipment to feed and clothe the men, to take care of lend-lease requirements and other war expenses.

The Treasury also has a plan for getting the huge amounts of money that will be needed.

We will get thirty billions through taxes in 1943

Under the present tax laws, we know we will get at least $30,000,000,000. I have no doubt that we will need, before the year is out, to ask for new taxes, to increase the amount of money we will get this way. Devising taxes in wartime is a serious problem, because it is so difficult to deal equitably and justly with all the people. But I am sure that this can be done.

We have already borrowed $25,000,000,000 this year

Already during 1943 we have raised through the sale of War bonds about $25,000,000,000.

That means that we now know we can count on having $55,000,000,000 of the $100,000,000,000 we will need. That leaves $45,000,000,000 that will have to be raised, some of it through new taxes, the rest of it through the sale of war bonds.

We will also need to raise $45,000,000,000 more

Part of this $45,000,000,000 will come as a result of the regular purchases of war bonds, month by month, through pay-roll savings. Part of it will come from people who realize that we must not wait for drives to buy extra bonds. The rest of it we will need to secure through special drives. I am confident that the American people will continue to oversubscribe our war loans and make the voluntary way work. That will be one of the best ways we have of showing the Axis how wrong they were when they said that the American people could not stand up in a crisis, that our democratic ways would collapse when the going got tough. The chart on the next page shows our program for 1943—what has happened so far, and what is yet to be done.

FINANCING THE WAR IN 1943

The cost of the war during 1943 was $100,000,000,000.

Under present tax laws we will get $30,000,000,000 from taxes.

In the first 4 months of this year, we sold more than $25,000,000,000 of War bonds; $18,500,000,000 in the second war loan; $7,000,000,000 before the second war loan campaign.

Therefore we must still raise this year $45,000,000,000 in new taxes and additional sales of War bonds.

The second war loan brought 90 percent of the money raised during all drives in World War No. 1.

You may be interested to know how the second war loan compares to drives that were held during the First World War. There were five War bond drives between May 1917 and May 1919, and as a result a total of $21,000,000,000 was raised. These drives required 18 weeks of concentrated work.

In our 3-week second war loan we raised $18,500,000,000, or 90 percent as much as in the five drives of World War No. 1.

Amounts raised

World War No. 1, $21,000,000,000, five drives.

Second War Loan, $18,500,000,000.

Time to do it

World War No. 1, 5 drives, 18 weeks.

Second War Loan, 1 drive, 3 weeks.

MEMORANDUM

May 27, 1943.

TO: The Secretary

FROM: Mr. Sullivan

JLS

Pursuant to your memorandum to me of May 18th in which you asked me to contact Senator Tunnell of Delaware, discover what his difficulty was, and communicate with Mr. Justice Byrnes, I wish to advise you that Mr. Gaston secured from the National Committee clearance of the appointment of Senator Tunnell's candidate for Internal Revenue Collector in Delaware, Mr. Norman Collison.

This clearance was made on Monday, May 24th, and I immediately called Senator Tunnell but learned that he was out of town for the day. Tuesday, May 25th, I called on the Senator at his office and explained to him the cause of the delay. I advised him that the National Committee had cleared the appointment and that we had already started our investigation. I further assured him that unless the investigation disclosed something we did not anticipate we would recommend Mr. Collison's appointment to the President.

That same day I notified Mr. Justice Byrnes of the action we had taken.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau May 27, 1943

FROM Frances McCathran

CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Tax: Pay-As-You-Go - Congress appears to be on the verge of eliminating, whether satisfactorily or not is another question, what has been virtually its major point of controversy for some four months. Yesterday the House decided to consider next Tuesday, June 2, the Joint Conference Tax Committee's compromise proposal, with House Republican Leader Martin, who has thrown so many monkey wrenches into previous compromises, indicating that the plan has at least his tacit benediction.

2. Reciprocal Trade Agreements - The Senate, which is meeting an hour earlier than usual today, will resume consideration begun on Monday of the bill extending the Reciprocal Trade Agreements program. Focal point of dispute is the Danaher Amendment providing the agreements may be terminated by a concurrent resolution of Congress on six months notice six months after the end of the war. Chief supporter of the amendment is Senator Vandenberg, who finds his leading adversary in Senator George, Chairman of the Senate Finance Committee which approved the amendment. The House previously passed the measure with the only restricting amendment being a two-year instead of a three-year extension.

3. Deficiency Appropriation Bill - The Senate Appropriations Committee, while eliminating specific reference to the National Resources Planning Board and the Farm Security Administration, effectively prohibited, nevertheless, use of the President's Emergency Fund for these two agencies, in an amendment to the Deficiency Appropriation Bill. Amendment is worded to prevent the use of such funds either as a special allotment "for any agency denied an appropriation by Congress" or as a supplemental allowance for an agency whose request was drastically reduced by Congress. Although the Senate Committee thus supported House action in this instance, they deleted a restriction in the House bill preventing use of the appropriation for payment of salaries to Robert Morss Lovett, Secretary of the Virgin Islands, and

Goodwin B. Watson and William E. Dodd, Jr. of the FCC, who have been accused of "subversive activities." Chairman McKellar said this action did not necessarily mean his committee approved of these men, but that they preferred to submit the matter to a joint conference. How the Senate as a whole will vote on these controversial amendments, however, remains to be seen.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 27, 1943

TO Mr. J. W. Pehle

FROM Lawrence S. Lesser

Rene de Chambrun is a Frenchman who possesses American citizenship by reason of an Act of Legislature of the State of Maryland making all lineal descendants of the Marquis de Lafayette citizens of that State. De Chambrun's father, General de Chambrun, was the chief officer of the Paris branch of the National City Bank. Mr. de Chambrun for some time had a desk at the offices of Davis, Polk, Wardwell, Gardner and Reed, lawyers of 15 Broad Street, New York City. I am not sure whether he was admitted to the New York Bar, but it would appear that he carried on an international law practice from 15 Broad Street. De Chambrun maintained law offices in Paris in conjunction with Francois Monahan, who graduated from the Harvard Law School in 1932. De Chambrun is married to Josie Laval, the daughter of Pierre Laval, the present Chief of Government of France. There is no basis for doubting de Chambrun's loyalty to his father-in-law, or his wife's loyalty to her father.

Excerpt from Treasury hearing on Lazard Freres, held on April 6, 1943. (Questions by Mr. Lesser for the Treasury. Answers by Mr. Altschul of Lazard Freres.)

Q: Did you ever personally attend to any business for or on behalf of Rene de Chambrun?

A: No.

Q: Did you ever have any business dealings with him?

A: Never.
I would like to tell you the story of Rene de Chambrun.

Q: Go ahead.

A: Rene de Chambrun was over here when he was a young man. He had his office with Davis, Polk. He was a very likeable fellow and a good tennis player. I had known him in Paris and we were quite good friends. He used to come to my place in the country very often. It was a long time before he was married, when he was living over here with Henry Claudel, the son of the Ambassador, and when his status was still quite good.

In Paris, regardless of the amount of time I am supposed to have spent on business over there, I used to spend my time on a holiday enjoying my friends, and one of these friends was a young girl at that time -- very intelligent, very bright and, as far as I knew, all right -- called Jose Laval. Bunny de Chambrun was an agreeable fellow but Jose Laval was a highly intelligent and interesting woman to me and although I had met her originally, I think, through Bunny, over the years I knew her better than I knew him because she had -- she had many more things to tell me in across-the-table conversation about all kinds of things. I used to row with her about the Allied debts and all that sort of stuff. And I found her extremely stimulating and I got a French point of view which I thought was valuable.

When she came over with her father at the time of the Hoover moratorium or, no, it was the debt negotiations, I think I saw her a few times. I am not sure but that my intimacy dated subsequently to that. I am not sure of that.

When she came over last time the Laval colors were not quite as clear as they have since become and when she came over last time -- because I thought that it might be useful to keep up the contact and I was still hopeful that one could persuade through her Laval to see some reason. I dropped her a note and told her that I didn't see, myself -- this was in my files, you have read them -- but something to the effect that as far as I was concerned I didn't see any reason why her father's politics should come between us in our old friendship and that if she cared to talk things over with me I would be very happy to talk to her.

She immediately responded in the same spirit and so I saw her and we had long talks about the French situation during which I was perfectly conscious of making an effort to let this girl know the way America was going so that Vichy should understand what they were running into just in a vain hope that these things might get back into something.

One day they invited me to dine with them and they invited my wife to dine with them and at the last minute, five minutes before the dinner, Josie called me up and said, "Will you please wear a black tie and be on time, Frank, because we have got the Ambassador coming to dinner." And I said, "I don't want to dine with the Ambassador. I have got nothing to do with the official French crowd in the future." They said, "You can't just at the last minute leave us in the lurch." Finally, I said, "It isn't going to do any harm. I will go and dine." And I sat next to the Ambassador at dinner and we had a fine row all through dinner and that was the last I ever saw of him.

Then there came war, the anti-Semitic laws of Laval, which were bad enough in themselves but which were coupled with the typical Laval statement that this was not done under pressure from the Germans but represented the inner soul of France.

Now, before this thing came out, I was giving a party - this will help to place the date, it was on election night - as I often do when I have 100 or 150 people in to see the returns. And a month before this party I had invited Bunny and Josie to come to the party also to see the election returns. When this Laval thing came out -- you will find a copy of the letter in my files -- I wrote a letter to Josie and sent her a clipping from the "New York Times" underscoring the particularly offensive statements of her father and I said to her, "My dear Josie: I think you will realize after you have read this that this makes matters a little too difficult for both of us and we might just as well recognize the fact" -- or something like that. Have you got those letters? I think you have, probably. I told you they were personal things at the time. They had nothing to do with business. They were personal.

And I thought that would be the end. About an hour before the election day party, which I thought under the circumstances they would not come to, his wife called my wife up to ask whether they were to wear a black tie, and to my surprise they walked in in spite of everything.

Well, when she was going back to France I talked to her -- that evening I talked to her and I saw that she was off on the wrong foot. She had a false conception of America. She had a picture of America -- it was not going to get into the war. She was going to tell her father the wrong things. So before she left I wrote her and I told her, "I don't want you to go home and give the wrong opinion. I am sure that you are getting the wrong views. A lot of things are working beneath the surface that are not on the surface." This was a very long letter sent perfectly consciously in the hope that it would do some good for these people in Vichy to know that America was incensed about the French attitude. It was a foolish thing, maybe.

Bunny's partner arrived over here, a fellow named Monahan. He is pretty n. g. as far as I can tell you, mixed up with all kinds of business. He came to see me or asked me to come to see him one day. I didn't know what was up or what it was all about. I dropped in to see him one day at his apartment. We had no discussion about business. There was no bond between us and I didn't see him more than once or twice while he was here and I think he called me up and said he had some message -- I didn't know who they were from or what they were about. I was interested in getting messages from people in France. All of a sudden, out of a clear sky, without any for it at all, some six months ago or eight months or a year ago -- I don't know when -- I suddenly got a telegram from Monahan saying that he has seen my good friends Germaine and Philip, who are very dear friends of mine in Paris, and that they sent me affectionate greetings, or something like that, in which Bunny joined -- out of a clear sky. What was the reason for Bunny wanting to put his name in a telegram to me? I had nothing to do with him since the last letter.

Oh, there was one other time with Josie. I was really trying to -- she was a very bright girl and I thought she had influence with her father. I said to her one day at the Ritz, "Josie, don't you know that no matter which way this thing comes out your father is going to get shot?" And she had tears in her eyes and she said, "Of course I know that, Frank, and my father knows that, too, but he is a great French patriot and has to do what he thinks he has to do."

There is the story of Bunny and Josie. It is an old acquaintance. Don't tell me you have located some business transaction I had with Bunny because I would be very surprised. I didn't know anything about him. Josie in the old days was a very good friend.

May 27, 1943.

My dear Sir Frederick:

As you know, we have an Interdepartmental Committee dealing with matters of financial assistance to our Allies. One of the questions now before the Committee is the advisability of bringing within the scope of the reciprocal aid program purchases of certain goods being made by the United States in British Empire countries which will aggregate between $200-$300 million during the coming year. Discussions are still in the preliminary stages.

The Committee wanted you to be informed of what we are thinking and would like your views on the above proposal. The Committee also thought it would be helpful at this time to have a memorandum from you reviewing Britain's international financial position and summarizing your views on the appropriate reserve of gold and dollars which this Government should assist the British Government to maintain.

The Committee would appreciate receiving a statement which could be made available to all members and which could serve as a useful basis of future discussions.

Very truly yours,

(Signed) H. D. White

H. D. White,
Assistant to the Secretary

Sir Frederick Phillips,
The British Supply Council in
North America,
Box 680,
Benjamin Franklin Station,
Washington, D. C.

COPY

MAY 27 1943

Dear Mr. Lehman:

This is in reply to your letter of May 25, 1943, regarding the need for planning for possible relief and rehabilitation operations in Italy.

We shall, of course, be glad to cooperate fully with your agency and help in any way that we can. Mr. White informs me that he is appointing Mr. William H. Taylor to attend the meetings of the small temporary committee you are setting up to deal with Italian questions.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Herbert H. Lehman,
Director, Office of Foreign Relief
and Rehabilitation Operations,
Department of State,
Washington, D.C.

Photo file in Diary

File to Thompson

HMJr:lo
5/27/43

DEPARTMENT OF STATE

OFFICE OF FOREIGN RELIEF AND
REHABILITATION OPERATIONS

In reply refer to
OF

WASHINGTON, D. C.,

May 25, 1943.

My dear Mr. Secretary:

In laying plans for possible United States relief and rehabilitation operations in Italy I am taking the liberty, again, of calling on the Treasury Department for assistance. My staff and yours have already conferred and have, I believe, laid the basis for fruitful cooperation in this endeavor.

I am sending this letter so that my request and your response, which has already been so generous, may be matters of record, and so that those who will be at work developing the program for Italy may understand the import of their assignments both in your organization and mine.

Mr. Luther Gulick, Chief of my Program and Requirements Division, will bring together from the interested agencies a small temporary committee of those who are especially qualified to deal with Italian questions. Will you please name the member of your staff whom you wish to have work with us on Italy? Mr. William H. Taylor, with whom we have been in touch, would be most acceptable, as would any other man of your choice.

Mr. Gulick will, of course, keep in close touch with Mr. White as the work progresses and on matters of major policy I shall wish to confer with you personally.

Sincerely yours,

Herbert H Lehman

Herbert H. Lehman
Director

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

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Chungking, China

DATE: May 27, 1943, 6 p.m.

NO.: 679

This refers to telegram No. 754 from the Embassy dated the 22nd of May, 9 a.m., in connection with the Finance Ministry's provisional regulations for giving the embassies and consulates favorable treatment with regard to the converting into national currency of foreign exchange in order to pay their expenses.

1. The position of the Embassy, indicated in the first sentence of the second paragraph, has the Department's approval.

2. If, however, the Finance Ministry should press for a prompt reply concerning the above mentioned regulations, the Department would suggest to the Embassy that it indicate verbally that we have hoped that the question could be cleared by including certain financial provisions in a reciprocal aid agreement, and that in fact such an agreement, with financial provision, was handed in draft form on May 15 to Dr. Soong for the Chinese Government's consideration.

HULL

209

OFFICE
SECRETARY OF TREASURY

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1943 MAY 28 PM 12 07 COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

TREASURY DEPARTMENT

Optel 173

Information received up to 7 a.m., May 27, 1943.

1. NAVAL

MEDITERRANEAN. One of the Fighting French Destroyers is aground Northeast of BENGHAZI. Assistance sent. Attack on shipping. Evening of 25th, 2 homeward bound convoys attacked by high level bombing from 9 F.W. 200's when 190 miles West of LISBON. No damage.

2. AIR OPERATIONS

WESTERN FRONT. 25th/26th. In raid on DUSSELDORF, 1959 tons H.E. and Incendiaries dropped.

SICILIAN CHANNEL. 23rd/24th. Wellingtons dropped 26 tons H.E. on PANTELLARIA town and airfield which were also attacked on 24th and 25th by total of 80 fighter bombers.

SARDINIA. 24th. Escorted heavy bombers dropped 140 tons H.E. on harbour of TERRANOVA and 131 tons on LA MADDALENA. Four cargo ships hit and several others possibly damaged. Fighter bombers attacked three other localities. Escorted medium bombers effectively attacked airfield at OLBIA (TERRANOVA). 24th/25th. Medium bombers dropped 31 tons H.E. on docks and railway at OLBIA.

SICILY. During 24th/25th, 25th and 26th, Medium and Heavy Bombers dropped 392 tons H.E. on targets at MESSINA. Combat casualties: Enemy 14, 9, 6. Allied - 3, 0, 20. 25th. 67 escorted medium bombers attacked LICATA and PORTO EMPEDOCLE.

TUNISIA. 23rd/24th. Beaufighters destroyed 5 enemy aircraft over BONE and DJEDJELLI.

BURMA. 22nd. 20 Medium bombers attacked railway targets 100 miles North-Northwest of MANDALAY.

210

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COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 174

Information received up to 7 a.m., 27th May, 1943.

1. NAVAL

HOME WATERS. 27th. M.T.B.'s engaged 4 armed Trawlers off TERCHELLING. One left sinking.

2. MILITARY

BURMA. CHIN HILLS. 26th. Approximately 2 companys Japanese approached FORT WHITE (30 miles West of KALEWA), operations confined to patrolling.

CHINWIN. 500 Japanese reported 3 miles Northeast of HOMALIN.

3. AIR OPERATIONS

WESTERN FRONT. 27th. 14 Mosquitoes despatched and attacks made on instrument works at JENA, WEIMAR Railway Station and a Railway Bridge. 3 Mosquitoes missing and 2 crashed. In operations over BELGIUM Lock Gates at NEVELE believed hit. 2 F.W. 190's destroyed, one Spitfire missing. 27th/28th. Aircraft despatched: ESSEN - 518 (23 missing), Intruders - 17 (one missing), Sea Mining - 23 (one missing) Leaflets - 19, Anti-Shipping - 6. Preliminary report indicates concentrated attack at ESSEN despite cloudy weather. Attack considered successful.

MEDITERRANEAN. Only minor operations so far reported.

GREECE AND AEGEAN. 25th. Beaufighters attacked Seaplane Base at PREVEZA (West Coast of GREECE) causing casualties on water or ground 3, 5, 7. 25th and 26th. A Schooner, Caique and 4 laden sailing vessels sunk or severely damaged.