DIARY

Book 526

May 8, 1942

- A -

- B -

- C -

- D -

May 8, 1942
9:35 a.m.

GROUP

Present:
Mr. Bell
Mr. Thompson
Mr. Buffington
Mr. Blough
Mr. Sullivan
Mr. Graves
Mr. Schwarz
Mr. Paul
Mr. White
Mr. Haas
Mr. Kuhn
Mr. Foley
Mrs. Klotz

H.M.JR: Good morning, everybody. It is really just to say hello. I haven't got a thing to ask anybody.

MRS. KLOTZ: I don't believe it.

MR. FOLEY: You wanted to be reminded to call Crowley.

H.M.JR: I will do that right afterwards.

MR. SULLIVAN: Mr. Helvering and I would like to talk to you.

H.M.JR: And for what?

MR. SULLIVAN: On the general policy of charitable contributions.

H.M.JR: Was that the thing that I got criticized for yesterday?

MR. SULLIVAN: No, no.

H.M.JR: You mean this thing?

MR. SULLIVAN: You are thinking of the movie actresses.

H.M.JR: Yes. What are you thinking of?

MR. SULLIVAN: I am thinking of baseball. The big league teams have set aside eighteen games where all the proceeds are going to Army and Navy Relief Societies. The first one is being played in Brooklyn today. Even the ball players have to buy a ticket, even Mayor LaGuardia. Our ruling is, it is taxable. Landis says if taxable, it will bankrupt the club, and they would have to call the games off.

H.M.JR: Landis is a mean so-and-so.

MR. SULLIVAN: I don't care whether he is, when the people in the country--

H.M.JR: Why do you wait until the day the ball game starts? Why are these always brought to me a month late?

MR. SULLIVAN: This thing happened yesterday afternoon, sir.

H.M.JR: Why do I always get the things after they are dirty jobs?

MR. SULLIVAN: You are not getting it after it is a dirty job at all. I am saying with all of these things coming up all over the country we have got to review our general policy toward them, and that is why the Commissioner and I want to talk to you. We don't want to go ahead piecemeal on one ball game.

H.M.JR: The Commissioner only wrote me two or three days ago on this same subject.

MR. SULLIVAN: I don't think he wrote you on this at all, at least I didn't see it.

H.M.JR: I can't always operate with a pistol to my head.

MR. SULLIVAN: There is no attempt to put a pistol to your head at all. I talked with Landis late yesterday afternoon and this thing is not something that has to be taken care of immediately, but I talked with the Commissioner and we would like to have a general discussion on policy with you so we will know how we should be guided as these various types of cases come up.

H.M.JR: Eighteen games, the first one starts today?

MR. SULLIVAN: The first is being played today, and there is nothing we can do about that one at all.

H.M.JR: That is going to be taxed?

MR. SULLIVAN: I don't know, it depends - all of the information hadn't been given to us - depends on the way that is done.

H.M.JR: Who has muffed the ball?

MR. SULLIVAN: Not a soul.

H.M.JR: It is impossible.

MR. SULLIVAN: What do you mean it is impossible?

H.M.JR: Here you have got a ball game scheduled today and they call up last night - either the baseball people or we have waited until the game starts.

MR. SULLIVAN: We had a letter from them on May 2, asking a lot of questions about a series of ball games. The letter was written by Landis. It had income tax questions, and it had Savings Stamps or War Stamps questions. In a game to be played in July in Cleveland they intend to sell - everybody who buys a ticket has to buy a dollar War Stamp attached to it, and there was an admissions tax question, and so on. I sent it over to the Bureau asking them to draft that part of the letter that dealt with the tax questions. I talked with Mr. Graves who is going to draft that part of the letter that related to the handling of the War Stamps. Yesterday afternoon a wire came in from Landis saying that the first of this series of ball games was to be played tomorrow afternoon; and I talked with the Commissioner, and he said that the letter was just being finished. He said he would send it over and that on the basis of the information that had been furnished us by Landis, he didn't think that they were exempt. I told him that from what I had read in the newspapers about the arrangement in Brooklyn I thought they would be exempt. Then I called Landis, and from what he said in conversation, I believe that they are exempt. Now, the way that was left was that he was going to send further information in on just what the situation is up there. If those games are being conducted under the auspices of the Army and Navy Relief, if every dollar that comes in at the gate goes to them, if those ball clubs are merely trustees for the Army and Navy Relief, it is exempt.

H.M.JR: My answer to you is, you are Assistant Secretary in charge of Internal Revenue, you decide it. Don't bother me with it.

MR. SULLIVAN: We weren't bothering you about this particular case at all. We just wanted to have a talk with you about the general policy. A lot of these are close cases. Are we going to be tough, or are we going to be lenient? That is what we want to talk to you about.

MR. PAUL: How does that line up with the movie actresses, John? Any analogy there?

MR. SULLIVAN: Not at all. You see, Randolph, if we hold that they are taxable, they expect to make about two million dollars for Army and Navy Relief out of these ball games. Now, that certainly is more than five percent of what the ball clubs will make. Now, if they are giving away all of that two million dollars and yet we are imposing corporate income taxes and excess profits taxes on that, these clubs that are operating on a small margin will lose because of having done this.

MR. PAUL: The distinction is that the club is giving it here and not the players, movie actresses.

MR. SULLIVAN: Sure, yes.

H.M.JR: Supposing you come over with the Commissioner at eleven-thirty.

MR. SULLIVAN: Yes, sir.

H.M.JR: There is a difference between you and the Commissioner?

MR. SULLIVAN: Not at all. We both want to help here.

H.M.JR: I thought you said there was a difference.

MR. SULLIVAN: No.

H.M.JR: I thought you said the Commissioner said--

MR. SULLIVAN: On the basis of Landis' letter.

H.M.JR: What am I going to decide?

MR. SULLIVAN: You won't have to decide anything about this case. We just want to talk to you about the various types of cases that arise and acquaint you with the problem, and find out just what our attitude should be on these things.

H.M.JR: O.K.

MR. SULLIVAN: Eleven-thirty, sir?

H.M.JR: Yes.

MR. SULLIVAN: Right, that is all.

I think I will have the report ready on Jack and Heintz, if you want that, at eleven-thirty, and I can give you a report on War, Navy, Maritime Commission, at that time.

H.M.JR: Clearing everything. Blough?

MR. BLOUGH: Nothing.

MR. BUFFINGTON: You asked me to speak with Mr. Purcell about Crowley's attitude on this break-up of Standard Gas. I talked to him on another matter the other day, and he said that he--

H.M.JR: If this is embarrassing, do you want to leave the room?

MR. FOLEY: No, no not at all. There is no conflict of interest here at all.

MR. BUFFINGTON: He said he thought the New York Times had purposely misinterpreted Mr. Crowley's statement. As far as he understood Mr. Crowley's statement, he was going along with the program. I then asked him what he made of Mr. Shea's attitude to president of North American. He said that Mr. Shea had continuously made the statement that he was not going to do anything to the detriment of the stockholders. He is asking for a meeting on Monday with that committee of five.

H.M.JR: I won't be here.

MR. BUFFINGTON: He wants to discuss, if possible, next week, these three contemplated offerings, Macey, National Distillers, and Phillip Morris, neither one of which, I think, is as important as the question of the possibility of the city of Cleveland offering a hundred forty million bonds to acquire the Cleveland Electric Illuminating Company from North American. It looks as though one of the outs for some of these utility companies is to sell part of their holdings to the municipalities which will increase substantially some of these non-taxable issues. I think that is much more important.

MR. BELL: Very much.

H.M.JR: Tell Purcell eleven o'clock, Tuesday will you take care of that?

MR. BUFFINGTON: Yes, sir. He wrote you a letter confirming the discussion that we had at the last meeting, and in that letter sent a suggested copy of a letter for you to send to the President with a statement that he had understood at that meeting a letter was going to be sent. I checked with Mr. Currie, and he said he had no understanding that he was reporting to the President. That is all.

H.M.JR: Harold?

MR. GRAVES: Nothing.

H.M.JR: This fellow Masius is coming in at ten-fifteen. I would like Kuhn here at that time. Who else should be here?

MR. GRAVES: Gamble will be here.

H.M.JR: And then just so that everybody knows what I am doing, Buffington is bringing his gang in at eleven. I think it would be nice if Bell and Graves would be here at eleven. Does that conflict with something?

MR. GRAVES: No, I can be here.

H.M.JR: In case this F and G thing should come up. Bell, eleven?

MR. BELL: Yes.

MR. GRAVES: By the way, did you get my inquiry about an engagement on Tuesday for Mr. Trounstine and Mr. Moore?

H.M.JR: I gave them one. It isn't down here, but I gave it to them.

MR. KUHN: That matter of the CIO building space on K Street is moving along all right. There is nothing at the moment for you to do on it.

Also, Mrs. Roosevelt's radio program, the Earl Robinson piece, the Texas Company offered us the entire last half of their regular Sunday evening hour; there will be no Texaco plug, the whole thing will be turned over to us, with the orchestra, and our old friend Goodman as conductor.

H.M.JR: Wonderful.

MR. KUHN: That will be CBS nationwide. Since it is a commercial program, should we ask Mrs. Roosevelt to come up and speak or should we forget it?

H.M.JR: I would ask her, don't you think so?

MRS. KLOTZ: Yes.

H.M.JR: It isn't the first time.

MRS. KLOTZ: No.

MR. KUHN: I will get the letter off today. That is all.

H.M.JR: Paul?

MR. PAUL: Nothing.

H.M.JR: Any time you want to go, go.

MR. PAUL: I want to go a little early, but I can stay a few minutes longer.

H.M.JR: I listened to Ernest Lindley last night at quarter of eleven commenting on what we were doing. He said, of course - he intimated I was doing this on account of his column. Today he said it is not enough. I would love to write him a letter and ask him just where he would suggest raising additional taxes.

MR. PAUL: I have talked with him several times.

H.M.JR: Where would he raise it?

MR. PAUL: None of them ever get to that positive side of the question.

MR. SCHWARZ: I talked with him the other day. He said, "It just isn't enough." He doesn't know how far we should go.

MR. PAUL: However, he is one of the more decent, intelligent of our critics.

H.M.JR: Got anything, George?

MR. HAAS: Another one of these wires just came in.

(Mr. Haas handed document to the Secretary.)

H.M.JR: Chick?

MR. SCHWARZ: Nothing

H.M.JR: Harry?

MR. WHITE: We had a meeting yesterday for the interested persons with respect to the pooling of production of Canada and others. When you want to take it up, I will tell you what the status of the situation is.

H.M.JR: How pressing is it?

MR. WHITE: It is not pressing. It is not pressing at all. The next move is up to the Canadians. In any case, Clark is going back to talk it over with his chief. I think he is reassured he won't lose anything; he may make something.

MR. BELL: Somebody must lose. Who loses, the Treasury?

MR. WHITE: Only one answer to that.

H.M.JR: Harry, have you written anything on that international stabilization suggestion? Have you got anything for me to read over the week end?

MR. WHITE: I think I have, Mr. Secretary.

H.M.JR: If you will give it to me, I would like to take it with me. I could be studying it over the week end.

MR. WHITE: Then the matter of the British situation with regard to Lend-Lease, Phillips has been leaving several documents. You will want to explore that. I don't think you ought to postpone that beyond next week.

MR. WHITE: I will give you the documents he left.

H.M.JR: Why don't you pick out the significant part?

MR. WHITE: I will fix it.

H.M.JR: How about the question of McCloy?

MR. WHITE: We haven't heard from them, but that is involved. It seems to me that the next move is the State Department. The British have made a definite recommendation.

H.M.JR: Give me one page - just give me one page bringing me up to date.

MR. WHITE: All right. You want to send somebody to Canada on the bond?

H.M.JR: Yes.

MR. WHITE: I will send Mr. Hoflich.

H.M.JR: O.K. You gentlemen have seen the stuff that White is getting for us out of England. I thought that was good, and I suggested, seeing he is my minister of foreign affairs, that he send somebody up to Canada. (Laughter) What's the matter, Harry?

MR. WHITE: Next time I will come with striped trousers if I can borrow some.

H.M.JR: Be sure and keep your eyes down. (Laughter)

MR. WHITE: There is a problem with regard to Swiss francs. We may need your backing. Before we start anything, I want to find out whether you have any reaction. (Laughter)

H.M.JR: Is he rash - not rash, go ahead.

MR. WHITE: The Swiss are not providing francs in this country except for their own commercial transactions. The consequence is, when we go into the market, there are a number of Government agencies that are going into the market, getting Swiss francs. We have to pay almost a third more, which means the dollar is depreciated in terms of the franc. I think the Swiss are doing it deliberately, because they could very simply supply the dollars, but I think they are putting pressure on us because they are sore that we won't let them have any gold. Now, I talked it over with Knoke, and we will talk to the State Department. What I would like to do is to have the Minister come in and talk to a group of the Treasury people, merely ask whether he will want to do anything. He probably will use that opportunity to say no.

H.M.JR: What has happened about the proposal for the Vatican? That was a question of buying Swiss francs.

MR. FOLEY: That is right. And Gautier cabled the Central Bank, and I think that he got an answer yesterday to the effect - I mean the substance of it was no. Knoke and Pehle are trying to work it out some other way now.

H.M.JR: Incidentally, this just digresses a minute. It is all right, your suggestion, Harry.

Edgar Hoover called me up yesterday and said he was very much embarrassed that he hadn't been allowed to go on our committee, that he had a lot of very valuable information, and would get it together, and would send it over to me personally. He said he wanted to go on the committee, and to use his own language, he said, "The situation in the Argentine stinks." Those were his own words. He said, "I asked the Attorney General to let me go on. For reasons I don't know, he said he wouldn't let me go on."

MR. WHITE: That is very curious.

H.M.JR: The most curious thing happened. Has Harry told you?

MR. FOLEY: No, he hasn't. He came down to tell me, but we got talking about something else.

H.M.JR: The Economic Warfare said, "Who do you want?" I said, "State Department, question of freezing the Argentine." I said, "Justice," and so forth and so on.

(Mr. Paul and Mr. Blough left the conference.)

H.M.JR: Good-by, boys, good luck. Remember where I am on the sales tax as of today.

MR. BLOUGH: That's against it as of today?

MRS. KLOTZ: He gave you the right answer.

MR. WHITE: My maid pays taxes.

MR. BLOUGH: She does now.

MR. WHITE: Apparently.

H.M.JR: Anyway, so the Attorney General talks up and says, "We have no longer any interest in this. The Alien Property Custodian should be on that committee." Somebody says, "Aren't you in?" "No, no, we have no interest in that." Figure that one out.

MR. WHITE: They have no interest in subversive activities, but they got a hundred and fifty undercover men in South America.

MR. FOLEY: He must have been thinking of the Interdepartmental Committee that Shea used to sit on, probably.

MR. WHITE: No, I think he was playing ball with the State Department.

H.M.JR: Hall seemed to like what I did yesterday.

MR. WHITE: I thought so, was a little surprised.

H.M.JR: Yes, he actually patted me on the shoulder last night at the White House.

MR. WHITE: Is that so. After you left they kind of gave the Board of Economic Warfare proposal the works; Jones piled in, too, on the taking over the communications.

This Swiss franc thing - just let me say one more remark. I think the Swiss Minister is going to respond in his usual fashion of blaming the Treasury, and then we will be left only with one recourse, which we will discuss before we take, but I think that is what it will lead to and like to know what you feel about it ahead of time. We may have to suggest that we may find desirable to stop the general license.

MR. FOLEY: I think we ought to recanvass that whole thing, general license in Sweden, Spain, and Portugal.

H.M.JR: From the conversation I had with the President, I think he is in a much more receptive mind, from the inquiries he made and everything else. I mean something has happened. And I think that I would recanvass the whole situation.

MR. WHITE: We will come to you again before we contemplate discussing that step, but that is what this will lead to.

H.M.JR: Are you through?

MR. WHITE: Yes, on the Swiss.

H.M.JR: Would you mind giving me one page.

What is John Wiley and Donovan trying to do on that situation in New York? I mean, I am not up on it. Give me a page will you.

MR. FOLEY: Yes.

MR. WHITE: Whenever you are ready to go into that moving picture proposal, I can suggest a simple remedy for them which they can get the money.

H.M.JR: Would you mind giving me a little note on it I can read? I won't have time today. I will take this stuff up. I will read it.

MR. WHITE: You might be interested in knowing that there is more interest among the economists and among the men in the Departments who will do things, and more favorable interest, with respect to the proposal for general rationing is increasing.

H.M.JR: Good.

MR. WHITE: That is all.

H.M.JR: All right, Harry.

MR. BELL: Nothing.

MR. THOMPSON: I have a model of the citations.

H.M.JR: I like that. I think that is very nice.

MRS. KLOTZ: That saves so many letters, thousands of them.

MR. THOMPSON: You would use the citation--

H.M.JR: Isn't that nice.

MR. THOMPSON: The Secretary of War has approved the project for the building for the soldiers and ordered the construction of it. But Secretary Ickes is objecting to putting it on his park, so we may have to go to the President. I understand General Watson--

H.M.JR: Where are they going to do this thing?

MR. THOMPSON: We propose to put it where the Sherman statue is, but Ickes, I am told, wants it down by Constitution Avenue. That is too far away.

H.M.JR: If they aren't going to do anything, these poor soldiers are going to die of heat with all these steam pipes.

(The Secretary held a telephone conversation with General Watson.)

H.M.JR: Where is this, on the Sherman lot?

MR. THOMPSON: The Sherman statue.

H.M.JR: Where is that?

MR. THOMPSON: Just across the street. That is where he is supposed to put it.

H.M.JR: He said get it immediately to Rudolph Foster. Ten-thirty is the deadline, but get it to Rudolph and he will see that the President gets it. Get it to Rudolph right away.

MR. WHITE: Does that placard represent a departure in your policy (indicating placard captioned "Buy Bullets for Our Men") or are you just considering that?

H.M.JR: That was done by these druggists entirely on their own. What don't you like about it, Harry?

MR. WHITE: Ten cents buys twelve bullets.

H.M.JR: Twenty-five cents.

MR. WHITE: I thought earlier in the campaign you had definitely decided against that sort of thing.

H.M.JR: We find out this Dr. Likert, which we had nothing to do with, but the thing he found out was that the first thing that the families have gone into with the workmen is to know that their money is going for munitions.

MR. WHITE: Outside of the fact that isn't true.

H.M.JR: Why isn't it true?

MR. WHITE: I mean the implication isn't true. The statement is true, but the implication is that if they don't give twenty-five cents, there will be twelve bullets less; if they do give twenty-five cents, twelve bullets more. We know that isn't true.

H.M.JR: Will you take him out?

MR. KUHN: I don't think that is the implication.

MR. FOLEY: The people like to know that they are helping to pay for the bullets and other tangible things which will kill Germans and Japs.

MR. WHITE: That is perfect nonsense. It says your twenty-five cents will pay for twelve bullets, and so forth.

MR. SCHWARZ: It will.

MR. KUHN: Won't it?

MR. GRAVES: Mr. Secretary, may I come back to this? (Indicating certificate.)

H.M.JR: John wants to know - he is not getting in on this.

MR. GRAVES: I think the citation is wrong in this respect: That is the War Bond symbol there, and this has nothing to do with War Bonds.

H.M.JR: Put the Treasury Seal on it.

MR. GRAVES: Or the eagle.

MR. KUHN: We have a good eagle in the Bureau of Engraving.

MR. SULLIVAN: Have you definitely decided the amount, the dollar?

MR. FOLEY: He intended his dollar to buy bullets. (Laughter)

MR. SULLIVAN: Getting seventy-nine cents worth of engraving there.

H.M.JR: I thought that this money would be credited to the War Savings Bonds on their quota.

MR. THOMPSON: That's right.

MR. GRAVES: It is right? I am asking, nobody told me.

H.M.JR: I mean if that is the case, do you still feel the same way about the symbol?

MR. GRAVES: Yes, if that is the case.

H.M.JR: I almost got you.

MR. THOMPSON: We might put the eagle there (indicating) because we put the seal there (indicating).

MRS. KLOTZ: What is the deadline?

MR. SULLIVAN: I think a dollar is too low.

MR. FOLEY: The fellow will say, "I gave you the dollar to buy bullets, not to buy one of those." There will be criticism if you make it so low.

H.M.JR: Well, how much would you make it? (Laughter)

MR. FOLEY: Give you a good price, make it right.

H.M.JR: Four ninety-nine? Five dollars?

MR. FOLEY: I think five dollars is better.

MRS. KLOTZ: Will you be criticized for spending the money on engraving?

H.M.JR: No.

MR. FOLEY: As little as a dollar, I think you might.

H.M.JR: Five dollars?

MR. FOLEY: That is better than a dollar.

MR. BELL: How about the school kids that give ten cents? They ought to have one of those.

MR. FOLEY: Send their ten cents--

H.M.JR: Group it together, and we give it to the classroom.

MR. BELL: But they come in individually.

H.M.JR: Let's start at five dollars, work down. Five dollars all right, boys?

MR. SULLIVAN: Yes.

H.M.JR: All right. Who else? All right, class is adjourned.

MR. FOLEY: I think it will be ready tomorrow morning.

H.M.JR: When you are ready will you let me know and I will be waiting.

MR. FOLEY: Yes, sir. Thank you, sir.

H.M.JR: Harry, you don't want to use - what is it in golf when you give a man a stroke he can use any time?

MR. SULLIVAN: A bisque.

H.M.JR: Harry only allows himself one a week. He has taken it already.

MR. SULLIVAN: And all he got was a half on the hole, too.

MR. WHITE: I had better be absent the rest of the week.

H.M.JR: O.K.

May 8, 1942
10:10 a.m.

HMJr: Hello.

Operator: Mr. Crowley.

HMJr: Hello.

Leo Crowley: Hello.

HMJr: Leo.

C: Yes.

HMJr: Good morning.

C: Good morning, sir.

HMJr: Leo, how about you and I and our lawyers getting together, say, three o'clock next Tuesday, on this question of straightening out overlapping.

C: Well, I'd be glad to do that. Here's the way that I feel about that thing there.....

HMJr: Yeah.

C: .....that unless there's some real reason for speeding the thing up - we've tried every way in the world to cooperate with your fellows, and we'd like to know a little bit more about the overlapping and what we ought to do and what you ought to do before we change the order. Now, if there's any particular thing that your fellows feel that they can't do, of course, we'll do anything that you want.

HMJr: No, I personally want to get it straightened out, and I don't want to wait. There's no reason to wait.

C: Well, I'll be glad to come over there anyhow.

HMJr: There's no reason to wait.

C: I don't care. Whatever the President wants to do with that thing there; but if he wants to take it all away, I don't care what he does with it. But I don't know what - just how we can clarify the thing until we know definitely where our lines ought to be drawn.

HMJr: Well, I don't see what there's to be gained by stalling.

C: Well, I've no objection to coming over at three o'clock.

HMJr: Well, I'd like to make one effort to see if we can't get together.

C: Let me suggest that you do this. Let me suggest that first let, if you will for a few days, let our lawyers and your lawyers sit down together and see where their difference is; and then we'll try and get together, you and me, and straighten out that difference with them.

HMJr: Well, Foley's been ready for a week or ten days.

C: We would - our fellows feel that they shouldn't make any change in the order now because they don't know enough about the thing. I mean, that they don't know where they're going to - where the lines ought to be drawn. Now, if - I'll tell Markham to get ahold of Foley again and see if they can get together.

HMJr: Well, supposing you do that; but I just want to let you know how I feel. I mean, I'd like to make a real effort to see if we can't have a meeting of the minds.

C: All right. Let me talk to Markham, and we'll get in touch with Foley and Bernstein and see if they can get together, and then if they - then we'll get together.

HMJr: But certainly before the end of the week I'd like to see you, because, as I say, I don't know of any reason for stalling on this thing.

C: All right. I'll be glad to do that.

HMJr: Thank you.

MEMORANDUM

May 8, 1942.

TO: Secretary Morgenthau

FROM: Mr. Sullivan JLS

I am attaching hereto for your use over the weekend preliminary reports on the Jack and Heintz, Inc., case. Commissioner Helvering agrees with me that a little more work should be done on this before it is presented to the Joint Tax Committee. There are a few items upon which we think our agent's position can be sustained and we would like to present to the Joint Tax Committee the picture which we would be able to sustain before the Board of Tax Appeals or the courts.

Incidentally, the President of the Company has informally agreed to the reduction of the employees bonus deduction from $510,000 to $229,000.

Fanny

MAY 6 1942

IT:RRR

Memorandum for Mr. Cann:

In re: Jack and Heintz, Inc.,
Bedford, Ohio.

Year ended October 31, 1941.

In accordance with your instructions, the report of the internal revenue agents dated April 30, 1942, in the case of the above-named corporation for the fiscal year ended October 31, 1941, has been reviewed. The taxpayer was advised of the proposed deficiency in income and excess profits taxes aggregating $929,746.23 in a preliminary letter dated May 1, 1942, issued by the internal revenue agent in charge at Cleveland.

The net income reported in the return was increased from $376,537.38 to $1,885,868.18, primarily because of the following proposed adjustments:

(a)	Increase in inventory as of October 31, 1941	$ 300,853.01
(b)	Net addition to reserve for group insurance	32,258.78
(c)	Capital expenditures	34,965.31
(d)	Gain from sale of property other than capital assets	29,667.95
(e)	Welfare expense disallowed	33,355.11
(f)	Accounts receivable increased	142,046.22
(g)	Experimental and research expense disallowed	115,165.13
(h)	Salaries and bonus to officers and employees disallowed	836,999.94

There are attached hereto with respect to the principal items set forth above statements setting forth the pertinent facts and the conclusions reached relative thereto. For your convenience, however, the conclusions reached are summarized below:

Memorandum for Mr. Cann:

In re: Jack and Heintz, Inc.

Increase in Inventory as of October 31, 1941

This adjustment made by the agents consists of three items as follows:

Inventory value of tungsten not included in closing inventory	$ 22,398.09
Charge-off of cost of finished materials purchased and manufactured, especially for the J. H.-10 Starter	67,978.65
Omission of overhead from work in process	210,476.27
Total	$300,853.01

There appears to be little doubt that the Bureau can sustain its position in respect to the first and last adjustments. With respect to the second item, the agents' adjustment is proper on the basis of the evidence at hand, but upon appeal the taxpayer may be able to prove that the material represented by this item was obsolete as of October 31, 1941, and was properly eliminated from the inventory on that date.

Net Addition to Reserve for Group Insurance

The evidence indicates that this represents an increase in a surplus reserve, and, as such, does not constitute an allowable deduction.

Capital Expenditures

This represents the cost of putting an old building in an operating condition and the agents' action in capitalizing these expenditures is proper.

Gain from Sale of Property Other than Capital Assets

This taxpayer acquired the capital stock of K-W Ignition Corporation on January 6, 1941, for $100,000.00 and immediately took over its assets and liabilities and dissolved the transferor. The agents conclude that the liquidation falls under section 112(b)(6) and that the transferee must use the transferor's basis in accordance with section 113(a)(15). The taxpayer contends that it was a purchase of assets and that the basis thereof is the purchase price. For reasons stated in the attached statement, it appears that the taxpayer can prevail in this issue.

Welfare Expenses

It is believed that upon submission of complete data the taxpayer may be able to support the deduction of this item, or at least a portion thereof. Attention is called to the statement of the agents, however, that if the disallowance of this item is protested, consideration should be given to the disallowance in whole or in part of cash expenditures aggregating $25,600.00 allegedly for traveling and entertainment expenses, but which were not properly supported.

Accounts Receivable Increased

The agents set up as Accounts Receivable $142,046.22 an item described as "price adjustment for indirect labor per terms of contract." The reason given by the taxpayer for not making this adjustment was that this balance due from the War Department may be cancelled voluntarily because of the publicity resulting from the investigation before the Naval Affairs Committee. Since there was nothing as of October 31, 1941, to indicate that this account would not be collected, the agents' adjustment appears proper.

Experimental and Research Expenses

The amount of the experimental and research expenditures was expended by a predecessor corporation. Therefore, whether the amount is a capital expenditure or expense item, the agents' action in disallowing the item as a deduction to the taxpayer is proper.

Salaries and Bonuses

The agents state that the amounts allowed for salaries and bonuses are based upon an estimate of the fair value of similar services rendered by employees with similar capabilities who are employed by firms manufacturing and selling products in competitive fields. However, the data comprising this "yard-stick" were not submitted to this office for study. The duties and responsibilities of some of the officers and employees are outlined vaguely in the special agents' report. From a

Memorandum for Mr. Cann:

In re: Jack and Heintz, Inc.

study of the data in the file, it is the opinion of this office that the allowances made by the agents on account of salaries and bonuses are reasonable with the possible exception of Christmas bonuses to 752 employees, accrued between January 1, 1941, and October 31, 1941, and paid December 20, 1941, in the amount of $229,650.00. In spite of the fact that the bonuses were voluntary and depended upon the ability of the corporation to earn enough to pay the amount specified (15 percent of the payroll), it is believed that the corporation could not have refrained from paying such bonuses and still retain the good will and cooperation of its employees in view of the commitment made to such employees in the inter-office correspondence dated June 2, 1941, and the prosperous condition of the corporation. This bonus was paid to all of the company's employees, not just the key employees.

In the attached statement, the question of salaries and bonuses is covered more fully, and on the basis of the evidence at hand, it is the opinion of this office that a disallowance of at least $532,349.91 can be sustained. This amount is the result of the proposed disallowance of officers' salaries and bonuses in excess of $50,000.00 to each, Christmas bonuses accrued in excess of the amount indicated above, and salaries and bonuses to key employees in excess of a reasonable allowance, as shown in the following summary:

	Total Salaries Paid and Accrued	Disallowed by Agents	Estimated Minimum Disallowance
Officers	$ 320,716.63	$236,549.96	$161,549.93
Key employees	215,697.41	89,558.41	89,558.41
All employees, excluding officers and key employees	510,891.57	510,891.57	281,241.57
Total	$1,047,305.61	$836,999.94	$532,349.91

Invested Capital

The agents have allowed as the excess profits credit 8 percent of the $100,000.00 equity invested capital paid in. No allowance was made on account of borrowed capital. No consideration was given to advances made to the taxpayer by the War and Navy Departments aggregating over $2,400,000.00, and the agents admit that in any reconsideration of the case, notes payable of $37,800.00 should be considered.

Memorandum for Mr. Cann:

In re: Jack and Heintz, Inc.

If the so-called advances are in reality loans which meet the requirements of section 719 of the Code, they constitute borrowed invested capital. If, however, such advances represent advance payments on account of goods to be delivered in the future under the contract, they ordinarily would not meet the requirements of section 719 and, accordingly, would not constitute borrowed capital.

Conclusion

It is believed that the taxpayer's protest must be considered and the issues reviewed in the light thereof before any practical basis of settlement can be envisioned. It appears that the agents' adjustments can be sustained before the Board or courts with the possible exception of depreciation and loss on sale of assets acquired from K-W Ignition Corporation, welfare expenses, and salaries and bonuses. The Board and the courts may be more liberal with respect to salaries and bonuses than the agents. The agents state that notes payable in the amount of $37,800.00 should be given consideration as borrowed capital in any reconsideration of the case. Also, the taxpayer may be able to prove and it may be to the advantage of the Government to concede that the finished materials for J.H.-10 Starters were obsolete as of October 31, 1941, in a settlement of the case. In any consideration of this case, it should be kept in mind that any adjustments made during the taxable year with respect to inventories, Christmas bonuses accrued but not paid during the year, and probably the accounts receivable adjustment on account of price adjustment will be reflected in the net income for the year ended October 31, 1942.

On the basis of the evidence in the file, this office approves the revenue agents' report. It is recommended that any concession made to the taxpayer with respect to the items mentioned above should be made only after careful consideration of such additional evidence as the taxpayer may submit and only as a basis of settlement of the case.

Wm Sherwood

Acting Deputy Commissioner.

INCREASE IN INVENTORY AS OF OCTOBER 31, 1941

This adjustment made by the agents consists of three items:

Inventory value of tungsten not included in closing inventory	$ 22,398.09
Charge-off of cost of finished materials purchased and manufactured, especially for the J. H.-10 Starter	67,978.65
Omission of overhead from work in process	210,476.27
The total is	$300,853.01

There appears to be no question but that the amount of $22,398.09 should be included in the closing inventory. This is purely a question of fact as to the physical presence of the material, and there appears to be no dispute on that score.

With regard to the item of $67,978.65, the report states that this amount was ordered scrapped by the taxpayer, after the taking of the inventory, for the reason that an anticipated order from the Navy Department for J.H.-10 Starters, upon which the expenditures in question had been made, had not been received and the model starter was then considered not satisfactory. However, it is shown in the report that although the Navy Department did notify the taxpayer in 1942 that the J.H.-10 Starter would not be used, orders for this starter had actually been received by the taxpayer subsequent to the close of the taxable year.

This, too, is a question of fact as to just when the starter did become obsolete, but the evidence in the agents' report definitely indicates that it was not actually obsolete at the close of the taxable year 1941.

As to the inclusion of the amount of $210,476.27 overhead in the closing inventory, the reason assigned by the taxpayer for not including the overhead in the closing inventory is that (a) such inclusion was not a conservative practice, and (b) if the war should suddenly end, same (evidently meaning overhead) would have no value.

As to whether the inclusion of overhead in an inventory is a conservative practice, the regulations specifically state that cost means

> "(3) In the case of merchandise produced by the taxpayer since the beginning of the taxable year,
>
> (a) The cost of raw materials and supplies entering into or consumed in connection with the product,
> (b) Expenditures for direct labor,
> (c) Indirect expenses incident to and necessary for the production of the particular article, including in such indirect expenses a reasonable portion of management expenses, but not including any cost of selling or return on capital whether by way of interest or profit." (Underscoring supplied.)

There is no question, therefore, but that overhead, as such, is a required factor in the computation of the cost of a manufactured article. In this connection, it is to be noted that the report does not indicate that the taxpayer disputes the amount of the overhead but apparently merely is objecting to the inclusion of the amount in the closing inventory.

The taxpayer's reason that if the war should suddenly terminate, such value would be dissipated is not considered sufficient to exclude the overhead from the inventory value. If the inventory is taken on the "cost or market, whichever is lower" basis and the market value in a succeeding year is lower than cost, the taxpayer would derive a benefit between the difference of the cost and such lower market value in that year.

Furthermore, it is apparent that to allow one taxpayer to exclude from the inventory computation what it considers abnormal overhead, would discriminate against other taxpayers engaged in war contracts which, in all probability, likewise involve abnormal costs due to the essence of time and other factors entering into war production.

Again it is to be noted that the taxpayer would get the benefit of the increased value included in any closing inventory by the inclusion of the same value in the opening inventory of the succeeding year. Consequently, the adjustment is merely a shift from one year to another. Assuming that profits are consistent in all years, this shift would appear to benefit the taxpayer in the later years of higher tax rates.

For the reasons stated above, the entire inventory adjustment of $300,853.01 is considered proper.

GAIN ON SALE OF PROPERTY OTHER THAN CAPITAL ASSETS AND EXCESSIVE DEPRECIATION

On January 6, 1941, Jack and Heintz, Inc., entered into a contract to acquire the outstanding stock of K-W Ignition Corporation for $100,000.00. A check was issued therefor on January 7, 1941. On January 9, 1941, a stock certificate was issued in the name of J. & H., Inc., and on the same day the patents, materials, machinery, equipment, etc., of K-W Ignition Corporation were transferred to J. & H., Inc., and the transferee assumed all of the liabilities of the transferor. K-W Ignition Corporation was dissolved.

The agent concludes that in accordance with section 112(b)(6) of the Code, no gain or loss is recognized upon the receipt of J. & H., Inc., of the property distributed in complete liquidation of K-W Ignition Corporation, and that the basis of the property received is the same in the hands of the transferee as it would be in the hands of the transferor under the provisions of section 113(a)(15) of the Code.

The taxpayer contends that it acquired the stock of K-W Ignition Corporation for the sole purpose of obtaining its machinery upon subsequently planned liquidation and that the basis of such machinery should be $100,000.00, the purchase price of the stock.

The agent does not state why the entire purchase price of $100,000.00 was allocated to machinery by the taxpayer, although other assets such as patents and inventories were acquired upon dissolution of K-W. It may be that the liabilities assumed by J. & H., Inc., were considered to equal the value of the other assets received.

In dealing with income tax matters, particularly reorganization and sales and exchanges, the Board and courts have held repeatedly that taxation is an intensely practical matter and that the substance of the thing done, and not the form it took, must govern. Carter Publications, Incorporated, 28 B. T. A. 160; Prairie Oil and Gas Company, 66 Fed. (2d) 309, Ct. D. 767, C. B. XIII-1, page 183; Gregory v. Helvering 293 U. S. 465, 14 A. F. T. R. 1191; and cases cited in paragraph 10.253A of 1942 Prentice-Hall. The taxpayer's position is upheld by the decision of the United States Circuit Court of Appeals in Helvering v. Security Savings and Commercial Bank, Ct. D. 940, C. B. June 1935, page 300. The court said that where a bank, for the purpose of acquiring and operating a branch bank, purchased all the stock and then took over at book value all the assets of another and in the same year received from it as a final liquidating dividend an amount less than that paid for the stock, the events connected with the purchase were, in effect, one transaction, and the bank was not entitled to deduct as a loss the difference between the cost of the stock and the liquidating dividend.

The stockholders of K-W, other than a Mr. A. F. Williams, are not shown in the agent's report, but there is no evidence that J. & H., Inc., or its stockholders in any way controlled K-W prior to the purchase of its stock on January 6, 1941. In the absence of such control by J. & H., Inc., or its stockholders, it is believed that the Bureau will have difficulty maintaining its position before the Board and courts. In the event this issue is conceded or lost upon adjudication of the case, the proposed deficiency would be decreased approximately $22,000.00.

WELFARE EXPENSES

The amount of $33,355.11, designated as Welfare Expenses by the agents, is composed of twelve items and, with the exception of the amount of $16,000.00 described as "Amount reserved to cover Waltham Watches to be distributed to employees as Christmas gifts," appears to be in the nature of entertainment expenses for the benefit of the company's employees. No particular detail in addition to the general description is shown.

In the case of H. H. Bowman, 16 B. T. A. 1157 (Acquiesced), and the cases cited therein, it was held that in view of the publicity obtained and the maintenance of morale among employees, such expenditures constituted ordinary and necessary expenditures of doing business.

It is believed that if the taxpayer is able to justify these expenditures by reason of the necessity for maintaining morale, the acquisition of desirable publicity, or any other business purpose, difficulty would be encountered in sustaining the disallowance of the entire amount of $33,355.11 other than the amount of $16,000.00.

With regard to the item of $16,000.00 for Christmas bonuses, it has been held in numerous cases that such bonuses paid to employees at Christmas time, when reasonable, are deductible as expenses. On the other hand, the report indicates that the amount of $16,000.00 may not have been actually expended, and, if so, would not be deductible.

Considering the item in its entirety, it is probable that of the amount of $33,355.11 disallowed by the agents, the taxpayer may be able to support the claim for approximately one half of the total item.

ACCOUNTS RECEIVABLE INCREASED

In the agents' report taxable income has been increased by $142,046.22 composed of amounts considered to be proper accruals as of October 31, 1941. The major portion of this item is the amount of $110,586.15, designated as "price adjustment for direct labor per terms of contract." The agents' report further states that "Seventy-five percent of the amount shown as price adjustment for direct labor up to April 30, 1941, and adjustment for cost of material has been collected." It is further stated that the balance shown as due from the War Department may be cancelled voluntarily because of publicity resulting from investigation and proceedings before the Naval Affairs Committee.

However, there is nothing in the report to indicate that these receivables were considered as doubtful of collection on October 31, 1941. Therefore, as there appears to be no question as to the amounts involved, but merely the possibility of future cancellation, there is no apparent reason why they should not have been reflected in the income for the year ended October 31, 1941.

EXPERIMENTAL AND RESEARCH EXPENSE --- $115,000.00

In the agents' report there is restored to taxable income the amount of $115,165.13, representing expenditures in connection with research and development of starters which were considered by the agents to be of a capital nature or operating expense of Jack & Heintz, Ltd., predecessor corporation. Of this amount, $111,291.96 was expended for direct expenses and $3,873.17 for supplies by the predecessor corporation, and expensed on the books of the taxpayer in the instant year.

Normally, unless it can be shown that expenditures for development work do not result in the acquisition, development or improvement of a capital asset, such expenditures are of a capital nature and the cost thereof is recovered through amortization over the life of the patent. The burden of proof that these expenditures are not of a capital nature would be definitely on the taxpayer.

With regard to the instant situation, the comments of the agents, as disclosed on page T-6 of the report, definitely indicate that as the result of such experimental work some sixty applications for patents have been filed indicating that at least a considerable portion of the total experimental charge must have resulted in improvements having a life of more than one year. Since no patent had been granted, amortization has not been allowed.

In the event that the taxpayer was able to prove that the amounts in question represent legitimate expenses when expended, a deduction therefor could not be taken by the taxpayer for the reason that the amounts were expended by a predecessor corporation.

EXCESSIVE SALARIES AND BONUSES ----------- $836,999.94

In the agents' report, this amount is disclosed to be:

	Total Paid and Accrued	Allowed	Disallowed
Officers	$ 320,716.63	$ 84,166.67	$236,549.96
Salaried employees	215,697.41	126,139.00	89,558.41
Shop employees and all salaried employees, excluding officers	510,891.57	-	510,891.57
Total	$1,047,305.61	$210,305.67	$836,999.94

The figure of $320,716.61 shown above for the officers is composed of the following:

William S. Jack	President	$100,000.01
Ralph M. Heintz	Secretary	100,000.01
William R. Jack	Treasurer	100,000.01
C. L. Jack	Vice-president	20,716.60
Total		$320,716.63

In addition to the foregoing salaries which were expensed on the books of the corporation, there was voted to the officers at an alleged meeting of the board of directors held on October 7, 1941, bonuses in the following amounts:

William S. Jack	$ 33,354.23
Ralph M. Heintz	33,354.23
William R. Jack	33,354.23
Total	$100,062.69

Exhibit E of the agents' report disclosed that no part of this bonus was expensed on the books during the fiscal year ended October 31, 1941. As to the salaries paid to these three officers, it is disclosed that the minutes of the alleged October 7, 1941, meeting retroactively increased the salaries of the three principal officers as follows:

	From	To
William S. Jack	$ 50,000.00	$100,000.00
Ralph M. Heintz	50,000.00	100,000.00
William R. Jack	50,000.00	100,000.00
Total	$150,000.00	$300,000.00

As to the officers' salaries, it would appear that two questions are involved:

(1) The reasonableness of such salaries, whether $25,000.00 as allowed by the agents; $50,000.00, the figure originally set by the officers themselves; or the $100,000.00 which was authorized near the end of the fiscal year; and

(2) If the officers' salaries claimed are considered to be reasonable, whether the accrual of any portion in excess of $50,000.00 was authorized.

The second premise is based upon the statement of the agents that the alleged meeting of October 7, 1941, apparently never took place and that all authorizations contained in the alleged minutes are to be disregarded. With respect to the alleged meeting of October 7, 1941, the special agents' report discloses that it was brought out at a meeting of the Committee on Naval Affairs of the House of Representatives in the testimony of D. W. Lake, Comptroller, that the minutes of the directors' meetings contained no authorization for the increase in the officers' salaries from $50,000.00 to $100,000.00 per annum; that notes relative to the authorization of the increases in the salaries of the officers and special bonuses had been given to him, which notes he had placed in his desk but had never gotten around to having written them up; that subsequent to the hearing in Washington, he had the minutes for the meeting of October 7, 1941, at which the salary increases of all officers were authorized, written up and, in error, included in these minutes his notes relative to the authorization of the special bonuses to key employees.

If the corporation can establish that the salaries and bonuses paid to the officers were reasonable and can offer reasonable evidence and proof of the meeting allegedly held on October 7, 1941, even though the minutes of that meeting were not written up until some time thereafter, the accrual would appear to be proper, especially in the light of the Supreme Court decision in the case of the Ox Fibre Brush Company, 281 U. S. 115, Ct. D. 265, C. B. December 1930, page 384, which company was allowed a deduction for the accrual at the time the liability was created for salaries voted in connection with services rendered in a prior year.

With regard to the question of reasonableness, however, the following statement of the agents is significant:

> "The rate of salary increase to key employees, coupled with lump sum special bonuses during the current year, appears to be accelerated in proportion to the earnings of the company."

The information in the agents' report indicates that the taxpayer would have difficulty in proving that the officers were entitled to any greater salary (including bonuses) than $50,000.00 each. Consequently, of the $236,549.96 disallowed by the agents in the case of the officers, it would appear that $150,000.00 can probably be sustained as a disallowance.

Salaried Employees

As to the salaried employees (mostly key employees), the agents' report discloses the following:

Salary, monthly bonus and vacation pay	$110,322.41
Bonus (special)	105,375.00
Total	$215,697.41
Allowed by the agents	126,139.00
Disallowed	$ 89,558.41

Whether the disallowance of the $89,558.41 by the agents in the case of these key employees can be sustained simmers down to a question of reasonableness. In this connection, the basic annual rate of compensation used by the revenue agents in their determination appears to be substantial. The agents state that the amount of salaries and bonuses allowed by them is based upon an estimate of the fair value of similar services rendered by employees with similar capabilities who are employed by firms manufacturing and selling products in competitive fields. However, no data in this respect were submitted for consideration. It would appear that this test as to reasonableness is a good one as there should be plenty of comparative data along these lines in the industrial center in which the particular industry is located, and it is believed that the agents' estimate is quite fair.

Significant in this respect is the agents' statement that the bonuses appear to be in proportion to the company's earnings. It must also be born in mind that in addition to the special bonuses of $105,375.00 voted to these key employees, they likewise appear to be entitled to the monthly bonus of $50.00 per month voted to all employees.

All Employees (Excluding Officers)

During the year 1941 there was accrued upon the books of the corporation the amount of $577,815.72 representing the fulfillment of a plan adopted by the company of paying a monthly bonus of 5 percent and also the setting aside of a proposed Christmas bonus of $50.00 per month for each employee for each month employed from January 1, 1941, to the date of the payment on December 20, 1941. Of the $577,815.72, there was actually paid the amount of $66,924.15, leaving $510,891.57 accrued and unpaid on the books at the end of the year. Of the amount of $510,891.57, the authorized Christmas bonus of $50.00 per month computed for the period of January 1, 1941, to October 31, 1941, amounted to $229,650.00. This amount appears to have been actually paid, together with the amount accrued to the date of payment, on December 20, 1941. The balance of $281,241.57 appears to be merely an excess accrual on the books and for which there appears to be no liability.

In general, Christmas bonuses are allowable if, when added to the regular rate of compensation, they do not exceed reasonable compensation for services rendered. Inasmuch as the agents do not indicate that they consider these so-called Christmas bonuses unreasonable, it would seem that the principal question involved as to the allowance of the $229,650.00 would be whether there was a legal liability upon the corporation to pay this amount. That there was no such legal liability is definitely indicated in the company's own language, as disclosed in its memorandum to the employees under date of June 2, 1941, in which the proposed plan was discussed and in which the employees were given the right to vote on certain particulars. The proposed plan states specifically that the plan was voluntary on the part of the management and not compulsory, and would depend upon the ability of the corporation to earn enough to pay the amount specified, or more if possible. This bonus of $50.00 per month likewise was authorized at the alleged meeting of October 7, 1941, and, as stated above, if it can be proved that this meeting did take place then there is a distinct possibility that the accrual of the monthly bonus up until October 31, 1941, would be in order. In any event, this amount appears to have been actually paid on December 20, 1941, and if not allowed in the fiscal year ended October 31, 1941, would be allowable in the succeeding year. Consequently, as to the amount of $229,650.00, there is some doubt that the revenue agents can be sustained. There appears to be no basis for the allowance of any portion of the difference between the total accrual of $510,891.57 and $229,650.00, or $281,241.57. No portion of the 5 percent bonus appears to be included in the unpaid amount as the revenue agents have allowed the amount of $66,924.15 for monthly bonuses actually paid during the fiscal year.

Salaries in General

Considering the salary question in its entirety, it is considered quite likely that the action of the revenue agents can be sustained to the following extent:

	Total Salaries Paid and Accrued	Disallowed by Agents	Estimated Minimum Disallowance
Officers	$ 320,716.63	$236,549.96	$161,549.93
Key employees	215,697.41	89,558.41	89,558.41
All employees, excluding officers	510,891.57	510,891.57	281,241.57
Total	$1,047,305.61	$836,999.94	$532,349.91

MEMORANDUM

May 8, 1942.

TO: The Secretary

FROM: Commissioner Helvering and Mr. Sullivan JLS

RE: Conference on "Benefit Performances"

This conference with you was requested by Commissioner Helvering and Mr. Sullivan because of the great increase in requests for rulings on the taxability as income of receipts to be donated to charity. The particular case involved was a benefit baseball game being played by the Brooklyn Dodgers and the New York Giants this afternoon at Ebbets Field in Brooklyn. You indicated that if the performance were sponsored by a charitable organization you felt the proceeds should not be taxable as income to the performers and we assured you that this matter could be handled that way.

You also indicated that you thought a representative of the benefited charity should be present to accept the proceeds and that a representative of the Treasury Department should also be present to watch the donation of the proceeds and to certify to us the details of the transaction.

Upon their return to Mr. Sullivan's office, there was awaiting Mr. Sullivan a telephone call from Larry MacPhail, President of the Brooklyn Dodgers. Mr. MacPhail read to Mr. Sullivan the original offer made by the Brooklyn Dodgers to the Navy Relief Society, the response from the Navy Relief Society, asking the Brooklyn Dodgers to conduct this baseball game today as agents for the Navy Relief Society and to hold for the account of the Navy Relief Society all proceeds of the game minus expenses of police, ticket-sellers and ushers. Mr. MacPhail also read the letter he wrote to the Navy Relief Society confirming this acceptance and agreeing to the terms and conditions. Mr. MacPhail then told Mr. Sullivan that an official of the Navy Relief Society would be in his office that afternoon to accept the proceeds.

I asked him if he would have it announced over the loud speakers at the beginning of the game that this game was being conducted by the Dodgers as agents of the Navy Relief Society and under the sponsorship of the Navy Relief Society. He agreed to do this. I further suggested that Mr. Dan Bolich, Revenue Agent in Charge at Brooklyn be present at the time the proceeds were turned over to the Navy Relief Society so that he could certify the transaction to us. Mr. MacPhail accepted this recommendation.

MAY 8 1942

My dear Mr. Smith:

I wish to thank you for your letter of May 5, 1942, transmitting several suggestions to bring about economy in the use of gasoline and rubber, prepared by Mr. Delano. In your letter you suggest that it might be desirable to increase steeply the rate of tax on gasoline.

The proposal which was made in March for increasing the gasoline tax by 1½ cents a gallon to 3 cents a gallon was prepared in conference with representatives of the War Production Board, the Office of Price Administration, and the Bureau of the Budget, as well as other organizations. The information developed at these conferences forecast the present rubber and gasoline shortages, and the gasoline tax was considered as a method of inducing conservation. In view of the inequitable effects of a high tax rate on essential users of gasoline, it was agreed that the necessary conservation could better be accomplished through a gasoline rationing program. It appeared doubtful whether very high gasoline taxes could effectively supplement rationing in view of the magnitude of the conservation problems.

However, in view of your interest and that of Mr. Delano, I am asking our staff to take another look at the question to see if they are still of the same opinion as the conferences developed.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Hon. Harold D. Smith
Director, Bureau of the Budget
Washington, D. C.

Photo file H.M.C.
File to Thompson

RB-MF/nr
5/8/42

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D. C.

OFFICE OF
THE DIRECTOR

May 5, 1942

My dear Mr. Secretary:

I think Delano may have something in the attached suggestions concerning economy in the use of gasoline and rubber. The first suggestion might be dealt with in the tax bill. The others are largely state and local matters.

I have thought for some time that it might be wise to rather steeply increase the gasoline tax. At any rate, you might like to throw this suggestion into the Treasury tax hopper to see what comes out.

Sincerely yours,

Harold D. Smith

The Honorable
The Secretary of the Treasury

Attachment.

April 29, 1942
Frederic A. Delano.

HOW TO BRING ABOUT ECONOMY IN THE USE OF GASOLINE AND
RUBBER BY AUTOMOBILE OWNERS
AND OTHER USERS OF THESE ARTICLES

1. Put a surcharge of 10 cents a gallon on gasoline, not because I like a sales tax per se but because such a surtax will automatically bring about economy in the use of gasoline and rubber.

2. Charge a minimum of 25 cents per day for all day parking on city streets or parking lots. This will encourage people to share the use of their cars with their neighbors and give the same inducement to taxi and jitney drivers.

3. Encourage owners of cars to employ friends or relatives to act as chauffeurs morning and evening to bring them and their neighbors down to work in the morning and home from work in the evening.

4. Encourage multi-service use of taxicab and jitney service by simplifying rules and specifying certain cab stands uptown and downtown, with a fare say 25 or even 30 cents per capita within the present area of zones 1 and 2.

Suggested line of approach

Frederic Delano

MEMORANDUM

May 8, 1942.

TO: The Secretary

FROM: Mr. Sullivan TLS

A few days ago you requested a memorandum relating to the several written protests you have received about the sale of liquor on or near military establishments.

I am attaching hereto a memorandum from Commissioner Helvering, setting forth certain statutes. Our conclusion is that as Secretary of the Treasury you have no jurisdiction over the sale of beer, wine or alcoholic beverages on military posts other than the authority you exercise on the sale of these beverages in all other places.

TREASURY DEPARTMENT

WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

May 7, 1942.

Memorandum for the Secretary:

Reference is made to our recent telephone conversation about complaints concerning the sale of intoxicating liquors at or in the vicinity of military camps and the authority of the Bureau of Internal Revenue to curb the traffic.

The Bureau has, as intimated during our conversation, no jurisdiction under existing law to regulate or control the sale of intoxicating liquors at or near military camps or posts. The functions of the Bureau are solely those of a tax-collecting agency in respect of the sale of liquor at retail or to consumers. This is clearly indicated by the provisions of the Internal Revenue Code, hereinafter referred to, which impose special (occupational) taxes upon retail dealers in liquor and provide for their enforcement.

Subsection (b) of section 3250, Internal Revenue Code, imposes an annual special tax of $27.50 upon retail dealers in liquors; and subsection (e) of such section imposes an annual special tax of $22 upon retail dealers in malt liquors. Persons engaging in such businesses are required to file returns (sec. 3272 (a)), post conspicuously in their places of business the stamps denoting payment of the special taxes (sec. 3273 (b)), and keep records of all liquors received (sec. 3252 (a)).

Section 3253 provides for the imposition of a fine of not less than $100 nor more than $5,000, and imprisonment for not less than thirty days nor more than two years, in the case of any person who carries on the business of a retail liquor dealer or retail dealer in malt liquors and wilfully fails to pay the special tax as required by law. Sections 3252 and 3274 provide for the imposition of small fines where the dealer wilfully fails to keep the required records or to open them for official inspection, or fails to post the special tax stamps, respectively.

The official interest and authority of the Bureau of Internal Revenue in respect of the sale of liquor at retail extend only to seeing to it that the dealer pays the requisite special tax, posts the special tax stamps, keeps the required records, and receives and sells only taxpaid liquors, and that delinquencies in respect of those obligations are penalized where the facts of the case warrant. The Bureau is without power to control or prohibit the carrying on of the business in any particular area. The special tax stamps are in no sense licenses, but are mere receipts for taxes (License Tax Cases, (1866) 5 Wall. 462); and the permit provisions of the Federal Alcohol Administration Act are not applicable to retailers.

The only law of general application, of which I am aware, that provides for control of the sale of liquor on premises used for military purposes is that embodied in section 38 of the Act of February 2, 1901 (U.S.C., title 10, sec. 1350). This section provides as follows:

> "The sale of or dealing in beer, wine, or any intoxicating liquors by any person in any post exchange or canteen or Army transport or upon any premises used for military purposes by the United States, is prohibited. The Secretary of War is hereby directed to carry the provisions of this section into full force and effect."

In addition, sections 289 and 272 of the United States Criminal Code, as amended (U.S.C., title 18, secs. 468, 451), have the effect of making penal the commission or omission upon any military reservation of any act which would be penal if committed or omitted within the jurisdiction of the state or territory in which the reservation is located. The Bureau of Internal Revenue, however, is not charged with the enforcement of those provisions of the Criminal Code.

During the previous World War, the President, as Commander in Chief of the Army, was authorized by section 12 of the Act of May 18, 1917 (U.S.C., 1934 ed., title 10, sec. 1353), entitled "An Act to authorize the President to increase temporarily the Military Establishment of the United States," to make such regulations governing the prohibition of alcoholic liquors in or near military camps and to the officers and enlisted men of the army as from time to time were deemed necessary or advisable. The provisions of this section were made applicable to the navy by the Act of October 6, 1917 (40 Stat. 393). The section was, however, expresaly repealed by section 203 of the Act of August 27, 1935 (49 Stat. 878).

Commissioner.

May 8, 1942

Telegram received from John A. Hartford, President
Great Atlantic and Pacific Tea Co.
New York

"Consumer comment on price ceilings practically nil except in reply to questions store managers have asked in attempt to get better cross section. Answers indicate lack of consumer understanding of basic purpose and objectives of ceiling.

"Pittsburgh sales Wednesday eight and one-half percent under two weeks ago. Sales first three days this week one percent over same period two weeks ago. No other comment. New York Wednesday sales up slightly. Only comment continues on coffee and sugar. Manager inquiries show hope prices will be lower. Philadelphia Wednesday sales slightly below last Wednesday and two weeks ago. No other comment. Very few intelligent questions asked. Chicago sales first three days above both last week and two weeks ago. Average customer reply shows little understanding of ceilings. Increasing evidence day-to-day buying. Considerable shifting to perishables as customers use up present stocks canned goods. Detroit sales Wednesday show general gain over last week. Cincinnati sales off slightly. Comment generally favorable but belief expressed that ceiling should be placed on farm prices to be workable."

COPY

May 8, 1942

Telegram received from L. A. Warren, President,
Safeway Stores, Inc.,
Oakland, California

Pursuant to your request for daily report sales for Tuesday and Wednesday this week indicate no appreciable change attributable to general maximum price regulation order.

May 8, 1942

Telegram received from R. E. Wood, Sears Roebuck
and Company, Chicago, Illinois

"Sales increases over preceding year compared with increases during the week preceding April 29 are as follows: mail order May fifth six percent better, retail May first ten percent poorer. Saturday May second, limited number of larger stores show twelve percent decrease from corresponding Saturday 1941 against three percent increase previous Saturday, a fifth over corresponding Saturday 1940. One contributing cause is May moving days, 1941, heavy sales of stoves, refrigerators and other appliances not available 1942."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 8, 1942

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Analysis of BLS preliminary data on consumer expenditures and savings.

In response to your request, I am submitting the following brief analysis of the BLS tables giving a preliminary tabulation of the consumer expenditures survey for 1941 and the first quarter of 1942.

It should be kept in mind that the figures in these tables are based on a tabulation of about one-third of the sample to be covered by the survey, which will cover, when completed, about 1000 families and 300 single individuals. Rural families are to be covered in a separate survey.

Analysis

(1) Table 1 shows that total incomes (including non-money income) have increased sharply in the lower income groups in the first quarter of 1942, while the higher incomes show some reduction.

Thus, for the money income group "under $500", whose incomes (including non-money income) averaged $415 in 1941, an average income of $145 was reported in the first quarter of 1942. Multiplied by 4, this would indicate roughly an annual rate of $580, or 40 percent over the 1941 level. The next higher group ($500 to $1,000) shows a 29 percent increase. (Annual rate comparisons are shown in a Summary Table.)

The moderate reductions indicated for the higher income groups may be due to the effect of wartime restrictions on small businesses, or first quarter earnings may not be entirely representative of the year as a whole.

(2) Table 2 shows for 1941, and Table 3 for the first quarter of 1942, a comparison of money incomes with (a) total money expenditures (excluding bond purchases), (b) direct tax payments, (c) net savings, and (d) purchases of Government bonds. These two tables give a breakdown by income intervals of $250 up to $1,500.

One point shown by these tables is that total expenditures (on an annual basis) for consumption, gifts, and taxes have declined from the 1941 levels in 5 of the 9 groups.

A second important point is that savings have increased, and that all groups in the first quarter of 1942 show net savings, whereas the four lower groups reported deficits in 1941.

A third point is the relatively large purchases of Government bonds by the lower income groups in the first quarter of 1942. Those making the survey attribute this largely to three factors: greater social pressure to purchase bonds in the lower income groups, the fact that many workers receive bonds as bonuses, and the fact that those in the upper groups used their money for income tax payments in this quarter.

Since bond purchases by the 5 lowest income groups in the first quarter of 1942 substantially exceeded the net savings in that period, the difference must have come from a reduction in other assets or an increase in liabilities.

(3) Tables 4 and 6 show one important point: that money expenditures for current consumption by the lower income groups have increased sharply in the first quarter of 1942 (if put on an annual basis), while such expenditures by the upper groups have declined.

(4) Tables 5 and 7 indicate what items of expenditures for current consumption have been increased or reduced. The main point to be noted is that expenditures in the first quarter of 1942 (if raised to an annual basis) show sharp increases in the food and clothing items by the lower income groups, while expenditure for automobile purchase and maintenance by these groups has been materially curtailed.

(5) Tables 8 and 9 show certain details of net savings (or deficit) for 1941 and the first quarter of 1942, giving both purchase and sale of Government bonds, changes in savings and checking accounts, and changes in both assets and liabilities.

(6) Table 10 shows the average number of persons per family in each group.

Inflationary implications

This survey, on the whole, indicates inflationary spending tendencies by the lower income groups. The sharp increase in incomes of these groups is being reflected particularly in increased purchases of food and clothing, which contributes to the inflation spiral by raising prices of these important components of the cost of living.

Summary table : Comparison of 1941 data with 1942 annual rate 1/
established in first quarter
(In dollars)

Income group	Average money income		Expenditures for current consumption		Gifts and contributions		Direct tax payments		Net savings		Purchases of Government bonds	
	1941	1942	1941	1942	1941	1942	1941	1942	1941	1942	1941	1942
Under 500	323	448	381	412	41	20	0	7	-99	16	6	156
500 - 750	625	732	784	900	31	16	1	1	-80	32	5	140
750 - 1,000	875	980					2	4	-49	48	8	132
1,000 - 1,250	1,125	1,228	1,211	1,348	37	24	3	4	-19	64	12	120
1,250 - 1,500	1,375	1,480					4	8	11	80	15	112
1,500 - 2,000	1,731	1,876	1,623	1,724	63	36	4	16	63	100	26	92
2,000 - 3,000	2,527	2,668	2,283	2,284	131	108	15	88	115	188	41	76
3,000 - 5,000	3,828	3,688	3,247	2,860	158	132	21	168	428	528	73	88
5,000 - 10,000	5,578	5,008	4,507	3,516	167	148	27	272	920	1,072	119	124

1/ Figures for first quarter multiplied by 4.

Source: Treasury Department compiled from BLS data.

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UNITED STATES BUREAU OF LABOR STATISTICS

Preliminary Figures

Average Money Plus Nonmoney Income
Estimates for City Families and Single Persons

Money Income Class in 1941	1941	First Quarter Of 1942	Annual Rate
Under $500	$ 415	$ 145	$580
$500 and under $1,000	793	256	1024
$1,000 and under $1,500	1,273	375	1500
$1,500 and under $2,000	1,802	494	1976
$2,000 and under $3,000	2,595	654	2616
$3,000 and under $5,000	3,889	919	3676
$5,000 and under $10,000	5,626	1,275	5100

Cost of Living Division
May 6, 1942

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Money Expenditures, Tax Payments, Net Saving or Deficit, and Government Bond Purchases
Estimates for City Families and Single Persons

1 9 4 1

Money income class in 1941	Average total money income	Average total money expenditures 1/	Average Direct Tax Payments	Average Net Saving or Deficit	Average total amount spent for purchase of Government Bonds
		Average amount in dollars			
nder $500	$ 323	426	0	-99	6
500 and under $750	625	723	1	-80	5
750 and under $1,000	875	946	2	-49	8
1,000 and under $1,250	1125	1170	3	-19	12
1,250 and under $1,500	1375	1393	4	+11	15
1,500 and under $2,000	1731	1689	4	+63	26
2,000 and under $3,000	2527	2429	15	+115	41
3,000 and under $5,000	3828	3426	21	+428	73
5,000 and under $10,000	5578	4702	27	+920	119
		Percent of total money income			
Under $500		131.89	0	-30.65	1.86
$500 and under $750		115.68	.16	-12.80	.80
$750 and under $1,000		108.11	.23	- 5.60	.91
$1,000 and under $1,250		104.00	.27	- 1.69	1.07
$1,250 and under $1,500		101.31	.29	.80	1.09
$1,500 and under $2,000		97.57	.23	3.64	1.50
$2,000 and under $3,000		96.12	.59	4.55	1.62
$3,000 and under $5,000		89.50	.55	11.18	1.91
$5,000 and under $10,000		84.30	.48	16.49	2.13

1/ Including expenditures for current consumption, gifts and contributions, and direct taxes
but does not include expenditures for bonds.

Cost of Living Division
May 6, 1942

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Money Expenditures, Tax Payments, Net Saving or Deficit, and Government Bond Purchases

Estimates for City Families and Single Persons

First Quarter of 1942

Money Income Class in 1941	Average Total Money Income	Average Total Money Expenditures 1/	Average Direct Tax Payments	Average Net Saving or Deficit	Average Total Amount Spent for Purchase of Government Bonds
	Average amount in dollars				
Under $500	112	108	2/	4	39
$500 and under $750	183	174	2/	8	35
$750 and under $1,000	245	233	1	12	33
$1,000 and under $1,250	307	291	1	16	30
$1,250 and under $1,500	370	350	2	20	28
$1,500 and under $2,000	469	445	4	25	23
$2,000 and under $3,000	667	619	22	47	19
$3,000 and under $5,000	922	791	42	132	22
$5,000 and under $10,000	1252	985	68	268	31
	Percent of total money income				
Under $500	100.0	96.4	3/	3.6	34.8
$500 and under $750	100.0	95.1	3/	4.4	19.1
$750 and under $1,000	100.0	95.1	0.4	4.9	13.5
$1,000 and under $1,250	100.0	94.8	0.3	5.2	9.8
$1,250 and under $1,500	100.0	94.6	0.5	5.4	7.6
$1,500 and under $2,000	100.0	94.9	0.9	5.3	4.9
$2,000 and under $3,000	100.0	92.8	3.3	7.0	2.8
$3,000 and under $5,000	100.0	85.8	4.6	14.3	2.4
$5,000 and under $10,000	100.0	78.7	5.4	21.4	2.5

1/ Including expenditures for current consumption, gifts and contributions and direct taxes.

2/ Less than $0.50

3/ Less than 0.1 percent

Cost of Living Division

May [illegible], 1942

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Average Income and Outlay

Estimates for City Families and Single Persons

1 9 4 1

Money Income Class in 1941	Total Money Income	Money Expenditures for Current Consumption	Money Expenditures for Gifts and Contributions	Direct Tax Payments	Net Saving or Deficit
		Average amount in dollars			
Under $500	$323	$381	$ 41	0	-99
$500 and under $1,000	749	784	31	1	-67
$1,000 and under $1,500	1243	1211	37	3	-8 1/
$1,500 and under $2,000	1753	1623	63	4	+63
$2,000 and under $3,000	2544	2283	131	15	115
$3,000 and under $5,000	3854	3247	158	21	428
$5,000 and under $10,000	5621	4507	167	37	920
		Percent of total money income			
Under $500	100.0	118.0	12.7	0	-30.7
$500 and under $1,000	100.0	104.7	4.1	0.1	-8.9
$1,000 and under $1,500	100.0	97.4	3.0	0.2	-0.6
$1,500 and under $2,000	100.0	92.6	3.6	0.2	3.6
$2,000 and under $3,000	100.0	89.7	5.2	0.6	4.5
$3,000 and under $5,000	100.0	84.3	4.1	0.5	11.1
$5,000 and under $10,000	100.0	80.1	3.0	0.5	16.4

1/ Note the savings of families with incomes of $1,250-$1,500 shown in the following table.

Cost of Living Division
May 6, 1942

U. S. DEPARTMENT OF LABOR

Preliminary Figures

Money Expenditures for Current Consumption

Estimates for City Families and Single Persons

1941

Money income class in 1941	Total	Food	Housing, fuel, light, and refrigeration	Other household operation	Furnishings and equipment	Clothing	Automobile	Other transportation	Personal care	Medical care	Recreation	Tobacco	Reading	Formal education	Other items
	Average amount in dollars														
Under $500	381	154	116	18	14	17	28	3	6	14	4	3	3	0	1
$500 and under $1,000	784	302	190	26	24	79	45	20	17	28	16	22	8	2	5
$1,000 and under $1,500	1,211	440	266	41	49	136	76	33	28	50	31	36	13	4	9
$1,500 and under $2,000	1,623	559	341	61	90	178	109	43	37	81	47	45	18	2	12
$2,000 and under $3,000	2,285	700	453	97	172	265	162	54	49	123	84	54	24	19	27
$3,000 and under $5,000	3,247	960	526	168	225	387	429	59	70	142	110	75	30	21	45
$5,000 and under $10,000	4,507	1,316	581	270	269	547	862	61	98	147	135	106	36	10	70
	Percentage of total money expenditures (for current consumption)														
Under $500	100.0	40.4	30.4	4.7	3.7	4.5	7.3	.8	1.6	3.7	1.0	.8	.8	.0	.3
$500 and under $1,000	100.0	38.5	24.2	3.3	3.1	10.1	5.7	2.6	2.2	3.6	2.0	2.8	1.0	.3	.6
$1,000 and under $1,500	100.0	36.3	22.0	3.4	4.0	11.2	6.3	2.7	2.3	4.1	2.6	3.0	1.1	.3	.7
$1,500 and under $2,000	100.0	34.4	21.0	3.8	5.5	11.0	6.7	2.6	2.3	5.0	2.9	2.8	1.1	.1	.8
$2,000 and under $3,000	100.0	30.7	19.8	4.2	7.5	11.6	7.1	2.4	2.2	5.4	3.7	2.4	1.0	.8	1.2
$3,000 and under $5,000	100.0	29.6	16.2	5.2	6.9	11.9	13.2	1.8	2.2	4.4	3.4	2.3	.9	.6	1.4
$5,000 and under $10,000	100.0	29.2	12.9	6.0	6.0	12.1	19.1	1.4	2.2	3.3	3.0	2.3	.8	.2	1.6

Cost of Living Division
May 6, 1942

Confidential
64
6

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Average Income and Outlay
Estimates for City Families and Single Persons
First Quarter of 1942

Money Income Class in 1941	Total Money Income	Money Expenditures for Current Consumption	Money Expenditures for Gifts and Contributions	Direct Tax Payments	Net Saving
	Average amount in dollars				
nder $500	$ 112	$ 103	$ 5	$ 1/	$ 4
500 and under $1000	241	225	4	1/	12
1,000 and under $1,500	365	337	6	2	20
1,500 and under $2,000	469	431	9	4	25
2,000 and under $3,000	667	571	27	22	47
3,000 and under $5,000	922	715	33	42	132
5,000 and under $10,000	1,252	879	37	68	268
	Percent of total money income				
nder $500	100.0	91.9	4.5	2/	3.6
500 and under $1,000	100.0	93.3	1.7	2/	5.0
1,000 and under $1,500	100.0	92.3	1.7	.5	5.5
1,500 and under $2,000	100.0	91.9	1.9	.9	5.3
2,000 and under $3,000	100.0	85.6	4.0	3.3	7.1
3,000 and under $5,000	100.0	77.5	3.6	4.6	14.3
5,000 and under $10,000	100.0	70.2	3.0	5.4	21.4

Less than $0.50.
Less than 0.1 percent.

st of Living Division
y 6, 1942

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7

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Money Expenditures for Current Consumption

Estimates for City Families and Single Persons

First Quarter of 1942

Money income class in 1941	Total	Food	Housing, fuel, light, and refrigeration	Other household operation	Furnishings and equipment	Clothing	Automobile	Other transportation
	Average amount in dollars							
Under $500	103	44	30	5	3	5	2	2
$500 and under $1,000	225	84	52	7	5	28	10	7
$1,000 and under $1,500	337	119	72	11	9	44	18	11
$1,500 and under $2,000	431	147	89	16	15	52	26	13
$2,000 and under $3,000	571	185	112	23	25	73	39	13
$3,000 and under $5,000	715	227	130	35	40	86	56	16
$5,000 and under $10,000	879	275	148	53	59	98	79	21
	Percentage of total money expenditures for current consumption							
Under $500	100.0	42.7	29.1	4.9	2.9	4.9	1.9	1.9
$500 and under $1,000	100.0	37.4	23.1	3.1	2.2	12.5	4.4	3.1
$1,000 and under $1,500	100.0	35.3	21.3	3.3	2.7	13.0	5.3	3.3
$1,500 and under $2,000	100.0	34.1	20.6	3.7	3.5	12.1	6.0	3.0
$2,000 and under $3,000	100.0	32.4	19.6	4.0	4.4	12.8	6.8	2.3
$3,000 and under $5,000	100.0	31.8	18.2	4.9	5.6	12.0	7.8	2.2
$5,000 and under $10,000	100.0	31.3	16.9	6.0	6.7	11.1	9.0	2.4

Money income class in 1941	Personal care	Medical care	Recreation	Tobacco	Reading	Formal education	Other items
	Average amount in dollars						
Under $500	3	5	1	2	1	1/	1/
$500 and under $1,000	5	9	5	7	2	2	2
$1,000 and under $1,500	7	16	10	10	4	3	3
$1,500 and under $2,000	9	28	13	13	5	3	2
$2,000 and under $3,000	12	40	24	12	6	4	3
$3,000 and under $5,000	16	37	34	16	7	6	9
$5,000 and under $10,000	21	22	45	22	7	8	21
	Percentage of total money expenditures for current consumption						
Under $500	2.9	4.9	1.0	1.9	1.0	2/	2/
$500 and under $1,000	2.2	4.0	2.2	3.1	.9	.9	.7
$1,000 and under $1,500	2.1	4.7	3.0	3.0	1.2	.9	.9
$1,500 and under $2,000	2.1	6.5	3.0	3.0	1.2	.7	.5
$2,000 and under $3,000	2.1	7.0	4.2	2.1	1.1	.7	.5
$3,000 and under $5,000	2.2	5.2	4.8	2.2	1.0	.8	1.3
$5,000 and under $10,000	2.4	2.5	5.1	2.5	.8	.9	2.4

1/ Less than $0.50

2/ Less than 0.1 percent

Cost of Living Division
May 6, 1942

Confidential

8

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Average Change in Specified Types of Assets Compared with Net Change in Assets and in Liabilities

Estimates for City Families and Single Persons

1 9 4 1

Money income class in 1941	U.S. Government Bonds and Defense Stamps		Tax savings notes Purchased	Net change in money in savings accounts	Net change in money in checking accounts	Net Change in Assets	Net 1/ Change in Liabilities	Net Saving or Deficit
	Amount spent for purchase	Amount received from sale						
Under $500	$ 6	$ 0	$ 0	$ -119	$ -3	$ -84	$ +15	$ -99
$500 and under $1,000	6	0	0	-33	-5	-31	+36	-67
$1,000 and under $1,500	13	0	0	+11	-3	+38	+46	-8
$1,500 and under $2,000	26	0	0	-13	+10	+118	+55	+63
$2,000 and under $3,000	41	0	0	-10	-54	+116	+22	+115
$3,000 and under $5,000	73	0	5	+11	+143	+453	+25	+428
$5,000 and under $10,000	119	0	0	+52	+508	+1010	+90	+920

1/ Plus (+) means an increase in liabilities, minus (-) means a decrease in liabilities.

Cost of Living Division
May 6, 1942

Confidential
9

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Average Change in Specified Types of Assets Compared with Net Change in Assets and in Liabilities

Estimates for City Families and Single Persons
First Quarter of 1942

Money income class in 1941	U.S. Government Bonds and Defense Stamps: Amount spent for purchase	U.S. Government Bonds and Defense Stamps: Amount received from sale	Tax Savings Notes: Amount spent for purchase	Tax Savings Notes: Amount used for tax payments	Net change in money in savings accounts	Net change in money in checking accounts	Net change in Assets	Net Change in Liabilities 1/	Net Saving or Deficit
der $500	$ 39	$ --	$ --	$ --	$ - 2	$ 2/	$ 1	$ - 3	$ 4
00 and under $1,000	33	--	--	--	- 21	- 1	14	+ 2	12
,000 and under $1,500	28	--	--	--	- 26	+ 2	25	+ 5	20
,500 and under $2,000	23	--	--	--	- 19	+ 12	32	+ 7	25
,000 and under $3,000	19	--	--	--	+ 13	- 6	50	+ 3	4[illegible]
,000 and under $5,000	22	--	--	--	- 8	+ 28	109	- 23	132
,000 and under $10,000	31	--	--	--	- 64	+ 91	202	- 66	268

Plus (+) means an increase in liabilities; minus (-) means a decrease in liabilities
Less than $0.50

st of Living Division
y 6, 1942

Confidential

68

10

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Estimated Average Number of Persons Per Family

City Families 1/

1 9 4 1

Money income class in 1941	Average total family size	Average No. of persons per family: 18 years and over	Average No. of persons per family: under 18 years
Under $500	1.3	1.2	.1
$500 and under $1,000	2.6	1.8	.8
$1,000 and under $1,500	2.5	1.8	.7
$1,500 and under $2,000	3.1	2.3	.8
$2,000 and under $3,000	3.1	2.3	.8
$3,000 and under $5,000	3.5	2.8	.7
$5,000 and under $10,000	3.8	2.8	1.0
$10,000 and over	3.8	3.1	.7

1/ Including one-person families

Cost of Living Division
May 6, 1942

May 5, 1942

My dear Madam Secretary:

I have before me a set of 10 tables that were prepared in response to my request by the Bureau of Labor Statistics, giving an early tabulation of data from the quarterly survey of consumer expenditures now being conducted by that Bureau. I find these tables of the greatest interest and usefulness in showing the changing patterns of consumer spending and saving under wartime conditions, and their variations between the different income groups. I hope that nothing will interfere with the continuation of these quarterly surveys, since I know of no other source from which such information may currently be obtained.

May I extend my thanks for the fine cooperation of your people in making this special tabulation for me, which, I understand, required a substantial amount of overtime work by the Prices and Cost of Living Branch of the Bureau of Labor Statistics. I appreciate especially the courtesy and helpfulness of Mr. A. F. Hinrichs, Acting Commissioner of the Bureau of Labor Statistics, and the assistance of Miss Aryness Joy, Miss Faith Williams, and Miss Alice Hanson of the Prices and Cost of Living Branch.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Frances Perkins,

The Secretary of Labor,

Washington, D. C.

N.M.C

By Messenger Sturges

Copies to Thompson

GCH:jm 5/6/42

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

May 8, 1942

TO THE SECRETARY:

I talked to Governor Ransom today in response to his telephone call to you on May 7. He said that he merely wanted to thank you for the cooperation he had received from the Treasury in connection with the revision of Regulation W (Consumer Credit regulations). He said he also wanted to tell you that he thought it would be very helpful if some time in one of your press conferences you would refer to the regulations of the Board on Consumer Credit and give them a little boost. If you care to do this, you might have George Haas prepare a little memo after talking further with Mr. Ransom.

DWB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 8, 1942

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Recent Changes in Prices and Yields of Government Securities

The most important developments of the past week in the Government securities market have been concerned with the two new issues of Treasury bonds. The new 2 percent issue opened on Tuesday morning with a premium of only 3/32 bid, but rose during the day to close with a premium of 6/32. On Wednesday and yesterday, the issue fluctuated slightly, closing last night with a premium of 5/32 bid, or 6/32 mean of bid and ask.

All taxable issues in the 2 percent area have been weak, especially since the terms of the new issue were announced in Monday morning's papers. The declines began last Friday immediately after announcement of the coupons which the new issues would bear. On Monday and Tuesday, further declines occurred, although there have been some recoveries since then. The 2-1/2's of 1956-58 increased in price by 6/32 during the week, while the 2-1/2's of 1967-72 declined by 1/32, notwithstanding the fact that the Federal Open Market Account purchased $9 millions of this issue.

Total purchases of Treasury securities by the Federal Open Market Account during the week ran to $95 millions and there were no sales. Purchases consisted of $32 millions of Treasury bills, $29 millions of certificates of indebtedness, and $34 millions of taxable bonds as follows:

2's of 1949-51 (old issue)	$21 millions
2-1/4's of 1952-55	4 millions
2-1/2's of 1967-72	9 millions

Subscriptions to the new 2 percent issue aggregated $3.3 billions. Preferential allotments in full amounted to $69 millions. The subscription figures indicate that the allotment basis will be approximately 40 percent or somewhat less. Subscriptions to the 2-1/2 percent issue aggregated $691 millions as of last night.

Secretary Morgenthau - 2

The bill rate advanced again this week, moving up to 0.36 percent, as compared to 0.34 percent the preceding week. Certificates of indebtedness also lost ground, notwithstanding the fact that the Federal Open Market Account purchased the new certificates for the first time. Quotations last night were bid 0.51 percent and ask 0.49 percent.

Compared to March 19, the market remains basically weak. The yields of all taxable bonds and notes are higher than on March 19, with the greatest increase shown in the case of short-term securities. Wholly tax-exempt notes also have lost ground, while long-term partially tax-exempt bonds represent the only sector of the market which is in an improved position as compared with the March 19 benchmark.

Price and Yield Changes of United States Securities
April 30, 1942 to May 7, 1942

Security	Prices: April 30, 1942	Prices: May 7, 1942	Prices: Change	Yields: April 30, 1942	Yields: May 7, 1942	Yields: Change
	(Decimals are thirty-seconds)				(Percent)	
Bills						
Average rate last issue	-	-		.34	.36	+.02
Certificates						
1/2% 11/1/42	-	-		.48	.50	+.02
Taxable Notes						
3/4% 3/15/43	100.06	100.06	.00	.53	.53	.00
3/4 9/15/44	99.22	99.21	-.01	.88	.90	+.02
3/4 12/15/45	99.09	99.08	-.01	.95	.96	+.01
1 3/15/46	99.21	99.19	-.02	1.09	1.11	+.02
Taxable Bonds						
2% 3/15/48-50	101.12	101.02	-.10	1.75	1.81	+.06
2 6/15/49-51	100.23	100.10	-.13	1.89	1.95	+.06
2 9/15/49-51	-	100.06 w.i.	-	-	1.97 w.i.	-
2 12/15/51-55	100.10	100.01	-.09	1.96	2.00	+.04
2-1/2 3/15/52-54	103.17	103.17	.00	2.10	2.10	.00
2-1/4 6/15/52-55	100.31	100.28	-.03	2.14	2.15	+.01
2-1/2 3/15/56-58	102.18	102.24	+.06	2.28	2.27	-.01
2-1/2 6/15/62-67	-	-		-	-	
2-1/2 9/15/67-72	100.21	100.20	-.01	2.47	2.47	.00
Wholly Tax-exempt Notes						
2% 9/15/42	100.26	100.22	-.04	2/32*	.05	-3/32*
1-3/4 12/15/42	101.01	100.30	-.03	.10	.20	+.10
1-1/8 6/15/43	100.29	100.28	-.01	.32	.33	+.01
1 9/15/43	100.28	100.27	-.01	.36	.37	+.01
1-1/8 12/15/43	101.06	101.06	.00	.39	.38	-.01
1 3/15/44	101.04	101.04	.00	.40	.39	-.01
3/4 6/15/44	100.23	100.23	.00	.41	.41	.00
1 9/15/44	101.10	101.11	+.01	.44	.43	-.01
3/4 3/15/45	100.29	100.29	.00	.43	.43	.00
Partially Tax-exempt Bonds						
3-3/8% 6/15/43-47	103.07	103.02	-.05	.50	.59	+.09
3-1/4 10/15/43-45	103.23	103.16	-.07	.68	.80	+.12
3-1/4 4/15/44-46	104.23	104.16	-.07	.81	.90	+.09
4 12/15/44-54	108.02	107.24	-.10	.88	.98	+.10
2-3/4 9/15/45-47	105.29	105.24	-.05	.97	1.00	+.03
2-1/2 12/15/45	105.17	105.12	-.05	.94	.98	+.04
3-3/4 3/15/46-56	109.29	109.24	-.05	1.13	1.16	+.03
3 6/15/46-48	107.19	107.13	-.06	1.11	1.15	+.04
3-1/8 6/15/46-49	108.00	107.25	-.07	1.13	1.18	+.05
4-1/4 10/15/47-52	115.12	115.10	-.02	1.32	1.32	.00
2 12/15/47	104.21	104.20	-.01	1.14	1.15	+.01
2-3/4 3/15/48-51	107.22	107.20	-.02	1.38	1.39	+.01
2-1/2 9/15/48	107.02	107.01	-.01	1.34	1.34	.00
2 12/15/48-50	104.18	104.16	-.02	1.28	1.29	+.01
3-1/8 12/15/49-52	110.24	110.25	+.01	1.62	1.61	-.01
2-1/2 12/15/49-53	106.13	106.14	+.01	1.60	1.60	.00
2-1/2 9/15/50-52	106.18	106.18	.00	1.66	1.66	.00
2-3/4 6/15/51-54	108.16	108.16	.00	1.74	1.74	.00
3 9/15/51-55	110.17	110.19	+.02	1.78	1.77	-.01
2-1/4 12/15/51-53	104.26	104.31	+.05	1.71	1.69	-.02
2 6/15/53-55	103.13	103.16	+.03	1.66	1.65	-.01
2-1/4 6/15/54-56	104.27	105.00	+.05	1.80	1.79	-.01
2-7/8 3/15/55-60	109.28	110.03	+.07	2.00	1.98	-.02
2-3/4 9/15/56-59	109.02	109.09	+.07	2.02	2.00	-.02
2-3/4 6/15/58-63	109.09	109.15	+.06	2.07	2.06	-.01
2-3/4 12/15/60-65	109.25	110.03	+.10	2.11	2.09	-.02

Treasury Department, Division of Research and Statistics. May 7, 1942.

* Excess of price over zero yield.

Price and Yield Changes of United States Securities
March 19, 1942 to May 7, 1942

Security	Prices: March 19, 1942	Prices: May 7, 1942	Prices: Change	Yields: March 19, 1942	Yields: May 7, 1942	Yields: Change
	(Decimals are thirty-seconds)				(Percent)	
Bills						
Average rate last issue	-	-		.20	.36	+.16
Certificates						
1/2% 11/1/42	-	-		-	.50	-
Taxable Notes						
3/4% 3/15/43	100.12	100.06	-.06	.37	.53	+.16
3/4 9/15/44	99.31	99.21	-.10	.76	.90	+.14
3/4 12/15/45	99.21	99.08	-.13	.84	.96	+.12
1 3/15/46	99.29	99.19	-.10	1.02	1.11	+.09
Taxable Bonds						
2% 3/15/48-50	101.28	101.02	-.26	1.67	1.81	+.14
2 6/15/49-51	101.04	100.10	-.26	1.83	1.95	+.12
2 9/15/49-51	-	100.06 w.i.	-	-	1.97 w.i.	-
2 12/15/51-55	100.12	100.01	-.11	1.96	2.00	+.04
2-1/2 3/15/52-54	103.23	103.17	-.06	2.09	2.10	+.01
2-1/4 6/15/52-55	101.06	100.28	-.10	2.12	2.15	+.03
2-1/2 3/15/56-58	103.05	102.24	-.13	2.24	2.27	+.03
2-1/2 6/15/62-67	-	-		-	-	
2-1/2 9/15/67-72	100.27	100.20	-.07	2.46	2.47	+.01
Wholly Tax-exempt Notes						
2% 9/15/42	101.04	100.22	-.14	5/32*	.05	-6/32*
1-3/4 12/15/42	101.11	100.30	-.13	2/32*	.20	-6/32*
1-1/8 6/15/43	101.04	100.28	-.08	.22	.33	+.11
1 9/15/43	101.03	100.27	-.08	.26	.37	+.11
1-1/8 12/15/43	101.16	101.06	-.10	.26	.38	+.12
1 3/15/44	101.10	101.04	-.06	.34	.39	+.05
3/4 6/15/44	100.27	100.23	-.04	.37	.41	+.04
1 9/15/44	101.16	101.11	-.05	.39	.43	+.04
3/4 3/15/45	101.00	100.29	-.03	.41	.43	+.02
Partially Tax-exempt Bonds						
3-3/8% 6/15/43-47	103.21	103.02	-.19	.41	.59	+.18
3-1/4 10/15/43-45	104.06	103.16	-.22	.57	.80	+.23
3-1/4 4/15/44-46	105.06	104.16	-.22	.72	.90	+.18
4 12/15/44-54	108.11	107.24	-.19	.91	.98	+.07
2-3/4 9/15/45-47	106.06	105.24	-.14	.94	1.00	+.06
2-1/2 12/15/45	105.28	105.12	-.16	.90	.98	+.08
3-3/4 3/15/46-56	110.08	109.24	-.16	1.11	1.16	+.05
3 6/15/46-48	107.28	107.13	-.15	1.09	1.15	+.06
3-1/8 6/15/46-49	108.08	107.25	-.15	1.13	1.18	+.05
4-1/4 10/15/47-52	115.20	115.10	-.10	1.33	1.32	-.01
2 12/15/47	104.23	104.20	-.03	1.15	1.15	.00
2-3/4 3/15/48-51	107.28	107.20	-.08	1.38	1.39	+.01
2-1/2 9/15/48	107.07	107.01	-.06	1.33	1.34	+.01
2 12/15/48-50	104.21	104.16	-.05	1.28	1.29	+.01
3-1/8 12/15/49-52	110.22	110.25	+.03	1.65	1.61	-.04
2-1/2 12/15/49-53	106.16	106.14	-.02	1.60	1.60	.00
2-1/2 9/15/50-52	106.20	106.18	-.02	1.66	1.66	.00
2-3/4 6/15/51-54	108.18	108.16	-.02	1.74	1.74	.00
3 9/15/51-55	110.20	110.19	-.01	1.78	1.77	-.01
2-1/4 12/15/51-53	104.29	104.31	+.02	1.70	1.69	-.01
2 6/15/53-55	103.10	103.16	+.06	1.68	1.65	-.03
2-1/4 6/15/54-56	104.28	105.00	+.04	1.80	1.79	-.01
2-7/8 3/15/55-60	110.00	110.03	+.03	2.00	1.98	-.02
2-3/4 9/15/56-59	109.10	109.09	-.01	2.01	2.00	-.01
2-3/4 6/15/58-63	109.12	109.15	+.03	2.07	2.06	-.01
2-3/4 12/15/60-65	110.00	110.03	+.03	2.10	2.09	-.01

Treasury Department, Division of Research and Statistics. May 7, 1942.

* Excess of price over zero yield.

Return to Office

May 8, 1942

TO: HAROLD N. GRAVES

SUBJECT: PROGRESS REPORT FROM WAR SAVINGS STAFF

QUOTA CAMPAIGN

Evidence of increased public interest in the War Savings Program since announcement of the County Quota System is reflected in the upward sales trend, particularly in Series E Bonds, in the last few days.

Delaware War Savings officials reported that Bond sales there were at their highest. The Delaware Administrator believes the sales increase resulted from quota campaign publicity.

PLEDGE CAMPAIGN

Plans for the New York State War Bond Pledge Campaign in mid-June are progressing rapidly. Headquarters have been set up at 581 Fifth Avenue, New York, and representatives of the Radio and Press Sections, Special Events, and Production Departments have been loaned to the New York organization to form the nucleus of the State Pledge Campaign organization.

In Massachusetts, preliminary reports on the Pledge Campaign results show that out of 4,800 homes in Milton, a Boston suburb, more than 3,000 pledges were obtained. An increase in Bond sales by both post offices and banks was also noted throughout the entire State.

5/8/42

NATIONAL ORGANIZATIONS

By Presidential Proclamation, May 17 has been set forth as "I Am An American Day". On this date, more than 150 educational, civic and patriotic organizations throughout the nation are sponsoring programs to inspire the newly naturalized citizens and the country's more than 5,000,000 aliens. A list of the committees and chairmen in charge of these events has been forwarded to State Administrators. The majority of these committees are undertaking a drive on "I Am An American Day", to sell $5,000,000 worth of War Savings Bonds.

PAYROLL SAVINGS

The Payroll War Savings Plan now has been adopted by 71,735 concerns throughout the country. A total of 21,301 firms, or 64 per cent of the 33,327 companies with over 100 employees are included in this 71,735 total. Sixty-six per cent of the 30,400,000 employees of private concerns - a total of 19,976,460 wage earners, are now exposed to the Payroll Savings Plan. In addition, 1,452,303, or 33 per cent of the 4,400,000 Federal, State and Local Government employees, now have the plan available to them.

NEWSPAPER CARRIER SALES

Sales of War Savings Stamps by newspaper carrier boys held steady during the month of April, with sales in the last two weeks exceeding those of the first two weeks of the month. A chart showing sales for the weeks of April 4, 11, 18 and 25 is attached.

NEWSPAPER CARRIER SALES (Continued)

Total sales to date by the newspaper carriers of 879 newspapers amount to 266,108,876 ten-cent Stamps or their equivalent in Bonds or Stamps of larger denominations. This total figure represents an increase of 15,090,977 reported sold since April 30.

WOMEN'S ACTIVITIES

Reports on Bond selling progress of Women's War Savings Committees are now being received by the Women's Division. Outstanding among these is the Chicago and Cook County Women's Committee which sold approximately $14,355,000 worth of Bonds and Stamps during March and April. In Chicago, there are approximately 1,500 women volunteer booth workers operating in banks, hotels, clubs, railroad depots and office buildings.

Within the last four months in the New York City area, women have sold more than $22,000,000 worth of Bonds and Stamps. Many sales have been made by mobile units of girls costumed in red, white and blue pinafores, with huge pockets for carrying money and stamps, who cover restaurants, parades, ball parks, beaches, etc.

The Women's Section has sponsored War Savings programs at four large women's organizations conventions during the last week. These were the Daughters of the American Revolution

WOMEN'S ACTIVITIES (Continued)

meeting in Chicago, where a session was devoted to War Savings and purchases of $106,000 worth of Bonds pledged; the General Federation of Women's Clubs convention in Fort Worth, Texas; the Junior League Convention in Kansas City, Missouri; and the annual meeting of the Association of Press Women.

COMMUNITY SING

Lucy Monroe's nationwide tour takes her to Memphis, Tennessee, on Wednesday, May 13, where she will conduct her song festival in that city's open-air theatre.

RALLIES

Fay Wray and Bob "Tex" Allen, screen stars, appeared at a Bond and Stamps rally at Akron, Ohio, on April 27. They also visited the "Victory Center" at O'Neil's Department Store, and aided in making sales which totaled $5,200. Miss Wray also appeared at Trenton, New Jersey, on April 16 to inaugurate the Payroll War Savings Plan of employees of General Motors' Eastern Aircraft Division.

Luise Rainer, twice winner of the Motion Picture Academy Award, set a new Bond sale record for a one-day personal appearance in Toledo, Ohio, on May 2. Sales totaled $4,500,000. Martha Raye, stage and screen comedienne, and Wythe Williams, commentator and lecturer, also contributed their talents to swelling the Toledo sales total.

RALLIES (Continued)

Dorothy Lamour, picture star, chalked up sales of $4,240,485 when she visited Gary, Indiana, on May 2, as guest star of that city's "United Action Day". She visited Gary's huge Steel Workshop, City Hall, the city's tin mill and Memorial Auditorium. Workers of the Carnegie Illinois Steel Corporation pledged Bond purchases totaling $2,850,000.

VICTORY HOUSES

Programs at the Los Angeles Victory House from April 7 through April 22 featured appearances by the following stars and musical organizations:

Martha Gales, English actress; LeRoy White Swing Band; Barbara Britton, Paramount actress; Mexican Tipica Orchestra; Los Angeles Concert Orchestra; Virginia O'Brien, M-G-M star; Sonja Henie, 20th Century-Fox star; the Dean Randall singers of Inglewood, California; Boys Band; Hollywood Songs of Legion Band; Nancy Gates, RKO player; Dolores Moran, Warner Brothers actress; Rufe Davis, stage, screen and radio star; Lorraine Gettman and Margaret Chapman, Columbia players; Don "Red" Barry, Republic actor; animals from United Artists "Jungle Book" picture, with Sabu, its star; Anna May Wong, Screen Actors Guild; Donnive Lee, Paramount player; Sheila Ryan, 20th Century-Fox star; Marjorie Lor, Universal actress; Bill Bozerge and his accordian, and Nancy Coleman and Faye Emerson, Warner Brothers actresses.

NEWSREELS

A special Payroll War Savings picture in connection with the International Harvester campaign is now being made in the Chicago plant of that company.

The War Savings Staff newsreel crews are now operating in Alabama, Florida, South Carolina and Virginia.

BUSINESS PUBLICATIONS

Returns to date indicate that 593 business publications, with a combined circulation of 4,564,404, are using our current advertising release, Number 3.

In addition, 273 business publications advise that they will publish our advertising release, Number 4, which was mailed out on April 24. Additional returns on this release are still being received.

COMPANY PUBLICATIONS

A new kit of material for use in 2,112 company publications was released this week. Copy attached.

Also attached is a copy of the Bucyrus-Erie Company's publication, "Scoop". This issue is devoted almost in its entirety to promotion of War Bonds and Stamps, and is a typical example of the cooperation being extended by company publications.

RADIO

"Women and the Quota", a special interview between Mrs. Morgenthau and Alma Kitchell, was broadcast Friday, May 1, over the Blue Network from Washington.

RADIO (Continued)

Four religious leaders, representing all faiths, endorsed the Quota Plan in a broadcast over the NBC Network on Sunday, May 3, from 5:00 to 5:30 P.M.

Beginning Sunday, May 3, and scheduled for eight succeeding Sundays, Tommy Dorsey and Orchestra Program will make quota appeals to the younger generation from 8:00 to 8:30 P.M. over the Blue Network. Kay Kyser and his Orchestra, who conducted an MBS broadcast rally for Bonds and Stamps from Chicago on April 20, will also promote Bond Sales and the Quota Campaign in his nightly broadcasts from Meadowbrook.

Minute Men speakers are now appearing on all 868 radio stations in English and eleven foreign languages, boosting the Quota Campaign.

The Payroll Savings Plan has been installed by 465 radio stations, of which 368 report 100 per cent employee participation. Station WIBC of Indianapolis is the first station to report every employee investing at least 10 per cent of pay in Bonds. A similar report was received shortly afterward from the management of Station WELI, New Haven, Connecticut.

A special one-half hour transcribed program on May 1, entitled "Roll Call of the Nation", was broadcast over 304 radio stations throughout the country. Every station in Washington, D. C. and six New York City stations carried the program.

RADIO (Continued)

A total of 5,146 transcribed Quota announcements - "Voice of the People" - were broadcast over 262 stations.

The thrice weekly transcribed series, "The Treasury Star Parade", is now being broadcast by 779 of the nation's 868 radio stations.

PRESS

Although pay deductions in the War Department's Pay Reservation Plan do not begin until May 30, already more than 60,000 authorization cards have been received, and cards are being received at the rate of 7,000 daily, the War Department, Office of Chief of Finance, reports. The War Department's Pay Reservation Plan is being set up for all officers, soldiers and nurses, and for more than 600,000 civilian personnel.

In reporting the successful launching of the War Department Bond program, the Office of the Chief of Finance forwarded newspaper publicity items from the various corps areas. These items and pictures appeared in daily and Army Camp newspapers. Clippings are attached.

In inaugurating the Pay Reservation Plan, newsreel pictures were taken of the Secretary of War and the Secretary of the Treasury, and newsreel shots of soldiers at Fort Myer, Virginia, signing up for Bonds. These pictures were taken by

PRESS (Continued)

Pathe, Paramount, Universal and Fox, and are scheduled to be shown in all first run theatres beginning Wednesday, May 6.

A total of 83 War Bond slogans, quarter page advertisements, etc., appear in current issues of adventure, love and detective magazines. These will be carried on a continuing basis as the result of contact established by the Press Section with the editors and publishers.

LABOR PRESS

Complete cooperation of the editors of the Labor Press in continuing their promotion of War Bonds through their publications and through the daily press by publicizing the activities of unions is being sought by the Labor Press Section. Chief of the War Savings Labor Press is scheduled to address the editors of the Labor Press at the convention called by the Labor Section of the War Production Board. A copy of a memorandum to editors attending the convention, and of a questionnaire prepared for them by the War Savings Staff, is attached.

RELIGIOUS PRESS

Four War Bond cartoons were distributed in mat form this week to the religious press. Two of the most influential of these publications reported they will use this material. They are The Christian Herald, New York, with a total circulation of

RELIGIOUS PRESS (Continued)

253,000, and B'nai B'rith, national Jewish monthly.

Many Catholic, Jewish and Protestant newsprint weeklies reprinted the Secretary's "Quota Letter".

VFC/sb

Analysis of Exposure to Payroll Savings Plans

May 2, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Large railroads	158	167	95
(2) Other firms with 500 employees or more	4,927	6,275	79
(3) Other firms with 100 to 499 employees	16,216	26,885	60
(4) Subtotal - large firms	21,301	33,327	64
(5) Firms with less than 100 employees	50,434	*	*
(6) Total business organizations	71,735	*	*
II. Governmental organizations	*	*	*
III. Grand total	71,735	*	*
Part B - Summary by Number of Employees Exposed			
I. Business organizations			
(1) Large railroads	1,273,260	*	*
(2) Other firms with 500 employees or more	14,062,894	*	*
(3) Other firms with 100 to 499 employees	3,479,776	*	*
(4) Subtotal - large firms	18,815,930	*	*
(5) Firms with less than 100 employees	1,160,530	*	*
(6) Total business organizations	19,976,460	30,400,000 1/	66
II. Governmental organizations			
(1) Federal Government	397,981	1,700,000 1/	23
(2) State and local governments	1,054,322	2,700,000	39
(3) Total governmental organizations	1,452,303	4,400,000	33
III. Grand total	21,428,763	34,800,000 1/	62

May 8, 1942

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

1/ Excludes agricultural employees, military personnel, employees on WPA or NYA or CCC projects, proprietors, firm members, self-employed, casual workers and persons in domestic service.

* Data not available.

Firms Employing 100 to 499 Persons Participating in Payroll Savings Plans

(As reported by the Defense Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Apr. 25	May 2		Apr. 18	Apr. 25	May 2
Alabama	149	158	167	285	52	55	59
Arizona	43	47	47	58	74	81	81
Arkansas	44	45	45	142	31	32	32
Northern California	512	531	536	536	96	99	100
Southern California	756	774	783	1,171	65	66	67
Colorado	113	113	115	170	66	66	68
Connecticut	277	279	279	622	45	45	45
Delaware	21	24	32	84	25	29	38
District of Columbia	52	52	53	152	34	34	35
Florida	147	154	155	155	95	99	100
Georgia	133	140	167	589	23	24	28
Idaho	31	31	31	50	62	62	62
Illinois	1,300	1,335	1,352	2,252	58	59	60
Indiana	415	429	456	586	71	73	78
Iowa	165	175	175*	271	61	65	65
Kansas	276	276	276	276	100	100	100
Kentucky	136	146	151	312	44	47	48
Louisiana	179	187	203	384	47	49	53
Maine	60	63	68	198	30	32	34
Maryland	177	188	204	405	44	46	50
Massachusetts	639	644	652	1,523	42	42	43
Michigan	689	718	740	1,022	67	70	72
Minnesota	376	376	379	399	94	94	95
Mississippi	59	59	60	143	41	41	42
Missouri	472	472	516	664	71	71	78
Montana	40	40	40	40	100	100	100
Nebraska	103	104	105	123	84	85	85
Nevada	14	14	14	24	58	58	58
New Hampshire	89	91	93	145	61	63	64
New Jersey	463	494	523	867	53	57	60
New Mexico	33	33	33	35	94	94	94
New York	2,060	2,133	2,218	4,239	49	50	52
North Carolina	282	285	290	499	57	57	58
North Dakota	14	14	14	29	48	48	48
Ohio	1,126	1,140	1,164	1,739	65	66	67
Oklahoma	166	167	167	345	48	48	48
Oregon	211	219	239	271	78	81	88
Pennsylvania	1,682	1,715	1,743	2,032	83	84	86
Rhode Island	154	161	165	224	69	72	74
South Carolina	71	78	81	174	41	45	47
South Dakota	21	21	21	21	100	100	100
Tennessee	199	199	199*	448	44	44	44
Texas	326	326	361	1,375	24	24	26
Utah	36	38	38*	111	32	34	34
Vermont	59	60	60	63	94	95	95
Virginia	281	297	310	338	83	88	92
Washington	234	245	246	323	72	76	76
West Virginia	134	136	137	272	49	50	50
Wisconsin	278	282	294	680	41	41	43
Wyoming	17	17	17	17	100	100	100
Alaska	2	2	2*	2	100	100	100
Railroads	49	49	49	52	94	94	94
Total	15,365	15,776	16,265	26,957	57	59	60

Office of the Secretary of the Treasury, Division of Research and Statistics. May 8, 1942.

* Data are for April 25, inasmuch as no May 2 report was received.

Firms Employing 500 Persons or More Participating in Payroll Savings Plans

(As reported by the Defense Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Apr. 25	May 2		Apr. 18	Apr. 25	May 2
Alabama	41	41	41	69	59	59	59
Arizona	9	9	9	12	75	75	75
Arkansas	16	16	16	22	73	73	73
Northern California	122	122	124	170	72	72	73
Southern California	121	123	123	159	76	77	77
Colorado	25	26	26	26	96	100	100
Connecticut	114	114	115	151	75	75	76
Delaware	15	16	17	22	68	73	77
District of Columbia	32	32	32	52	62	62	62
Florida	28	29	30	63	44	46	48
Georgia	86	87	102	102	84	85	100
Idaho	11	11	11	11	100	100	100
Illinois	391	396	400	529	74	75	76
Indiana	88	93	101	152	58	61	66
Iowa	22	25	25*	36	61	69	69
Kansas	23	23	23	23	100	100	100
Kentucky	38	39	39	70	54	56	56
Louisiana	29	29	31	74	39	39	42
Maine	48	48	51	54	89	89	94
Maryland	84	85	86	102	82	83	84
Massachusetts	237	240	242	343	69	70	71
Michigan	265	271	271	303	87	89	89
Minnesota	79	79	79	84	94	94	94
Mississippi	26	27	28	36	72	75	78
Missouri	103	103	108	128	80	80	84
Montana	3	3	3	3	100	100	100
Nebraska	23	23	24	30	77	77	80
Nevada	4	4	4	5	80	80	80
New Hampshire	29	30	30	31	94	97	97
New Jersey	142	150	151	185	77	81	82
New Mexico	5	5	5	5	100	100	100
New York	759	767	782	1,059	72	72	74
North Carolina	103	103	112	154	67	67	73
North Dakota	0	0	0	0	0	0	0
Ohio	412	415	418	490	84	85	85
Oklahoma	31	31	33	46	67	67	72
Oregon	48	51	52	52	92	98	100
Pennsylvania	551	558	560	608	91	92	92
Rhode Island	61	67	68	75	81	89	91
South Carolina	84	86	89	97	87	89	92
South Dakota	5	5	5	5	100	100	100
Tennessee	50	50	50*	87	57	57	57
Texas	63	63	72	141	45	45	51
Utah	8	8	8*	14	57	57	57
Vermont	12	12	12	12	100	100	100
Virginia	93	93	96	97	96	96	99
Washington	49	50	50	70	70	71	71
West Virginia	36	39	39	60	60	65	65
Wisconsin	127	128	130	152	84	84	86
Wyoming	1	1	1	1	100	100	100
Alaska	3	3	3*	3	100	100	100
Railroads	109	109	109	115	95	95	95
Total	4,864	4,938	5,036	6,390	76	77	79

May 8, 1942.

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

* Data are for April 25, inasmuch as no May 2 report was received.

CONFIDENTIAL

Sales of United States Savings Bonds
From May 1 through May 7, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

Date	Series E: Actual Sales: Daily	Series E: Actual Sales: May 1 to Date	Series E: Quota, May 1 to Date	Series E: Sales to Date as % of Quota	Series F and G: Actual Sales: Daily	Series F and G: Actual Sales: May 1 to Date	Series F and G: Quota, May 1 to Date	Series F and G: Sales to Date as % of Quota	Total: Actual Sales: Daily	Total: Actual Sales: May 1 to Date	Total: Quota, May 1 to Date	Total: Sales to Date as % of Quota
1	$ 12.7	$ 12.7	$ 14.0	90.7%	$ 7.3	$ 7.3	$ 9.0	81.1%	$ 20.0	$ 20.0	$ 23.0	87.0%
2	11.6	24.3	25.7	94.6	7.9	15.2	16.0	95.0	19.4	39.4	41.7	94.5
4	22.3	46.5	47.8	97.3	10.3	25.5	29.5	86.4	32.6	72.0	77.3	93.1
5	8.9	55.5	57.8	96.0	7.6	33.1	37.1	89.2	16.6	88.6	94.9	93.4
6	18.4	73.8	70.5	104.7	15.6	48.8	49.8	98.0	34.0	122.6	120.3	101.9
7	23.2	97.0	84.0	115.5	12.1	60.8	60.3	100.8	35.3	157.9	144.3	109.4
8			98.0				69.3				167.3	
9			109.7				76.3				186.0	
11			131.8				89.8				221.6	
12			141.8				97.4				239.2	
13			154.5				110.1				264.6	
14			168.0				120.6				288.6	
15			182.0				129.6				311.6	
16			193.7				136.6				330.3	
18			215.8				150.1				365.9	
19			225.8				157.7				383.5	
20			238.5				170.3				408.8	
21			252.0				180.8				432.8	
22			266.0				189.8				455.8	
23			277.7				196.8				474.5	
25			299.8				210.3				510.1	
26			309.8				217.9				527.7	
27			322.5				230.5				553.0	
28			336.0				241.0				577.0	
29			350.0				250.0				600.0	

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

May 8, 1942.

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

MEMORANDUM FOR THE SECRETARY.

May 8, 1942.

Mail Report

Bond mail of one sort and another, but largely inspired by letters of inquiry, hold the top place in number of pieces of mail received during the past week.

To date the four-question mailing on bonds, distributed through the Federal Reserve Banks, has brought in a total of 2,310 cards of reply.

There were a number of pleasant comments on the Secretary's newsreel appearance -- 6 in particular being highly favorable; others implied a favorable reaction by the nature of the comment. One woman wrote that though unemployed until May, 1941, she had raised her weekly War Stamp purchase as a result of hearing the talk to $10 a week out of her salary of $40.

There are fewer comments on the house to house campaign, but the unfavorable ones outnumber the favorable by 4 to 1.

Organized labor submitted 6 communications -- 4 opposing wage ceilings; 1 favoring price control; 1 recommending certain tax legislation. There continue to be many letters antagonistic to labor, varying from general suggestions that Unions be taxed, to factual reports of high Union dues, Union orders to "go slow", etc.

The Women's Clubs of West Virginia are still urging legislation to halt inflation.

One of the most interesting of the gift campaigns is that of the school children of Puerto Rico. We have not had formal notification of it, but judging by the letters received, the youngsters are cooperating for a "First Dollar Received for Defense" fund. Evidently each child

Memorandum for the Secretary. May 8, 1942.

has to earn the dollar and each letter reports how this was done -- through sale of candy, helping mother with housework; taking care of family garden, etc.

Mail forwarded from the White House continues very heavy. The month of April brought in 1,058 letters. Over the past 5 years, the average for the month of April has been 540. Of those received this past month, we acknowledged 742 here, and rerouted 307. Of the latter, 15 protested the appointment of Mr. Hannegan as Internal Revenue Collector at St. Louis. Of the letters acknowledged, approximately 25% urged control of the liquor traffic for the duration of the war. These varied from personal letters to resolutions from organizations.

Gabrielle E. Forbush

General Comments on the Present Emergency

Elizabeth Hamlin, Baltimore, Md. I have never made enough salary to pay income. In fact, the year ended with my being a little in the red, so I am saving my dimes to give to my Country, (the best on earth). Enclosed find an order for $5, and I hope I can send more soon. No one that works in this land of ours should be allowed to send less than this to his Government, no matter how little he is supposed to pay. Nothing less than this should be accepted by the Government. All sixteen or over should pay.

Leon Gordon, Metro-Goldwyn-Mayer Pictures, Culver City, Calif. Please accept the enclosed check for $1,000 as a gift to Uncle Sam. It is my intention to put aside a regular sum monthly and each time this reaches the amount of $1,000 to add it to my contribution as a slight token of my appreciation of the Government's effort in our behalf.

Joe Dean, Secretary, Local 450, UFWA, Cleveland, Ohio. * * * Here in Cleveland we have a large, modern plant, manufacturing office partitions, which can produce thin steel bulkheads and interior fittings for ships, as well as plane and tank parts. This plant, the E. F. Hauserman Company, with which we have a union contract, up to the present time has secured small war contracts only for its regular product--partitions for Army camps and war plants. But all the company's efforts to do really important war work--such as supplementary shipbuilding--have been turned down, and as a result the plant is working at less than half of capacity. * * * Why is there so much delay in spreading the work, which we all know must be done in the shortest possible time? If the great shipbuilding industry, as well as the aircraft and automobile industries, cannot do it all,--and it is obvious that they cannot--portions of the work should be subcontracted immediately to all the small plants that are able to help. Or must we assume that the monopoly controls of big industry are to be preserved, even if we lose the war? The workers in this union, in common with all organized labor, have pledged themselves to the task of winning the war. We feel it is our duty to point out to the WPB, and all other agencies of the Government, every means of increasing production at every point. As loyal Americans, we feel that so long as plants such as Hauserman's remain idle, we are not giving our brothers in the armed forces the support they rightfully expect of us.

Edward L. Sargent, Woodbury, N.J. Since the beginning of time, man has had the desire to save and possess small articles that would remind him of a certain happening; souvenirs they are called. * * * I believe that James Farley was the first man to make the U. S. Post Office a paying proposition through his practice of furnishing many issues of stamps for the collectors to buy and to save. Why couldn't the Treasury Dept. start a "World War #2 Souvenir Campaign"? Any article would do. A fragment of a Jap plane, a piece of metal from a "Dud" bomb stamped with a serial number for a saleable price. The article, serial number, and name of the original purchaser for permanent record could be taken by, for example, the Post Office clerks when the sale was made.

J. Purdon Wright, Baltimore, Md. Under date of March 24 I wrote you asking certain questions concerning the obtaining of a release of a mortgage held by an alien enemy. Not hearing from you, I wrote again on April 14. It is now May 1, and still I have not heard from you. Is it not possible for a citizen to get a reply to an inquiry from your Department?

T. D. Quinn, Administrative Assistant to the Attorney General, Department of Justice, Washington, D. C. There are transmitted herewith checks numbered 2066,2219,2120 and 2128, dated Jan. 9, Jan. 14, Jan. 21, and Feb 10, drawn on the California Bank, First and San Pedro Office by The Rafu Shimpo, in the sum of $377.50, $1,676.21, $473.00 and $842.38, respectively. These funds represent contributions by subscribers to the Los Angeles Japanese Daily News for the purpose of purchasing an ambulance for the United States Army.

The following is quoted from an open letter addressed to Mr. Henry Morgenthau, Jr., and printed on the front page of the Laredo Times, Laredo, Texas: "Naturally, the taxpayers read a great deal about you and one of the things that impresses us a great deal is that we have never heard of any responsible person questioning your honesty and integrity. In politics, that is quite a record." Comments on increased taxation, labor difficulties and demands, and in particular, the details of a local scandal in regard to airport construction. "You and I both believe any good American should expose corruption of this kind, unless we are drifting into the kind of Government we are trying to defeat in Europe. * * * We have taken these matters up with our Congressman. He frankly tells us things are in such a mess in Washington it is hard to get anybody there to understand anything. We believe our Congressman will be re-elected by a great majority because the people generally know him a capable man, and don't blame him as the cause of all this mess. We are thinking of having this letter reprinted in one of the Washington newspapers in the next week or so as a paid advertisement as we did once before. We would do this just to try to find out if patriotism is for sale or if the spoils belong to the fellow who puts up the most money for Government contracts and political campaigns. * * *"

Mrs. Louise Moody Merrill, Providence, R.I. The people are willing to give their last dollar for taxes and Defense Bonds, but they are not willing to have it squandered by the Government. * * * When it is F.D.R. and Harry Hopkins, they cannot help it. Are you going to let them do this? If the people can be assured their money is being used to the very best advantage, you will get more money. I know you are doing your very best, but you will have to fight harder. I am grateful for what you are trying to do in this terrible mess.

George Schofield, N.Y.C. I would hate to be charged with not being patriotic, but how can this Administration expect us to buy War Bonds after reading the testimony brought out before the House Appropriations Committee yesterday with reference to Mrs. Rosenberg. I should appreciate your point of view.

Favorable Comments on Bonds

Walter D. Erwin, General Agent, General American Life Insurance Company, St. Louis, Mo. Just a note to tell you that in the last four months I have contacted the personnel and management of eighteen organizations in Southern California employing approximately 4,125. Several of these concerns are now 100% on purchase of War Bonds under the salary allotment plan which has been suggested by your Department, and which we of the life insurance fraternity have installed. You will be happy to know that in my entire work I have yet to meet a single person who has not been sold on the idea and I therefore believe that the purchase of War Bonds will continue and will increase. The new idea of ringing doorbells is a good one because that really combs the territory and will doubtless show a decided increase in purchase of Bonds and Stamps. * * * I appreciate your splendid leadership and assure you of my continued earnest cooperation in this colossal job of finding the money to finance the war.

Hersch Schipper, Weirton, W. Va. This afternoon I went to a movie. You were on the screen, urging all Americans to buy Defense Bonds at the rate of 10% of their earnings. How proud I was then! And I wished you were there in person so I could tell you, Sir, not just 10%, but 60% of my earnings are invested in Defense Bonds every month. I pledged that to our dear President several months ago in the form of a letter, and since then I buy every month a $100 Bond. And I have a double purpose too -- first of all, that great land of liberty must reassure her freedom forever. We must win the war. Second, it may rescue my wife and little child, if they are still alive in one of the Nazi Polish ghettos.

Wolf & Dessauer, Fort Wayne, Ind. (Telegram) Last week instead of holding our customary anniversary sale, Wolf & Dessauer Department Store devoted its entire advertising and selling efforts to the sale of War Bonds. Result, our co-workers sold over $300,000 worth of War Bonds during the six days.

Samuel Neusner, Publisher, The Jewish Ledger, Hartford, Conn. Your form letter of April 21 was received and was highly appreciated. I had no idea that the Treasury Dept. noticed papers like ours which are of service. It may interest you to know that we have been carrying Bond and Stamp publicity from the first day the campaign was announced. We claim no credit for that because it is our duty to work with all Government Departments. Insofar as paid advertising is concerned, I feel it would be criminal on the part of any publisher to charge for advertising space in connection with the sale of War Bonds and Stamps. I herewith offer you a quarter page of our paper weekly until the war is over. If there is anything else you desire, please don't fail to call upon us.

C. M. Hilbers, Detroit, Mich. My son, Gerard, Jr., is a newspaper carrier for the Detroit News, and has been working very hard to sell Defense Savings Stamps. In fact, so hard that he in a few weeks has sold enough Stamps to earn a bronze badge, a silver, and a gold bar. Now the boy has lost this and the poor kid is just about heartbroken over it. My earnest request to Your Honor is -- can you replace this for him, even if we do have to pay for same? I will gladly do so. He now has for himself two $25 Bonds, and sells more than 200 Stamps a week, and he is only 14 years old. We ourselves are 100% for the U. S. and have $250 in Bonds, and are buying $10 worth every week. * * *

Unfavorable Comments on Bonds

C. R. Loafer, Springfield, Mo. You want us to buy War Bonds. I want to buy as many as I can, but in three attempts to do so today, I was unable to make the purchase. The first attempt was at a bank. There was no one at the cage where they sold Bonds. I next went to the Southside Station of the Post Office. They said there was no one there who could write out a Bond. I went back there later for my third attempt. They said they would close in 10 minutes and that wasn't time enough to write out a Bond. * * * I don't want to waste valuable time trying to argue some one into selling me a Bond every time I can buy one. I would suggest a general letter to Post Office employees telling them that you really want to sell these Bonds.

Max Mendlowitz, Brooklyn, N.Y. Please make a statement through the press on the following -- Many recipients of Home Relief, Old Age Assistance, Child Welfare, and the blind would like to skimp from their food a few pennies a week to buy Defense Stamps, but fear the officials of the Department of Public Welfare may stop the aid they receive. We all want to have a share in our forthcoming victory. Home Relief officials must give the o.k. for recipients to buy Defense Bonds and Stamps.

J. K. Beach, Liquid Carbonic Corp., Dallas, Tex. * * * In my letter of April 24 I told you that we were extremely proud of the fact that in six months' time we had invested $20,000 face value in Defense Bonds from all of our employees out of a payroll of $55,000. The actual dollars and cents involved means that we put $15,000 in actual cash into Bonds out of a payroll of $55,000, which figures almost 30%. This was made up through the fact that several of our higher salaried group bought well in excess of the minimum which we had suggested for our employees. This, I am sure, will convince you that we are thoroughly willing - in fact, eager to do everything in our power to help the Government finance this war. I told you in that letter that I sincerely hoped the Senate would not act upon your suggestions for raising the new seven and a half billion dollars in taxes. I feel that in the form you presented it, you are dealing a staggering blow to all the incomes in America which will be felt particularly by the crowd from $3,000 to $10,000. * * * I could not ask my employees at large to subscribe 10% of their monthly salary to Bonds with your tax bill staring us directly in the face. I, myself, will have a terrible time paying my own income tax next year if your suggestions are approved, and will certainly have to cut down from a $100 Bond every month possibly to $50, but very likely to a $25 Bond. In other words, I feel that you are putting the burden in the wrong place and still feel that a general Sales Tax is the only solution to the problem. * * *

Henry Moseman, Carter, S. Dakota. Many farmers are deeply in debt. Some owe far more than all their property will sell for at present. What position should be taken in selling these individuals War Savings Bonds? To buy, they must borrow money at high interest, and the money goes out of production, and nearly all farmers here are short of money for producing, and this will be unsound inflation, and likely to leave many broke when they should be able to support themselves. It seems to me if such individuals would pledge to pay off on their debts, when such debts are large, the country will be benefitted more than if forced to buy Bonds.

J. W. Moore, New Orleans, La. If I may suggest -- lets have the LIBERTY BOND DRIVES OF THE FIRST WAR OVER AGAIN. Proof that such drives will work again is found in the success of trips taken by movie stars, etc. These Bonds now being offered were "savings" Bonds in which only the very thrifty were interested. We have moved from that stage into a <u>need</u> for money represented by these Bonds, and have done <u>nothing</u> to stir the patriotism or enthusiasm of possible Bond buyers. Lets quit trying to give a slow horse a shot in the arm for awhile, then COME OUT WITH A LIBERTY BOND DRIVE, and you can soon sell five billion dollars, because it will give us common folks a chance to express our fidelity, our enthusiasm for the success of our effort, and at least satisfy our desire to DO SOMETHING TO HELP THE CAUSE, which we do not have under the present set-up, and would be completely deprived of if subscriptions were made compulsory.

Northern Pump Co., Minneapolis, Minn. (Telegram) On receipt of your telegram we immediately called a mass meeting of our 6,400 employees and advised them that employees applying for 10% of their pay in War Savings Bonds would receive a 5% pay increase. * * * This action represents the first and, I hope, only coercive payroll deduction originated by the management. It is indeed unfortunate that during this war effort, management should have to take the responsibility of coercing labor to purchase Defense Bonds which they would not, repeat not, purchase of their own free will. * * * Our Bond sales have averaged only 7%, which is far better than any other local plant not using coercive methods. * * * After months of explanations and sales effort on the part of the management, explaining the basic safety and other fine investment qualities of War Bonds, even our highly intelligent machinists feel that their Social Security deductions are gone forever, and that War Bonds are a questionable and undesirable investment. There is always a certain loss of school spirit and friction when management tells labor how to spend the pay check. However, our employees will understand that their management is also subject to pressure from Governmental officials. * * *

L. Y. Spear, President Electric Boat Co., Groton, Conn. (Telegram) Our campaign for sale of War Savings Bonds inaugurated July, 1941. Our plan publicized by Federal Credit Union as model to be followed. Sales through plant slowed down only when Reserve Banks required three weeks to deliver Bonds. No relief obtained by reporting situation to E. W. Sloan. Nevertheless, original goal passed. Suggest you send representative to help solve delivery problem.

Geo. A. Peachman, Auditor, California Bank, Los Angeles. In connection with payroll deduction plan for the purchase of War Savings Bonds, there has accumulated in the custody of the various employers, amounts which must in the aggregate represent a very large sum of money, consisting of payments by employees toward the purchase price of Bonds subscribed for through the employer. For example, if an employee allots $1.00 per month, it would take 19 months to accumulate sufficient funds to acquire a $25 maturity value Bond, and the Treasury in the meanwhile does not have use of the funds. * * * Such funds could be made available to the Treasury through the purchase of Stamps, but this procedure does not appear to be practical to follow, and as the Bonds are not negotiable, it does not appear practical for the employer to purchase Bonds as trustee, with the accumulated funds. I feel sure that both employees and employers would be willing to cooperate in any practical procedure recommended by the Secretary of the Treasury and thus make immediately available for war purposes what in the aggregate should be a very large amount.

John P. Mulherin, Jr., Jacksonville, Fla. I have just read your letter to the people of Georgia in The Augusta Chronicle, in which you state that every wage earner is expected to set aside ten per cent of his salary for the purchase of War Bonds or Stamps. I would like to know how this arbitrary percentage was arrived at. Anybody with intelligence enough to keep out of an insane asylum should be able to figure out that a single man with no dependents can buy a much larger percentage of Stamps than a man with a family working for the same salary. * * * In my case, as is probably the case of many other married men with children, if I set aside 10% of my salary, I will have to cut down to two meals a day, or start sleeping in a tent. I am now 42 years old, and I am a Veteran of the first World War. (enlisted (volunteered) at the age of 17, and saw service in France with the 28th Division. I therefore feel that I do not need to make any defense of my patriotism.

Mrs. Robert Rives LaMonte, New Canaan, Conn. * * * I believe that there are thousands on thousands of families like mine who would willingly and gladly buy more Defense Bonds, were it not for one haunting nightmare - the dread of a doubling of next year's income tax. There are two of us in our family at home, both in the neighborhood of 75 years old. * * * We are obliged every moment to have a trained nurse, and a general maid to care for us and cook and clean. Our income comes half from trust funds; half from accumulated earnings. * * * This year we paid an income tax of $427. The idea that next year's tax may be $850 means a constant saving from our regular monthly expenditures. I do not object to a Sales Tax, but for the sake of a large population, I do wish that in some way we could know what our next March income tax will be. This would set free our small savings and we could buy more Defense Bonds.

Julius Helphand, Helphand Clothing Co., Sioux Falls, S. Dak. With reference of the sale of victory bonds I wish to convay my personal obserwation in my comunity and the small towns within seventy-five miles arround. * * * The farmers are getting a lot of cash for hogs and farm produce, those moneys is princeply hoardet, hiden in cash and kept out of banks, and they buy very little bonds. The reason bonds is not bought is manny. Some think that they will sell of the price like in the last war, some don't wish any one to know they have money, and manny are fifth and sixt columsnist. One advance the idia that the government is paying ten prices for everything they buy, and why trow awy the money. Those is a poor exuse, but they are not buying bonds. Would suggest that you should order the sale of bonds in every town and make it plenty high; make one demand and a good one.

Mrs. A. J. Day, Silver Spring, Md. Before you make it compulsory to save 10% on War Bonds may I bring to your notice several facts that perhaps you are unaware of. First, may I state that I think the idea an excellent one for munition workers and others who are making large sums of money now, but as the wife of a Government worker, I feel like saying, "How in the world can it be done?" Are you aware that most of the men in Government work have not had an increase in salary for a year or so? * * * I am enclosing a copy of our budget and if you can suggest a way that I might save 10%, then I shall be most happy.

Further Response to Special Mailing in Regard to 10% War Bond Purchases

(Favorable)

A. J. Altmeyer, Chairman, Social Security Board. Thank you for the stimulating material on War Savings. * * * Both the explanatory statement and the "case history" of the General Electric Company seem to me to be very well designed and presented. Their distribution just preceding the President's "fireside chat" is very timely. We expect to make effective use of this material as one means of encouraging increased participation in War Savings on the part of the Board's personnel. * * *

Senator Theodore G. Bilbo, Washington, D. C. * * * I am well impressed with the way the program is being executed. A truly American spirit governs, and there is a significant absence of the "witch hunting" element. Besides raising funds for prosecution of the war, this plan will go far to engender habits of thrift among our people. The thrift angle is important too, when we consider that our enemies now are fighting us with our own waste materials of the past. It is gratifying to see that millions of Americans are responding in a spirit of patriotic privilege and duty. I am especially happy to have your comments on the manner in which Organized Labor is responding, because there has been entirely too much criticism of Labor by certain groups of individuals who would have it appear that Organized Labor is a kindred spirit if not actually a blood cousin of the Axis powers. * * * The members of my staff have been buying Stamps and Bonds right along, I believe, but I shall urge them to step up their purchases in the future in line with the schedule suggested in your leaflet.

Further Response to Special Mailing in Regard to 10% War Bond Purchases

(Unfavorable)

C. H. Armstrong, Wichita, Kan. * * * You say that from July 1, 1942, to June 30, 1943, we shall spend in the neighborhood of 60 billion dollars. Then you say: "I shall be glad to hear from you and I shall welcome any inquiries or comments you may wish to make." This letter is in response to the invitation quoted above. My comment on the first statement is that you would not need quite so much money if your department and other departments of the Government would quit wasting so much on useless paper and printing. My second comment is that I, as an employer, do not have time to wade through such a mass of words as is contained in the material which I am returning herewith. About all that is essential in this could be told to me in a four-page folder, which I would gladly read. I most assuredly do not have time to sit down and read all this stuff which just reached me, and which is similar to many other loads of propaganda which come to my desk from Washington. All of the above is intended to be constructive, as I am most heartily in sympathy with the purpose of the effort to raise the money necessary for the war, and to do everything possible to carry on successfully.

Robert H. Cowdery, Vice President, The American Fork & Hoe Co., Geneva, Ohio. * * * Your general reasoning is probably correct, but in individual cases like ours, it is miles astray. By act of Washington, two-thirds of our business here has been wiped right out. * * *Our people are frightened and do not know what they are going to do. Certainly they are not going to be very interested in buying more Bonds, nor are they particularly impressed by the fact that they are going to have greatly increased earnings. We may be an exception, but you can't get water out of a stone, and all over the country there are very, very many instances where these arbitrary closures, without offering war work in return, are making it impossible for people who were happy earning money to purchase as many Bonds as they were doing. You are looking at all of us as just the same kind of Guinea Pigs, but after all, we have our individual problems, just as American citizens have always had them, and regimentation may be fine in theory, but it is tough on the exceptions. We all accept the sacrifices demanded from us, but your letter sort of rubs it in. * * *

P. J. Cardinal and O. A. Zeitz, War Bond Committee, Hoffmann-La Roche, Inc., Nutley, N.J. Much thought has been given to your letter of April 25. Judging from our own experience, success along the "first front" which you outline should be attainable in fairly quick time. * * * In connection with your "second front", it seems to us that the suggested formula is too simple in that it is unfair to expect the per capita monthly allotment from workers in all types of business. * * * In all of the publicity it seems to be taken for granted that, due to the war effort, every wage earner has experienced a tremendous increase in real wages -- i.e., the difference between actual wages and cost of living. To us this seems an erroneous approach. Overlooked are the thousands of wage earners employed in industries where real wages have, on the whole, not increased appreciably, if at all. In many instances "real" wages have undoubtedly gone down instead. These folks, nevertheless have been straining their budgets to purchase war bonds, although their average participation may amount to a considerably lower percentage than the 10% you set up as a goal. Because they have been steadily employed for a considerable period, they know more about their living expenses, judicious spending, and the advisability of thrift. * * * So that if you want to pipe off the really dangerous increased purchasing power, it would seem that a formula ought to be devised which would call for War Bond participation, not according to wage levels, or average percentage of payroll, but in proportion to the extent to which an individual's wages <u>increased</u> over a carefully selected recent period. * * *

Unfavorable Comments on Taxation

Comments from a letter Senator Rufus C. Holman has received from Charles Konecki, Manager of the Columbia Supply Company, Astoria, Oregon. -- "On April 24, 1942, a representative of the U. S. Revenue Department, Liquor Division, appeared in my office. He informed me that I had to pay for a special stamp in addition to our own stamp, because we had sold some $30 worth of beer which we delivered to Oney's Tavern, located at Elsie, Oregon, some thirty miles from Astoria. This Tavern has been established for quite a number of years, and as far as we had knowledge, has been duly licensed by both the State and Federal Liquor Control Boards. * * * The Department did not, in any way, protect us by advising us that Oney's Tavern was not in possession of this stamp, regardless of the fact that the Department has some twenty inspectors visiting us from time to time. The Department did not discover that the proper stamp was not in use until the Tavern made application for a stamp for the ensuing year. When the application did come through, the distributors were not notified. This collector is now collecting for a stamp from every distributor which costs $96.25. We cannot quite figure out why each of us should pay for a stamp. At the most, it should be divided equally between the seven distributors here. * * *I have asked the Revenue Collector for a hearing on this matter, but he informed me that should any one refuse to pay, an attachment could be made on the business and no hearing of any kind would be allowed."

MAY 8 1942

Dear Bill:

I have your letter of May 6.

I am willing to make available the services of Mr. E. Riley Campbell to assist in the investigation looking toward the identification of certain French funds.

Sincerely,

(Signed) Henry

Hon. William J. Donovan,
Coordinator of Information,
Washington, D. C.

File to Thompson
Photo file M.M.C.

By Messenger Sturgis 4:40

EHF:mdm
5/7/42

COORDINATOR OF INFORMATION

WASHINGTON, D. C.

May 6, 1942

Dear Henry:

As you doubtless know, the Treasury and COI have begun a search which may lead to the identification of certain French funds, of which John Wiley recently spoke to you.

It would be of the utmost help if you could find it possible and convenient to loan us temporarily the services of Mr. E. Riley Campbell, who has already assembled valuable material bearing on this matter. As you are doubtless aware, his qualifications are unique.

I should be most grateful for your early and favorable consideration of this request -- which I realize is no small one.

With best personal regards,

Yours very sincerely,

Bill Donovan

William J. Donovan.

The Honorable

The Secretary of the Treasury

Washington, D. C.

107

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 8, 1942

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

Some time ago a member of Pehle's staff attended a conference in New York along with representatives of the office of the Co-ordinator of Information, at which an informant named Archawski, formerly associated with several large French banks, discussed various important French officials and companies, particularly Laval. Although the informant had no definitive information, he felt confident that Laval had substantial funds in the United States, and reasoned that it was most likely that such funds were held here by persons with whom Laval has had close associations in the past, particularly, Raymond T. Patenotre.

The information obtained at this New York conference was the basis of the memorandum Wiley sent you about Laval. Subsequently a meeting was held between COI and the Treasury at which the Treasury indicated that it would continue its investigation of the various leads and call on COI for any help which was needed. The Foreign Funds Control and Mr. Wiley's staff are cooperating in the investigation.

The significant information in our possession with respect to Laval's funds may be summarized as follows:

> It is true that Raymond T. Patenotre was a close friend and supporter of Laval. They had numerous financial deals, as a result of which Laval profited to a substantial extent. Patenotre has approximately $5 million dollars in blocked accounts in the United States. Patenotre is, of course, a wealthy individual in his own right since he married Eleanor Elverson, former owner of the Philadelphia Inquirer which was ultimately sold to Annenberg.
>
> We have discovered that between the middle of 1940 and the middle of 1941 there was increase of approximately $2,500,000.00 in the Patenotre accounts in the United States.

We are tracing the source of these funds. It may be significant that Rene de Chambrun, the son-in-law of Pierre Laval made a visit to the United States during this period.

Laval is also believed to have an interest in the Metropolitan Fire Insurance Company through a French company in this country known as Trans-Atlantic Securities, which is in turn owned by two French insurance companies.

We will keep you informed of any significant developments.

S.1.7h.

MAY 8 - 1942

MEMORANDUM FOR THE PRESIDENT:

Recently you inquired as to the present status of the De Laval Separator Company, which has an office in Poughkeepsie. The information available to us with respect to this company may be summarized as follows:

This company, which has assets of about nine million dollars, has been blocked as a national of Sweden since June 14, 1941, and is presently operating under a Foreign Funds Control license. It is engaged in the business of manufacturing cream separators, milking machines, oil purifiers, and other industrial centrifugal machinery. Since 1939 it has been producing substantial quantities of machinery and equipment for the War and Navy Departments and for the Maritime Commission. The De Laval Separator Company has several subsidiaries in the United States and Canada.

The officers and directors of the De Laval Separator Company are all Americans residing in the United States except one Axel Wastfelt, who is residing in Sweden. There have been no significant changes in the officers or directors of the company since 1927.

Our records indicate that 10 percent of the stock of the De Laval Separator Company is owned by F. J. Arend, an American citizen who has been president of this company since prior to 1927. Five percent of the stock is held by two other American citizens. The remaining 85 percent of the stock of the De Laval Separator Company is owned by Aktiebolaget Separator, a Swedish company. In July, 1941, this stock was placed in a voting trust held by three American citizens who are officers of the De Laval Separator Company.

Aktiebolaget Separator has a small branch office located in New York City which is presently operating under a Foreign Funds Control license. The primary function of this branch office is to collect the earnings of De Laval Separator Company and its affiliates for transmittal to Sweden. A representative of this New York office indicated in a sworn statement to the Foreign Funds Control that all of the owners of Aktiebolaget Separator are believed to be residents and nationals of Sweden. Other than this sworn statement, we have no definite information as to the ownership of Aktiebolaget Separator. However, we have established that in 1938 J. Wallenberg was one of the directors of the company. He is no longer a director. Two of the present directors of the concern were minor employees in 1938.

We will keep you advised of any significant developments.

(Signed) H. Morgenthau, Jr.

Cc - M-M C.
J. S. Agt. 5 00

JWPehle:ged 5/8/42

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 8, 1942

TO Secretary Morgenthau

FROM H. D. White

There are appended two separate folders:

The first folder, labelled "Conference of Finance Ministers of the United and Associated Nations," includes a sample draft of the kind of invitation that the President might send, the agenda that might go along with the letter, and the detailed agenda for the conference and sub-committees. We also have some other material bearing on the agenda and conference which is not included.

The second folder, labelled "United Nations Stabilization Fund and Bank for Reconstruction and Development of United and Associated Nations," includes the outline of the suggested plan and some discussion of the important points.

I suggest that you glance through the folder labelled "Conference of Financial Agencies - etc." and read Part I of the suggested plan in the other folder.

The important decision to be made at this time is not the merits of a particular plan, but rather, the question as to, first, whether a conference should be held, and if so, who shall call the conference and when shall it be called. There is at least a couple of months of preliminary work necessary between the calling of the conference and the first meeting of the Ministers. It is not assumed that we would present to the conference any specific plan, though a general outline might be made available informally.

If you believe we should go ahead, a decision will have to be made whether you should approach the President directly, or whether to submit the idea to the State Department or Board of Economic Warfare first. There are a number of other points of preliminary "tactics" that would need to be determined before anything is done.

I believe the whole business, if handled correctly, can be extremely important.

This is not a matter that can be postponed indefinitely, inasmuch as we are committed by a resolution of the Rio Conference, and a number of inquiries have already reached me as to the status of the matter. Furthermore, if the Treasury doesn't initiate a conference on the subject it almost certainly will be initiated elsewhere, and it should be preeminently Treasury responsibility.

CONFERENCE ON FINANCIAL AGENCIES FOR
POST-WAR RECONSTRUCTION

I. List of Finance Ministers to be Represented at the Conference.

II. Program of the Conference of Finance Ministers of the United and Associated Nations.

III. Tentative Suggestions with Respect to the Agenda for the Conference.

IV. Formal Invitation by the President of the United States to the Governments of the United and Associated Nations.

V. Address by the Secretary of the Treasury of the United States, Setting Forth the Need for and Objectives of a Stabilization Fund and a Bank for Reconstruction.

VI. Addresses of Representatives of Leading Countries.

VII. Tentative Agenda for Sub-Committees of the Conference:

   A. Sub-Committee on Powers of the Stabilization Fund;

   B. Sub-Committee on Powers of the Bank for Reconstruction;

   C. Sub-Committee on Conditions for Membership in the Stabilization Fund;

   D. Sub-Committee on Conditions for Membership in the Bank;

   E. Sub-Committee on the Composition and Management of the Fund;

   F. Sub-Committee on Capital Structure, Distribution of Profits, and Management of the Bank;

   G. Sub-Committee on the Preparation of Organic Laws for the Bank and for the Fund.

Treasury Department
Division of Monetary Research
April 1942.

I

Note:

United Nations are those nations which have agreed not to negotiate a separate peace with the Axis nations.

Associated Nations are neutral nations which have severed diplomatic relations with the Axis powers.

I.

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

United Nations

1.	Hon. J. B. Chifley	Treasurer	Commonwealth of Australia
2.	M. Camille Gutt	Minister of Finance	Kingdom of Belgium
3.	Hon. J. L. Illsley	Minister of Finance	Dominion of Canada
4.	Mr. H. H. Kung	Minister of Finance	Republic of China
5.	Sr. Carlos M. Escalante Duran	Minister of Finance	Republic of Costa Rica
6.	Dr. Oscar Garcia Montes	Minister of Finance	Republic of Cuba
7.	M. Ladislav Feierabend	Minister of Finance	Republic of Czecho-Slovakia
8.	Sr. Virgilio Alvarez Pina	Minister of Finance	Dominican Republic
9.	Sr. Rodrigo Samayoa	Minister of Finance	Republic of El Salvador
10.	Mr. K. Varvaressos	Minister of Finance	Kingdom of Greece
11.	Dr. Jose Gonzalez Campo	Minister of Finance	Republic of Guatemala
12.	Sr. Abel Lacroix	Minister of Finance	Republic of Haiti
13.	Sr. Quesada	Acting Minister of Finance	Republic of Honduras
14.	Sir Jeremy Raisman	Finance Member of Vice Regal Council	Government of India
15.	M. Pierre Dupong	Minister of Finance	Grand Duchy of Luxemburg
16.	Jr. J. Alberda	Minister of Finance, A.I.	Kingdom of the Netherlands
17.	Hon. Walter Nash,	Minister of Finance	New Zealand
18.	Engr. J. Ramon Fevilla Sacasa	Minister of Finance	Republic of Nicaragua
19.	Mr. Paul G. Hartmann	Minister of Finance	Kingdom of Norway
20.	Sr. Jose Antonio Sosa	Minister of Finance	Republic of Panama
21.	Mr. Henryk Strassburger	Minister of Finance	Republic of Poland
22.	Hon. J. H. Hofmeyr,	Minister of Finance	Union of South Africa
23.	Mr. Arseni G. Zverev	Peoples' Commisar for Finance	Union of Soviet Socialist Republics
24.	Sir Kingsley Wood,	Chancellor of the Exchequer	United Kingdom of Great Britain and Northern Ireland
25.	Hon. Henry Morgenthau, Jr.	Secretary of the Treasury	United States of America
26.	Mr. J. Sutej	Minister of Finance	Kingdom of Yugo-Slavia

Associated Nations

27.	Sr. Joaquin Espada	Minister of Finance	Republic of Bolivia
28.	Sr. Arthur de Souza Costa	Minister of Finance	Republic of Brazil
29.	Dr. Carlos Lleras Restrepo	Minister of Finance	Republic of Colombia
30.	Sr. Vicente Illingworth	Minister of Finance	Republic of Ecuador
31.	Sr. Eduardo Suarez	Minister of Finance	Republic of Mexico
32.	Sr. Rogelio Espinoza	Minister of Finance	Republic of Paraguay
33.	Sr. David Dasso	Minister of Finance	Republic of Peru
34.	Dr. Javier Mendivil	Minister of Finance	Republic of Uruguay
35.	Dr. Alfredo Machado Hernandez	Minister of Finance	Republic of Venezuela

II

Program of the Conference of
Finance Ministers of the United Nations,
Washington, D. C.

1st Day -- Afternoon -- First Plenary Session.

A. Address by the President stating broad objectives of Conference.

B. Nomination and installation of the Presiding Officer, the Secretary of the Treasury of the United States.

C. Remarks of acceptance by the Secretary of the Treasury of the United States, as Presiding Officer.

D. Nomination and appointment of the Secretary of the Conference (an official of the United States Treasury Department).

E. Formation of Committee on Program and Procedure, made up of the leaders of the delegations of all countries represented.

F. Address by senior Finance Minister present, expressing the gratification of all delegates at their opportunity to participate in the conference.

2nd Day -- Morning -- First Session of the Committee on Program and Procedure.

A. Recommendation that there be formed a Committee on Financial Agencies for Reconstruction, made up of delegates of all the powers represented, and having authority to appoint sub-committees.

1. Committee to consider and report on all topics to the plenary sessions.
2. Secretary of Committee to prepare, without official stenographic report:
   a. A list of the Delegates and Secretaries present;
   b. The course and result of the Committee's deliberations;
   c. Announcements to the press, approved by the heads of delegations.

3rd Day -- Morning -- Second Plenary Session.

A. Address of the Secretary of the Treasury of the United States, setting forth the need for and objectives of the Stabilization Fund of the United and Associated Nations, and the Bank for Post-War Reconstruction of the United and Associated Nations. (1 hour).

First Session of the Committee on Financial Agencies for Reconstruction.

A. Resolution directing the appointment of Sub-Committees to prepare interim and final reports on the organization of the Bank and the Fund, with the privilege of discussion, but not voting, at such Sub-Committess, to be extended to all delegations. Sub-Committee appointments to be made as delegations, not as individuals. Sub-Committees to have privilege of utilizing technical personnel from any delegation not a member of such Sub-Committee.

1. Sub-Committee on Powers of Fund.
2. Sub-Committee on Powers of Bank.
3. Sub-Committee on Conditions for Membership of Fund.
4. Sub-Committee on Conditions of Membership of Bank.
5. Sub-Committee on Composition and Management of Fund.
6. Sub-Committee on Capital Structure, Distribution of Profits, and Management of Bank.
7. Sub-Committee on the Preparation of Organic Laws for the Bank and for the Fund, to prepare legal embodiment of principles as soon as accepted by the various Sub-Committees, and to present these legal statements to the appropriate Sub-Committee as soon as drafted.

B. Appointment of Sub-Committees.

<u>3rd Day</u> -- Afternoon -- <u>First Session of Committee on Financial Agencies for Reconstruction</u>.

C. Address by representative of Republic of Brazil (10 minutes).

D. Address by representative of Republic of China (10 minutes).

E. Address by representative of Republic of Mexico (10 minutes).

F. Address by representative of Kingdom of the Netherlands (10 minutes).

G. Address by representative of Union of Soviet Socialist Republics (15 minutes).

H. Address by representative of United Kingdom of Great Britain and Northern Ireland (20 minutes).

121

4th Day -- Morning and Afternoon -- Second Session of Committee on Financial Agencies for Reconstruction.

A. Presentation of views by others of 35 nations represented.

5th to 8th Days -- Meetings of all Sub-Committees.

A. Preparation of interim reports for submission to the Committee on Financial Agencies for Reconstruction.

9th Day -- Morning and Afternoon -- Third Session of Committee on Financial Agencies for Reconstruction.

A. First Interim Report of Sub-Committee on Powers of Stabilization Fund.

B. Discussion of report.

C. Resolutions accepting portion or whole of report.

D. Resolution directing the Sub-Committee to re-examine any proposals rejected by the Committee and to continue its discussions until prepared to render a final report.

10th Day to 20th Day -- Sessions of Committee on Financial Agencies for Reconstruction.

A. Reports of Sub-Committees and Resolutions thereon.

20th and 21st Days -- Sessions of Committee on Financial Agencies for Reconstruction.

A. Draft Resolutions on Stabilization Fund, for Plenary Session.

B. Draft Resolutions on Bank, for Plenary Session.

22nd Day -- Third Plenary Session of Conference.

A. Discussion of draft resolutions presented by Committee on Financial Agencies for Reconstruction.

B. Formal adoption of resolutions.

C. Recommendations as to date of Fourth Plenary Session.

D. Resolution directing continuance of meeting of Committee on Financial Agencies for Reconstruction.

III

III.

Tentative Suggestions with Respect to the Agenda for the Conference

Post-War Agencies of Financial Reconstruction

I. An international stabilization fund, under which shall be discussed:

A. Powers.

1. Purchase and sale of gold.

2. Purchase and sale of foreign exchange.

3. Purchase and sale of securities of member governments.

B. Operations.

1. Limited purchases of members' currencies.

C. Size and Composition.

1. Minimum resources.

2. Gold, currencies, and securities.

3. Determination of contribution of each participating government.

4. Voting rights of members.

D. Conditions of membership.

1. Monetary policy.

2. Exchange policy.

3. Tariff policy.

4. Commercial policy.

5. Payment of outstanding loan interest.

6. Peaceful objectives.

7. Cooperation in restricting capital exports from another participant.

E. Management.

II. A Bank for Post-War Reconstruction, under which shall be discussed:

A. Powers of the Bank.

1. Purchase and sale of gold.

2. Purchase and sale of securities.

3. Issuance of notes in new international currency and acceptance of deposits in currencies of participants.

4. Issuance of securities.

B. Lending operations.

1. Gold for monetary reserves.

2. Guaranteed loans for private investors.

3. Direct loans for improvement in standard of living.

C. Capital Structure.

1. Total capital.

2. Apportionment of shares.

3. Voting rights of members.

D. Conditions of Membership.

1. Monetary policy.

2. Exchange policy.

3. Tariff policy.

4. Commercial policy.

5. Payment of outstanding loan interest.

6. Peaceful objectives.

E. Management.

128

VI

IV

IV.

Preliminary Suggested Draft

Formal Invitation to Governments of the United and Associated Nations

The President is deeply grateful at the cordial response to his suggestion that there should be a Conference of the Treasury Departments of the United and Associated Nations, on the subject of Financial Agencies for Post-War Reconstruction, in connection with which the Establishment of an International Stabilization Fund will be discussed, in accordance with Resolution XV, approved on January 28, 1942, by the Third Meeting of Ministers of Foreign Affairs of the American Republics.

The dangers of uncoordinated economic policies after the armistice are readily apparent, in the light of the history of the two decades of chimerical peace which ended in 1939. The monetary and exchange difficulties of 1920-25 are even more vividly remembered by the other American Republics than by the United States; the violent distortions of trade on the European Continent in that period impressed the European allies of the United Nations even more profoundly than the United Kingdom. In all parts of the world the restrictions upon international trade which followed the collapse of American foreign lending in 1929 brought painful readjustments. To the depression which followed, and which struck most heavily at Central Europe and at Latin America, we may ascribe the accession to power of the Hitlerian regime in Germany. It is believed that the United and Associated Nations have learned the lessons of those twenty years. The approaching victory is believed to be an opportune occasion for these nations to attempt the stabilization of exchange rates, commercial policies and the flow of foreign lending, so that a repetition of the cycle of economic collapse, commercial policies dictated by unimaginative self-absorption, and armament programs may not again plunge the world into a third and even more desperate struggle. For even those peoples which felt most secure are now reaping the consequences, in casualties and in hard labor, of their failure to take effective action to assist well-meaning business and governmental organizations which were in a weaker position, in the early months of the great depression.

In order to take effective international steps, it is clear that the United Nations must prepare plans and establish an organization which will be ready to function on the day after the armistice. To agree upon the plans, set up the organizations, and provide adequate staffs will occupy months and perhaps years. To encourage the businessmen and workers of the United Nations and those who labor for them in the territories now occupied by the enemy, and who may subsequently join the United Nations, a definite organization must emerge while the war continues. Protestations of good intentions must be supported by tangible agencies, ready and capable of taking quick and effective action, if we are to give the necessary reassurance which will bring forth the best efforts of all our people. It is even more important that the United Nations give some real encouragement and some evidence of their ability to assist the populations of territories now occupied by the enemy, so that they will give us their invaluable assistance in destroying the enemy's supplies and communications behind his lines.

As the date of the armistice cannot be predicted, it is the earnest wish of this Government that, through an interchange of views with the facilities afforded by a Conference of Finance Ministers and Secretaries of the Treasury, it may be possible to find a solution of the international financial problems of the next era of peace, of unquestioned importance even in the stress of war, that is, such common understandings with respect to matters of international financial concern as may serve to encourage our populations for the struggle, promote an enduring peace, and assure a rising standard of living for our peoples after the victory has been won.

V.

Final Draft Not Complete

V. Address by the Secretary of the Treasury of the United States, setting forth the need for and objectives of a Stabilization Fund and a Bank for Reconstruction.

VI.

Final Draft Not Complete

VI. Addresses of Representatives of Leading Countries.

VII

Tentative Agenda for the Sub-Committee on the Powers of the Stabilization Fund of the United and Associated Nations

A. Technical Operations.

1. Purchase, sale and custody of gold.

2. Purchase, sale and custody of notes, drafts and bankers' acceptances denominated in the currency of any participating country.

3. Purchase and sale of direct obligations of the central government of any participating country.

4. Acceptance of Deposits.

5. Transfers of title to gold, deposits, and bills by cables or by draft, duly authorized by the participating Treasury, to any other participating Treasury.

B. Purchases of Member currencies.

1. Treasury of each participating country authorized to purchase limited quantity of some other currency from Fund, by surrender of its own currency, for settlement of debit balance in international accounts, by payment into another account at the Fund.

   a. Exclusion of capital exports from "debit balance in international accounts."

   b. Determination of rate of exchange.

   c. Fixation of total amount of currency which a country has indisputable right to purchase.

   d. Limitations on use of currency purchased.

   e. Other considerations.

2. Authorization to participating Treasury to purchase foreign currency in excess of this limited amount, for settlement of balances due, by payment into other accounts in Fund.

   a. Approval of some proportion of voting strength of Fund.

      (1) Estimated interval before repayment.

      (2) Recommendations of Fund on methods of reducing deficit in balance of payments.

C. Purchase of balances blocked in member countries at the end of the war.

1. Repurchase agreements.

2. Limitations on use of proceeds.

3. Service charges.

D. Fixation of buying and selling prices for gold and currencies.

E. Limitations on dealings with private corporations or individuals.

F. Consent of government concerned prior to transactions in any currency.

G. Purchase and sale of currencies of non-participating governments.

H. Borrowing by the Fund.

I. Purchase and sale of investments.

J. Use of borrowed currency by members for payment of defaulted loans.

K. Loans of local currency to members.

L. Service charges.

B

Tentative Agenda for the Committee on Powers of the Bank for Post-War Reconstruction of the United and Associated Nations

A. Loans.

1. Loans for providing metallic reserves.

    a. Interest rates.

    b. Maturity.

2. Guaranteed loans.

    a. General requirements.

        (1) Proof of unavailability of private loans at reasonable interest rates.

        (2) Report on purposes of Loan.

        (3) Satisfactory rates of interest and maturities.

        (4) Special approval for loans to be expended on armaments.

        (5) Special approval for loans to governments in default on loans issued to private investors.

    b. Special requirements.

        (1) Maximum rate of interest.

        (2) Maximum proportion of principal and interest eligible for guarantee.

        (3) Prohibition against use of funds for repayment of outstanding loans.

3. Direct loans.

    a. Proof of non-availability of private loans at reasonable rates and satisfactory maturities.

    b. Report approving loan as emergency relief or as effecting permanent increase in standard of living of borrowing country.

    c. Low rates of interest.

    d. Maturities associated with fruition of project.

    e. Special approval for loans to be expended on armaments.

        (1) Voting procedure.

f. Special approval for loans to governments in default on obligations to private investors.

(1) Association of approval with debt settlement in some cases.

4. Limitations on Bank's loan operations.

a. No geographical restriction on expenditure, if within member countries.

b. Currency of loan and of service of loan.

(1) In part, in currency of borrower.

(2) In part, in new international unit.

B. Organization and finance of international corporations, for development of raw materials, and for stabilization of commodities, upon approval of membership of Bank.

1. Voting procedure.

2. Limitations on operations of corporations.

C. Technical operations.

1. Purchase, sale and custody of gold.

2. Purchase, sale and custody of securities of participating governments.

3. Issuance of debentures and other securities, as well as non-interest-bearing notes.

4. Acceptance of demand, time, custody deposits and accounts by participating governments, fiscal agents and central banks.

5. Establishment of demand, time and custody deposits and accounts with governments or fiscal agents or central banks.

6. Discount or rediscount of bills, acceptances and other obligations and credit instruments of participating governments, fiscal agencies and central banks.

7. Rediscount with any government, fiscal agency or central bank of bills, acceptances and instruments of credit.

8. Purchase and sale of cables, checks, drafts and acceptances for the account of participating governments or fiscal agencies.

9. Agency functions for participating governments and fiscal agencies, central banks and political subdivisions.

10. Economic analysis and publication.

11. Limitation of transactions to:

    a. Dealings with member governments.

    b. Dealings with central banks and fiscal agents.

    c. Dealings with Stabilization Fund of United and Associated Nations.

    d. Dealings with an international bank owned jointly by some member governments.

    e. Dealings with subsidiary corporations.

c

VII. - C.

Tentative Agenda of the Sub-Committee on Conditions of Membership in the Stabilization Fund of the United and Associated Nations

A. Membership in Bank for Post-War Reconstruction of United and Associated Nations.

B. Abandonment of exchange controls not approved by Fund.

C. Negative commitments.

1. No alteration of exchange rates without approval of Fund.
2. No bilateral clearing agreement without approval of Fund.
3. No circulation of gold without approval of Fund.
4. Adoption of no fiscal or banking policy leading to change in net balance of payments without approval of Fund.
5. No increase in tariff rates or change in tariff administration prior to report on proposed changes by Fund.
6. No default on public securities without approval of Fund.
7. No subsidy on exports to member countries without approval of Fund.
8. No sale to or purchase from member countries of foreign exchange without approval of Fund.
9. No acceptance of capital inflow from any member country which does not permit such capital exports.

D. Positive Commitments.

1. Concentration of gold in Central Bank or Treasury.
2. Gradual reduction of existing tariff schedules.
3. Availability to foreign governments of investments owned by their nationals in the second country.

E. Penalties for Failure to Fulfill Commitments.

1. Suspension of voting rights.
   a. Procedure in voting suspension.
2. Expulsion.

a. Procedure in voting expulsion.

3. Expulsion from Bank for Reconstruction of United and Associated Nations.

4. Forfeiture of sums due Fund, upon return of contribution.

145

D

VII. - D.

Tentative Agenda of the Sub-Committee on Conditions of Membership in the Bank for Post-War Reconstruction of the United and Associated Nations

A. Membership in

1. United Nations Stabilization Fund.

2. Public subscription to "Magna Charta of the United Nations."

3. Peaceful relations with other members.

B. Expulsion by two-thirds vote

1. Primarily for aggression.

2. Other causes.

VII. - E.

Tentative Agenda of the Sub-Committee on the Composition and Management of the Stabilization Fund of the United and Associated Nations

A. Minimum of $5 billion.

B. Composition.

   1. Gold.

   2. Currencies of participating countries.

   3. Securities of participating countries.

C. Determination of contribution of each participating government.

D. Size of initial payment.

E. Form of initial payment.

   1. Minimum gold payment.

   2. Minimum gold and/or currency payment.

   3. Securities.

F. Penalty for failure to make contribution.

G. Board of Directors, consisting of one member from each government, plus President of Bank for Post-War Reconstruction of United and Associated Nations.

   1. Factors in voting power of representatives.

      a. Gold contribution to Fund.

      b. Currency contribution to Fund.

   2. Right to increase total contribution, upon approval of Fund, and enlarge voting power.

   3. Decisions by majority vote, unless otherwise specified.

   4. Chairman and Operating Committee.

VII. - F.

Tentative Agenda of the Sub-Committee on Capital Structure, Distribution of Profits, and Management of the Bank for Post-War Reconstruction of the United and Associated Nations.

A. Total authorized capital of 10 billion dollars, in 10,000 shares.
   1. Initial payment.
      a. Composed of gold and currency of the country.
   2. Share certificates salable only to Corporation.

B. Voting strength of shares and members.
   1. Minimum of 25 votes per member government, plus one vote per share.
   2. Shares and vote of Stabilization Fund of United and Associated Nations.

C. Minimum subscription.
   1. Percent of estimated national income.
   2. Percent of notes and bank deposits.

D. Surplus.
   1. To receive 25 percent of profits each year.
   2. Maximum surplus equal to 20 percent of paid-in capital.

E. Distribution of remainder to shareholders in gold or in currency requested.

F. Accounts in new international currency units.

G. Board of Directors.
   1. Membership of one member and one alternate allotted to each shareholding government.
   2. Term of office.
   3. Powers exercised by majority vote.
      a. Selection of President of Corporation, and vice-presidents.
      b. Selection of heads of departments.
      c. Appointment of advisory committees.

4. Powers exercised by two-thirds majority.
   a. Loans.
   b. Assumption of guarantees.
   c. Acquisition and sale of securities.
   d. Discounting and rediscounting of paper.
   e. Issuance of debentures and other securities.
   f. Selection and removal of presidents and vice-presidents.
5. Delegation of specified powers --
   a. To Executive Committee, by four-fifths vote, temporarily.
   b. To President, by four-fifths vote, temporarily.
   c. To special committees, by four-fifths vote, temporarily.
   d. To officers and committees, with limited authorization to make loans, by four-fifths vote.

152

G.

Dependent Upon Progress of Other
Committees

G. Sub-Committee on the preparation of organic laws for the Bank and for the Fund.

This report has been prepared at the request of Secretary Morgenthau that I draft a plan for an International Stabilization Fund and an International Unit of Currency.

He felt that the requirements of furthering the war effort and preparing for the financial needs of the reconstruction period called for the preparation and study of preliminary proposals.

H. D. W.

Strictly Confidential

PRELIMINARY DRAFT

UNITED NATIONS STABILIZATION FUND AND A BANK FOR RECONSTRUCTION OF THE UNITED AND ASSOCIATED NATIONS

H. D. White
Washington, D. C.
March, 1942

CONTENTS

INTRODUCTION

Page

Suggested Plan for a United Nations Stabilization Fund and a Bank for Reconstruction of the United and Associated Nations

PART I

FRAMEWORK OF REQUISITE INTERNATIONAL AGENCIES

PART II

A STABILIZATION FUND OF THE UNITED AND ASSOCIATED NATIONS

PART III

A BANK FOR RECONSTRUCTION OF THE UNITED NATIONS AND ASSOCIATES

INTRODUCTION

Suggested Plan for a United Nations Stabilization Fund and a Bank for Reconstruction of the United and Associated Nations

It is yet too soon to know the precise form or the approximate magnitude of post-war monetary problems. But one thing is certain. No matter how long the war lasts nor how it is won, we shall be faced with three inescapable problems: to prevent the disruption of foreign exchanges and the collapse of monetary and credit systems; to assure the restoration of foreign trade; and to supply the huge volume of capital that will be needed virtually throughout the world for reconstruction, for relief, and for economic recovery.

If we are to avoid drifting from the peace table into a period of chaotic competition, monetary disorders, depressions, political disruption, and finally into new wars within as well as among nations, we must be equipped to grapple with these three problems and to make substantial progress toward their solution.

Specific plans must be formulated now.

Clearly the task can be successfully handled only through international action. In most discussions of post-war problems this fact has been recognized, yet to date--though a number of persons have pointed to the solution in general terms--no detailed plans sufficiently realistic or practical to give promise of accomplishing the task have been formulated or discussed. It is high time that such plans were drafted.

161

It is ~~imperative~~ time that detailed and workable plans be prepared providing for the creation of agencies with resources, powers and structure adequate to meet the three major post-war needs.

Such agencies should, of course, be designed to deal chiefly with post-war problems. But their establishment must not be postponed until the end of hostilities. It takes many months to set up such agencies. First, a plan has to be perfected. Then it has to be carefully considered by a number of countries. In each country, again, acceptance can follow only upon legislation. That alone will consume many months and possibly longer. And even when the plan is finally accepted, much time will be further consumed in the collection of personnel, and the performance of the preliminary ground work which must be done before effective operations can begin. Altogether, a year may be required before a proposal can be transformed into an operating agency.

Obviously, therefore, even though no important immediate ends will be served by having such agencies functioning during war time, it will be an error to wait until the end of the war is in sight before beginning serious discussion of plans for establishing such agencies. No one knows how soon the war will end, and no one can know how long it will take to get plans approved and the agencies started. Yet, if we are to "win the peace", which will follow the war, we must have adequate economic instruments with which to carry on effective work as soon as the war is over. It would be ill-advised, if not positively dangerous, to leave ourselves at the end of the war unprepared for the stupendous task of world-wide economic reconstruction.

Specific proposals will help win the war.

But there is an additional important reason for initiating at once serious discussion of specific proposals. Such discussion will be a factor toward winning the war. It has been frequently suggested, and with much cogency, that the task of securing the defeat of the Axis powers would be made easier if the victims of aggression, actual and potential, could have more assurance that a victory by the United Nations will not mean in the economic sphere, a mere return to the pre-war pattern of every-country-for-itself, of inevitable depression, of possible wide-spread economic chaos with the weaker nations succumbing first under the law-of-the-jungle that characterized international economic practices of the pre-war decade. That assurance must be given now. The people of the Anti-Axis powers must be encouraged to feel themselves on solid international ground, they must be given to understand that a United Nations victory will not usher in another two decades of economic uneasiness, bickering, ferment, and disruption. They must be assured that something will be done in the sphere of international economic relations that is new, that is powerful enough and comprehensive enough to give expectation of successfully filling a world need. They must have assurance that methods and resources are being prepared to provide them with capital to help them rebuild their devastated areas, reconstruct their war distorted economies, and help free them from the strangulating grasp of lost markets and depleted reserves. Finally, they must have assurance that the United States does not intend to desert the war worn and impoverished nations after the war is won, but proposes to help them in the long and difficult task of economic reconstruction. To give that assurance now is to unify and encourage the anti-Axis forces, to greatly strengthen their will and effort to win.

Nor will the effect be on the anti-Axis powers alone. Whether within the Axis countries the will to fight would be weakened by such arrangements is not certain, but assuredly it would not be strengthened. And certainly the people in the invaded countries, and the wavering elements in the Axis-dominated and Axis-influenced countries would be given additional cause to throw in their lot more definitely and openly with the anti-Axis forces if there is real promise than an orderly prosperous world will emerge from a United Nations victory.

Two International Government Agencies must be established--a Stabilization Fund and a Bank for Reconstruction.

A vital part of that promise rests on international monetary and banking collaboration. The United Nations and the Nations associated with them must undertake cooperatively two tasks as soon as possible: first, to provide an instrument with the means and the procedure to stabilize foreign exchange rates and strengthen the monetary systems of the United Nations; and second, to establish an agency with resources and powers adequate to provide capital for economic reconstruction, to facilitate rapid and smooth transition from war-time economies to peace-time economies, to provide relief for stricken peoples during the immediate post-war period, to increase foreign trade, and permanently increase the productivity of the United Nations.

These two tasks should be kept distinct. Though in some of their facets and in many of their consequences there is considerable interdependence and interaction, the two are different enough to call for separate instrumentalities. Each is sufficiently specialized to require different resources, different responsibilities, and different procedures and criteria for action. To supply the United Nations with necessary capital not otherwise available except possibly on too costly terms should be the function of a bank created for that specific purpose; whereas monetary stabilization--a highly specialized function calling for a special structure, special personnel, and special organization--would best be performed by a stabilization fund created to perform that special function.

It is therefore recommended that immediate consideration be given to formulating plans for the establishment of two separate institutions:

1. A United Nations Stabilization Fund, and
2. A Bank for Reconstruction of the United and Associated Nations.

While either agency could function without the existence of the other, the creation of both would nevertheless aid greatly in the functioning of each. Doubtless one agency with the combined functions of both could be set up, but it could operate only with a loss of effectiveness, risk of over-centralization of power, and danger of making costly errors of judgment. The best promise of successful operation seems to lie in the creation of two separate institutions, linked together by one or two directors in common.

proposals must be drafted by experts of foreign governments meeting for that purpose.

It is hoped that some time soon, representatives of various interested governments will meet in conference to explore the possibility of working out a plan for the establishment of an international stabilization fund and bank. To facilitate the preliminary work of such a committee, and to provide the Treasury officials of the interested governments with a proposal set in specific enough terms to encourage and justify fruitful discussion prior to a meeting, the following report has been prepared. It contains a suggested plan for a fund and for a bank, and also some discussion of the various points involved.

Any one familiar with the task of setting up new and complex organizations such as the two envisaged will fully appreciate that no single person, no matter how well informed on the subject, can hope to draft a plan completely adequate for the purpose in view. This is especially true of a proposal calling for international collaboration and requiring acceptance by several governments. To draft a plan that is likely to meet with approval of various governments is a task beyond the competence even of a group of economists from a single country. The provisions of any plan submitted for consideration would have to be subjected to careful evaluation and examination by a number of men, some of whom should be expert in the handling of international economic problems and monetary theory, and others at home in related fields. In addition to monetary problems, questions of sovereignty, of national interest, and of broad economic policy are involved in some of the more important provisions, and these inevitably must be the subject of controversy and compromise. They are also matters that must be discussed in detail and at length by high officials whose responsibilities include the shaping and administration of monetary and financial policy.

Proposals for prior examination by experts would expedite the work of the conference.

The proposals and comments that follow are submitted solely for the purpose of providing a starting point for intelligent discussion, and in order to call attention to many of the difficulties which would have to be satisfactorily met before a workable and acceptable plan may emerge. This report will have served its function if it stimulates discussion by informed persons, and if it helps to crystallize opinion so that the work of a committee called to consider the matter may proceed rapidly. The proposals have, therefore, been set forth only in outline and for the most part only those points are included in the outline which are essential to an understanding of the plan. Any attempt to couch the plan in the elaborate and carefully worded form characteristic of final drafts has been purposely avoided. Preparation of a formal charter or agreement is a task for a committee of lawyers and economists to be fruitfully undertaken only after agreement has been reached on the essential points.

Willingness to depart from tradition and break new ground is essential if meaningful results are to be obtained.

It will perhaps help toward understanding and induce a more sympathetic approach to the proposals which follow to state at the outset that something much more than the usual banking and stabilization functions are envisaged in the plan. There is urgent need for international agencies which will pierce at the weakest points the type of extreme economic nationalism which has proved so catastrophic in its ramifications. There is desperate need for instruments which will pave the way and make easy a high degree of cooperation and collaboration among the United Nations in economic fields hitherto held too sacrosanct for international action or multilateral sovereignty. A breach must be made and widened in the outmoded and disastrous economic policy of each-country-for-itself-and-the-devil-take-the-weakest. Just as the failure to develop an effective League of Nations has made possible two devastating wars within one generation, so the absence of a high degree of economic collaboration among the leading nations will, during the coming decade, inevitably result in economic warfare that will be but the prelude and instigator of military warfare on an even vaster scale.

The Fund and the Bank described in the following pages are envisaged as economic instruments that most easily and effectively can serve to bridge the gulf between short-sighted, disastrous economic nationalism and intelligent international collaboration. It is for this reason that the resources, powers, requirements for membership, accorded both agencies go far beyond the usual attributes of banking and monetary stabilization.

It is certain that some of the powers and requirements included in the outline of the Fund and the Bank will not survive discussion, compromise, prejudice and fear of departure from the usual. Some may not stand the test of political reality, and some may be unacceptable on technical grounds, while others may be generally regarded as going too far toward "internationalism". Yet most of them listed appear as desirable objectives in most writings or conferences on post-war economies, and are worth considering.

It is my conviction that the long-time effectiveness of both agencies will be measured by the degree to which boldness is displayed in their organization and objectives.

Part I, which follows, consists of an outline of (1) a United and Associated Nations Stabilization Fund, and (2) of a Bank for Reconstruction of the United and Associated Nations.

Part II consists of a brief explanation and discussion of the proposed Fund, and Part III of the proposed Bank.

PART I

 170

PART I

A. SUGGESTED OUTLINE OF A UNITED AND ASSOCIATED NATIONS STABILIZATION FUND.

I. The Purposes of the Fund are:

1. To stabilize foreign exchange rates of the United Nations.
2. To encourage the flow of productive capital among the United Nations.
3. To liberate blocked balances.
4. To help correct the maldistribution of gold among the United Nations.
5. To facilitate the settlement and servicing of international debts--both public and private.
6. To shorten the periods of disturbing disequilibrium in the international accounts of member countries and help stabilize price levels.
7. To reduce the necessity and use of foreign exchange controls.
8. To eliminate multiple currency practices and bilateral clearing arrangements.
9. To promote sound note issuing and credit policies and practices among the United Nations.
10. To reduce barriers to foreign trade.
11. To promote more efficient and less expensive clearings of international exchange transactions.

II. Powers.

To help attain the objectives listed above, the Fund shall have the following powers:

1. Buy, sell and hold gold, currencies, foreign exchange, bills of exchange, and government bonds of the "member" countries, and act as a clearing house for international movement of funds, balances, checks, drafts, acceptances, gold.
2. The Treasury of each member country shall have the privilege of purchasing from the Fund the currency of any member country which the Fund holds, provided:
   a. The currency demanded from the Fund is required to meet adverse balance of payments to the country whose currency is being demanded.
   b. The sum in the Fund of the currency of the country making the purchase shall be, after adding the sum proposed to be purchased, not more than 100 percent of the total sum--gold currency and notes--originally contributed to the Fund.
   c. The rate of exchange shall be the one determined by the Fund.
3. Should a country wish to sell its currency to the Fund in an amount in excess of 100 percent of the total of its original contribution, approval by four-fifths of the member votes would be required. The Fund could decide to purchase the excess of the currency in question if:
   a. It is believed the anticipated balance of payments picture of the country in question were such as to warrant the expectation that the "excess" could be disposed of within a reasonable time, or

b. The country in question had gold holdings which together with gold it expected to accumulate within a reasonable time was adequate to replace the excess, and

c. The country in question agreed to adopt and carry out measures designed to correct the disequilibrium in the country's Balance of Payments, which the Fund recommended--after careful examination of the situation.

4. The governments of member countries may sell to the Fund, blocked foreign balances acquired from their nationals, provided all the following conditions are met:

a. The foreign balances were in member countries and were either partly or wholly blocked.

b. The foreign balances were included in the sum reported (for the purpose of this provision) by the member governments as blocked on date of its becoming a member.

c. The country selling the blocked balances to the Fund agreed to ~~begin~~ repurchasing 40 percent of the amount sold to the Fund, at the price received, and at a rate not to be less than 2 percent a year. The repurchases to begin not later than three years after date of sale, and the currency to be used in repayment to be either the currency received or the local currency, as desired by the Fund.

d. The country in which the blocked balances are held agrees to transfer those balances to the Fund, and retransfer back 40 percent of them from the Fund, at the rate of 2 percent a year, beginning not later than three years after the date of transfer. The Fund may accept government bonds payable in gold in lieu of part of the blocked balances, and shall be free to sell such bonds if it wishes.

e. The country selling the blocked foreign balances to the Fund needs the proceeds received from the Fund, in the form in which the country requests payment by the Fund, for the purpose of meeting adverse balance of payments arising from any cause except acquisitions of gold, or accumulation of foreign exchange balances.

f. The country in which the blocked funds are kept agrees not to impose any restrictions on the installments of the 40 percent gradually to be repurchased by country holding blocked balances.

g. A charge of 1 percent, payable in the currency of the country paying shall be levied against the country selling its blocked funds, and a charge of 1 percent payable by country in which blocked account exists.

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

i. The Fund on its part agrees not to sell the blocked balances acquired under the above authority, except with the permission, or at the request of the country in which blocked balances are being held but

5. The Fund would fix the rates at which it will exchange one member's currency for another, and the rates at which it will buy and sell gold with local currencies. The guiding principle in the fixing of such rates shall be stability in exchange relationships. Changes in the rates shall be made only when essential to correction of a fundamental disequilibrium, and only with the consent of four-fifths of member votes.
6. The Fund shall have authority to deal only with the Treasuries of the participating countries, or with official stabilization funds of those countries, and with the bank designated by participating government as its fiscal agent, and with international banks owned by governments.

7. The Fund shall not have the authority to engage in any transactions within a member country, or with any corporation or part of the government of that country without the consent of the Board representative of that country.
8. The Fund shall have the authority to buy and sell currencies of non-member countries, but shall not be authorized to hold such currencies beyond sixty days after date of purchase, except with the approval of four-fifths of the member votes.
9. The Fund shall have the authority to borrow, at such rates as the Fund may recommend, the currency of any country, provided four-fifths of the member votes approve the terms, amount and condition of such borrowing.

10. The Fund shall have the authority to invest any currency it holds in "short-term" securities--commercial or government-- of the country of that currency provided a four-fifths vote of the member votes shall approve, and provided further that the approving votes shall include those of the country in which the investment is to be made.

11. The Fund shall have authority to sell the obligation it holds of the member countries provided four-fifths of the member votes approve, and provided the representative of the country in which the securities are to be sold approves.

12. No sale of any currency from the Fund shall be made to a member without approval of four-fifths of member votes when the currency so sold is to be used or is to make possible adjustment of a government foreign debt which had been defaulted.

13. Any member country can borrow local currency from the Fund for one year or less up to 75 percent of the currency of that country held by the Fund, provided such loan is approved by three-fourths of the member votes.

    A country borrowing such funds shall pay to the Fund an interest rate of 1 percent a year. Revenue from such loans shall constitute a reserve for the Fund which can be drawn upon to meet expenses or losses of the Fund.

14. A very moderate service charge shall be made by the Fund on all exchange and gold transactions.

III. Eligibility for Membership.

Any member of the United or Associated Nations is eligible for membership in the Fund provided it agrees:

1. To abandon, not later than one year after joining the Fund, or after the cessation of hostilities, whichever is later, all restrictions and controls over foreign exchange transactions with member countries, except with the approval of the Fund.
2. To alter exchange rates on the currencies of other countries only with the consent of the Fund and only to the extent and in the direction approved by the Fund.
3. (a) Not to accept or permit deposits or investments from any member country except with the permission of the government of that country, and

   (b) To make available to the government of any member country at its request all property in form of deposits, investments, securities, safety deposit vault contents, of the nationals of that member country.
4. Not to enter upon any bilateral clearing arrangements.
5. Not to adopt any monetary or general price measure or policy, the effect of which, in the opinion of a majority of the member votes, would be to bring about sooner or later a serious disequilibrium in the balance of payments, if four-fifths of the member votes of the Fund submitted to the country in question their disapproval of the adoption of the measure.

6. To embark upon a program of gradual reduction of existing trade barriers--import duties, import quotas, administrative devices--and further agree not to adopt any increase in tariff schedules, or other devices having as their purpose higher trade obstacles, without giving reasonable opportunity for the Fund to study the effect of the contemplated change on exchange rates and register its opinion. In rendering its opinion, the Fund will make recommendation to which the member governments agree to give serious consideration.
7. Not to permit any defaults on foreign obligations of the government, Central Bank or government agency without approval of the Fund.
8. Not to subsidize--directly or indirectly--the exportation of any commodity or services to member countries without consent of the Fund.

IV. <u>Composition of the Fund</u>.

1. The Fund shall consist of gold, currencies of member countries, and member government securities in such amounts as shall be indicated by a formula set forth in the agreement.

   The total subscription to the Fund shall be the equivalent of at least $5 billion. The Bank of the United Nations should subscribe $100 million to the Fund.
2. The contribution of each country shall consist of 25 percent cash and 25 percent in interest-bearing government securities (interest and principal payable in gold or its equivalent). The remaining 50 percent to

be paid in such installments and in such form as shall be determined from time to time by the Fund.

The initial payment of 25 percent cash shall consist of at least one-half in gold, the remainder in local currencies.

V. Management.

1. The management of the Fund shall be vested in a Board of Directors consisting of the representatives appointed by the member governments. Each government shall appoint one representative.

2. The Board shall elect a chairman and a small operating committee. The Chairman shall be chief of the operating committee. The members of the operating committee should devote full time to the management of the Fund, should be assisted by an appropriate technical staff, and should receive an adequate salary. The Chief of the operating committee with the approval of the Board shall appoint the heads of the departments.

3. In all voting by the Board each representative shall have one hundred votes, plus one vote for every million dollars of gold (computed at $35 an oz.) turned over to the Fund by his government, plus one vote for the equivalent of every $2 million of local currency originally turned over to the Fund.

4. A country c an replace, wholly or in part, its bonds or currency with gold. The number of votes its representative can cast will alter accordingly.

5. A country c an, with the approval of the Fund, increase its contribution of gold and with it the number of its voting shares.

6. All decisions, except where specifically provided otherwise, shall be decided by the majority of the votes cast.

7. The President of the Bank for the United Nations shall be a member of the Board and shall have 100 votes. He shall have no additional votes notwithstanding the Bank's participation in the Fund.

VI. The rules and regulations regarding the type, amount and conditions of day-to-day transactions to be handled by the operating committee, shall be promulgated by four-fifths of the member votes.

VII. No change in the gold value of any currency of the participating countries shall be permitted to alter the gold value of the total currency holdings in the Fund. Thus, if the currency of any of the participating countries should depreciate, that country must deliver to the Fund an amount of its local currency equal to the decreased value of that currency held by the Fund. Likewise, if the currency of a particular country should increase, the Fund must deliver to that country an amount (in the currency of that country) equal to the resultant increase in the gold value of the Fund's holdings. This provision does not apply to currencies acquired under paragraph 4 under section on "Powers".

VIII. A country failing to contribute to the Fund sums due the Fund shall be dropped as a member, provided a majority of the member votes so decide. Any member dropped shall have returned to it an amount (in its own currency) equal to its contribution minus any sum due by that country to the Fund.

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

1. 50 percent to reserves until the reserves are equal to 10 percent of the assets of the Fund.
2. 50 percent to be divided each year among the members in form of the local currency. That is, each country shall ~~distribute~~ receive its dividends in its own currency.

X. The member governments agree to furnish the Fund with all information it needs for its operations, and to furnish such reports as it may require, in the form and at the times requested by the Fund.

The possession by the Fund of adequate, timely and appropriate information is a vital necessity to its proper functioning. The Fund should have the authority to require that all members file with it a quarterly itemized balance of payments. This balance of payments record--which is of particular importance in the operation of this Fund--should be standardized in form, and carefully designed by the technical staff of the Fund.

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B. SUGGESTED OUTLINE OF A BANK FOR RECONSTRUCTION OF THE UNITED AND ASSOCIATED NATIONS.

I. The objectives of the Bank are:

1. To provide capital for the economic reconstruction of the member countries.
2. To facilitate a rapid and smooth transition from a war-time economy to a peace-time economy in the member countries.
3. To supply short-term capital for the financing of foreign trade among the member countries--where such capital is not available from private sources at reasonable rates.
4. To help strengthen the monetary and credit structures of the member countries by redistributing the world gold supply.
5. To eliminate the danger of world-wide crises that are financial in origin, and reduce the likelihood, intensity and duration of world-wide economic depressions.
6. To help stabilize the prices of essential raw materials and other important commodities.
7. To raise the producitivity and hence the standard of living of the peoples of the member countries.
8. To promote a greater degree of economic cooperation and collaboration among the member countries.
9. To make easier the solution of many of the economic and political problems that will confront the "peace conference".

10. To enhance the opportunity throughout the world for a healthy development of democratic institutions.
11. To provide for the financing and distribution of foodstuffs and other essential commodities needed for the relief of populations devastated by war conditions.
12. To promote an equitable access to scarce essential raw materials.

II. <u>To help carry out these objectives, the Bank shall have the power to:</u>

1. Make short-term and long-term loans to any participating government and to any political subdivision or business enterprise therein, provided:
   a. The servicing of the loan is fully guaranteed by the national government.
   b. The funds cannot be borrowed from private investors except at high rates of interest.
   c. The loan is made only after a careful study and written report by a competent committee on the merits of the project and the loan.
   d. Only when the committee's report definitely indicates that the loan would serve directly or indirectly to permanently raise the standard of living of the borrowing country, except where the purpose of the loan is to provide emergency relief for devastated areas of war-impoverished inhabitants.
   e. Only at very low rates of interest--preferably not higher than 3 percent, with a schedule of repayment appropriate to the project.

2. Whenever possible the Bank should guarantee loans made by private investors, instead of making the loans directly, provided:
   a. The rate of interest is not in excess of (say) 4 percent, and
   b. Not more than 80 percent of the principal and 50 percent of the interest is guaranteed.
   c. The loan is not for the purpose of repayment of an old loan.
3. Issue its own demand currency notes against a 100 percent par value of the obligations of a participating government, or against obligations guaranteed by the participating government, provided there is maintained in the Bank a gold reserve of fifty percent of the notes issued. The obligations of, or guaranteed by, any single participating government shall not constitute backing for more than 10 percent of the maximum amount of notes that can be issued. The notes should be redeemable in gold on demand only by member governments.

   The gold equivalent of the international unit shall be fixed by the Bank, and can be changed only by approval of at least 90 percent of the member votes.
4. No extension of credit shall be extended by the Bank to any country, the national government of which is in whole or partial default of a foreign loan, unless
   a. The defaulted loan was made between Allies in a common war, or

b. The defaulted government has agreed to renew service of the defaulted debt on a basis worked out by a special committee appointed by the Bank for that purpose, or

c. Ninety percent of the member votes approve the loan.

5. Loans made for the purpose of providing metallic reserves or otherwise strengthening monetary systems of the borrowing country shall bear lower rates of interest and have longer terms of repayment than loans made for other purposes.

6. The Bank shall impose no condition upon an extension of credit or loan as to the particular country in which the proceeds of the loan must be spent.

7. No loans or extension of credits shall be made when the funds are to be used for acquisition of armaments or war material.

8. When a loan or credit is extended to a member country, the Bank shall divide the loan into two parts: local currency and international units, according to an estimate of the portion of the loan that is to be spent at home and abroad. Service of the loan shall be either in the identical currency borrowed, or in the New International Unit or gold.

9. The Bank can organize and finance an International Essential Raw Material Development Corporation for the purpose of increasing the world supply of essential raw materials and assuring member countries an adequate supply at fair prices, provided:

a. Three-fourths of the member votes approve each separate project and amount invested.

b. The product is sold to member countries on equal terms.

10. The Bank can organize and finance an International Commodity Stabilization Corporation for the purpose of stabilizing the price of important commodities, provided:

a. At least five governments participate directly in the management and operation of the corporation and subscribe to part of the capital of the corporation.

b. The corporation will undertake to stabilize the price of any specific commodity only with the consent of the Bank.

c. The policy governing the operations of the Corporation gives, in the opinion of the Board, proper weight to the interests of world consumers as well as producers.

11. Buy, sell, hold and deal in gold, and in the obligations and securities of any participating government. Act as a clearing house of funds, balances, checks, drafts and acceptances for the account of participating governments or their fiscal agencies, and accept demand, time and custody deposits and accounts from participating governments and their fiscal agencies and central banks.

12. Discount and rediscount bills, acceptances and other obligations and instruments of credit of participating governments and fiscal agencies and central banks.

13. Act as agent or correspondent for any participating government and for fiscal agencies, central banks and political subdivisions.

14. Rediscount with any government or fiscal agency or central bank bills, acceptances and other instruments of credit taken from the Bank's portfolio.

15. Issue or sell debentures and other securities and obligations of the Bank to obtain assets for the purposes of the Bank.

16. Deal only with (a) the governments of members of the Bank, and (b) with the central banks or fiscal agents of those countries only with the consent of the Minister of Finance of the country in question, and (c) with the United Nations Stabilization Fund, and (d) with any international bank owned jointly by some of the member governments.

17. Engage in financial and economic studies and publish reports thereof.

III. Capital structure.

1. The capital stock (expressed for convenience in terms of United States dollars) shall be authorized up to $10 billion, consisting of 10,000 shares having a par value of $1 million each. The shares purchased are to be paid for in gold and local currency. Fifty percent of the issue price of each share purchased shall be paid up at the time of subscription and the remainder as and when called for by the Bank. Of the initial 50 percent payment, half shall be in gold and half in the currency of any participating country.

2. The shares are non-transferable, but the Bank, with the approval of four-fifths of the Board of Directors, can, under certain conditions, buy back shares offered to it.
3. Each eligible government can subscribe to as many shares of stock as it wishes but the maximum vote permitted any government is 25 percent of the total, irrespective of the sum subscribed. Each government must subscribe to at least a number of shares equal to 2 percent of its annual national income, estimated to the nearest hundred million.
4. Each member of the Bank shall be able to cast 50 votes plus one vote for each share of stock held. Thus a government owning one share shall be able to cast 51 votes, while a government having 1,000 shares can cast 1,050 votes.
5. The United Nations Stabilization Fund should subscribe to 100 shares but should be able to cast only 50 votes.

IV. Eligibility for Membership.

1. To be eligible for membership a government must:
   a. Be a member of the United Nations Stabilization Fund.
   ~~b. Subscribe publicly to the "Magna Carta of the United Nations".~~
   b. Be at peace with member countries.
2. Any government that withdraws or is expelled from the Fund gives up its membership ipso facto in the Bank.
3. Any member that is held by two-thirds of the members of the Board--not member votes--to have undertakan an act of military aggression against any other member of the

Bank shall forfeit its membership in the Bank. Its holdings of stock shall be repurchased by the Bank at a price fixed by the Board.

V. Management.

1. The administration of the Bank shall be vested in the Board of Directors composed of one director and one alternate appointed by each participating government. Each government shall appoint its director and alternate in a manner to be determined by it. Such director shall serve for a period of three years, subject to the pleasure of his government.

2. The Board of Directors shall select a president of the Bank who shall be the chief of the operating staff of the Bank and also shall be ex-officio chairman of the Board, and one or more vice presidents. The president and vice presidents of the Bank shall hold office for two years, shall be eligible for reelection and may be removed for cause at any time by the Board.

3. The departmental organization of the Bank shall be determined by the Board of Directors. The heads of departments and other similar officers shall be appointed by the Board on the recommendation of the president. The remainder of the staff shall be appointed by the president.

4. The Board of Directors may also appoint from among its members an executive committee. A member of the B oard of Directors of the Fund, elected by that Board, shall be a member of the executive board of the Bank. The Board may at any meeting, by a four-fifths majority

vote, authorize the president or the executive committee or any other committee of the Bank to exercise any specified powers of the Board; provided, however, that such powers shall be exercised only until the next meeting of the Board and shall be exercisedin a manner consistent with the general policies and practices of the Board. The Board may also, by a four-fifths majority vote, delegate to designated officers and committees of the Bank, for such periods as it may determine, power to make loans and extend credit in such amounts as may be fixed by the Board.

5. The Board of Directors may appoint advisory committees chosen wholly or partially from persons not regularly employed by the Bank.

6. Except where otherwise provided, decisions of the Board of Directors shall be by simple majority of the votes cast. When deemed by the president to be in the best interests of the Bank, decisions of the Board may be made, without a meeting, by polling the directors on specific questions submitted to them in such manner as the Board shall by regulations provide.

7. Authorization or approval by two thirds majority vote of the Board of Directors shall be required for the making and granting of intermediate and long-term loans and credits. including the assumption of the obligation of a guarantor on intermediate and long-term loans and credits; the acquisition and sale of, and dealing in intermediate and long-term obligations and securities; the discounting and rediscounting of

intermediate and long-term paper; the issuance of debentures and other securities and obligations of the Bank; the selection or removal of a president, the vice presidents.

VI. Distribution of profits.

1. The yearly net profits shall be applied as follows:

   a. Twenty-five percent of the profits shall be applied to surplus until the surplus shall be equal to 20 percent of the paid-in capital, after which all profits shall be distributed in proportion to shares held.

   b. Profits shall be payable in gold or any currency the shareholders shall elect.

   c. Profits and accounts shall be recorded in terms of the New International Units. The rates of exchange between member country currencies shall be those used by the United Nations Stabilization Fund.

VII. If a member country elects to withdraw or is expelled from the Bank its shares of stock shall, if the Bank has a surplus, be repurchased at the price paid. If the Bank's books show a loss the departing member country shall bear a proportionate share of such loss.

If a member country withdraws or is dropped from the Fund, it also forfeits membership in the Bank unless four-fifths of the member votes favor its remaining as a member.

PART II

Part II

Suggested Outline of a United Nations Stabilization Fund

I. Purposes of the Fund

The various purposes enumerated below are to a considerable extent interdependent and overlapping and in some instances may even represent apparently conflicting tendencies. Yet, progress in the attainment of almost any one of them facilitates progress toward the attainment of many of the others. Each of them represents a different phase of international monetary arrangements and calls in the main for different procedure, different powers, and in some cases, different kinds of resources.

The fact that some of the objectives may be at times harmonious and at other times conflicting, indicates that the management of an international stabilization fund cannot be reduced to a matter of simple rules. The successful operation of the Fund calls for constant examination of a large variety of pertinent factors and the continual evaluation of various effects which might be expected to follow any particular action or failure to act.

Stabilization of foreign exchange rates.

The advantage of obtaining stable exchange rates are patent. The maintenance of stable exchange rates means the elimination of exchange risk in international economic and financial transactions. The cost of conducting foreign trade is thereby reduced, and capital flows much more easily to the country where it yields the greatest return because both short-term and long-term investments are greatly hampered by the possibility of loss from exchange depreciation. As the expectation of continued stability in foreign exchange rates is strengthened there is also more chance of avoiding the disrupting effects of flights of capital and of inflation.

Altogether, if the Fund were successful in bringing about a much greater degree of stability in foreign exchance relationships than existed during the 'twenties and 'thirties, it will have justified its existence on that score alone.

Flow of productive capital, blocked balances, and redistribution of gold.

The desirability of encouraging the flow of productive capital to areas where it can be most profitably employed needs no emphasis. The Fund can help encourage that flow by reducing exchange risks, and also by making the imposition of restrictions on exchange transactions less likely to happen. Finally insofar as the Fund can help strengthen the monetary and banking system of the country, it increases that country's attraction to funds of private foreign investors.

Balances owned by residents of another country which have been blocked because holdings of gold and other liquid foreign exchange assets are inadequate (this does not apply to the United States where restrictions have been imposed wholly for political reasons and not because of any scarcity of gold reserves) will constitute after the war one of the danger spots to monetary stability, and to resumption of liberal trade policies. If the Fund can eliminate that danger spot it will have justified its existence--even if it were to accomplish nothing else.

The Fund has the possibility of utilizing more effectively the gold resources of any given country, and thereby encourage countries to hold larger gold reserves. By facilitating an easier adjustment of the international balance of payments, it reduces the volume of hectic gold movements. Machinery can be developed under the aegis of the Fund, with which countries can more easily develop a favorable balance of payments vis-a-vis the gold-holding and producing countries. The Fund can also encourage the return flow of gold from the United States to countries that formerly suffered from substantial flights of capital by providing strength to countries with weakened economic and credit systems.

Servicing of international debts.

The reduction in risk of exchange loss and progress toward elimination of restrictions on foreign exchanges should make easier debt adjustments of foreign debts - both public and private - now in default and continued servicing of debts not in default.

To help stabilize price levels.

Any development which would contribute toward stability of price levels is greatly to be welcomed. One of the destructive elements in domestic as well as international trade is wide swings in price levels. An intelligent use of an international stabilization fund could contribute something toward reducing the fluctuations, and even the cyclical movements, of prices within a country and in the relationship of price levels between countries.

To reduce the necessity and use of foreign exchange controls.

Foreign exchange controls usually constitute an interference with trade and capital flows. Unfortunately, such controls are too often preferable to the alternatives facing a particular country. Insofar as an international stabilization fund can reduce the necessity for such controls and can prevent the use of such controls where they are not necessary, it will serve to substantially increase foreign trade of nations and encourage the flow of production capital.

To eliminate multiple currency practices and bilateral clearing arrangements.

The development in the 'twenties and 'thirties of multiple currency devices and bilateral clearing arrangements served to disrupt trade, increase economic difficulties in some countries, and stimulate the worst kind of competitive practices among countries seeking to increase their foreign markets or protect the foreign markets they already have. These practices frequently arise from difficulties which are subject to correction by an appropriately handled stabilization fund. It is expected that an international stabilization fund with ample resources and broad powers could do much to eliminate the justification for resorting to these trade practices that are an obstacle to a high level of foreign trade for all countries. The Fund might also help to attain that desirable objective by discouraging through drastic means if necessary resort to such practices among its members.

<u>Promotion of sound note issuing and credit policies and practices</u>.

The sounder the monetary and banking policies of governments, the less sensitive are they to economic disturbances, and the quicker will be the recovery from any depression. There are numerous ways in which an international stabilization fund could add to the strength of monetary systems of member governments.

<u>Reduction of trade barriers</u>.

The existence of high tariff policies and other obstacles to trade and the tendency during the post-war period to heighten those barriers, are serious barriers to recovery and maintenance of a high level of economic activity among countries. It will be readily admitted that if an international stabilization fund can bring about a reduction in the unnecessary barriers to international trade, it will have performed a very valuable service toward maintaining business recovery after the war.

<u>The establishment of an efficient clearing house for international monetary transactions</u>.

The advantage of providing such a clearing house could be substantial, particularly among countries who transact a small volume of business with each other. The spread between the buying and selling rates of some foreign currencies is much larger in some countries than it should be. Thus transactions between those countries are subject to handicaps that are unnecessary. It is impossible to measure the gains that accrue from more efficient handling of clearances, but they could be substantial.

Can these objectives be reached?

If the Fund is to make much progress toward achieving the objectives enumerated in the previous pages, it must have broad powers and courageous and intelligent direction. Each of the objectives listed, if achieved, would help in some degree to restore world prosperity. In fact some of the objectives are so important that it might be fair to say that sustained world prosperity is impossible unless considerable progress is made toward their attainment. It is a task that is surely within the competence of the present generation.

II. Powers of the Fund

The Fund should have the power to buy, sell and hold gold, currencies, foreign exchange, bills of exchange, and government securities of the "member" countries, and act as a clearing house for international movements of gold and the Fund.

The purchase and sale of gold would be an essential part of the operations of the Fund. The Fund might well become the most attractive depository for earmarked gold, and be the means of greatly reducing the need for physical transfers of gold among members.

To promote the practice of "earmarking" gold its storing and transfer could be made without charge to members, and agreement between countries could accord a maximum of legal security to such holdings. It should even be possible to secure written assurance by the government of the country where the gold was to be held that such gold would not be subject to any controls. Earmarked gold could be given a special status so that countries could unhesitatingly earmark large amounts with the Fund and still record such gold as part of their own reserve. The Fund might find it convenient to have a branch office on each continent. This would still further cut down gold shipments. It would also speed up other kinds of transactions.

Dealings in foreign exchange would constitute, of course, the chief business of the Fund. It is through such transactions that the Fund would be expected to carry out many of its objectives. It might therefore be helpful if this part of the Fund's operations were described with little more detail. Unfortunately for the layman discussion of foreign exchange transactions is not easy to follow even though care is exercised to exclude technical terminology. Yet unless this part of the Fund's activities are understood it is impossible to properly evaluate the role an international stabilization fund can play.

In the several pages which follow the exchange operations with which the Fund would be chiefly occupied are briefly described.

The Treasury, or its fiscal agent, of each member country shall have the privilege of purchasing from the Fund the currency of any member country which the Fund holds, provided:

(a) The currency demanded from the Fund is required to meet an adverse balance of payments to the country whose currency is being demanded.

Since the Fund would deal only with and for Treasuries (or their fiscal agents and the Bank) the regular private channels through which foreign exchange transactions are now consummated by private banks would continue to serve. It is presumed that the Treasuries would deal in foreign exchange only when exchange situation warranted government operation. They might also employ the Fund to transact foreign exchange business between governments.

Certain restrictions on operations are necessitated by the wide differences in the strength of the various currencies. If any country could purchase from the Fund as much of any currency it pleased at a fixed rate without reducing the supply of the strong currency available in the open market, countries with weak currencies would be tempted to accumulate stocks of strong currencies. The Fund's supply of gold and strong currencies would soon be depleted and in their place would be weak currencies, i.e. currencies of countries which prefer other currencies to their own. Some restrictions are therefore necessary.

The first condition of purchase might be that the currency purchased must be needed to meet an adverse balance of payments to the country whose currency is being demanded. Thus, a country could not obtain gold or other currency from the Fund if the direct result were to increase the gold or foreign exchange holdings of the Government, its Stabilization Fund, or fiscal agent, except, of course, possibly for short periods.

There would be no justification for a member government to use the Fund's assets as a means of converting its currency into gold or foreign exchange, unless it needed that gold or foreign exchange to meet immediate or imminent claims or liabilities. It is quite true that one of the possible reasons why a government would need more foreign exchange might be that its nationals were building up their foreign balances, or increasing their foreign investments. That, however, is a quite different matter than the government or Central Bank building up its foreign balances. The Fund might wish to supply the foreign exchange when the demand arises from the movement of private funds. Whether or not it would wish to do so depends on a number of factors. Each episode would have to be considered on its own merits. It is important that when there is present in the balance of payments of the country in question substantial outflow of capital the Fund have the authority to provide the exchange or not, as it sees fit. It would have this authority in any case, as indicated below, if the country in question had already obtained its maximum quota of foreign exchange, but the Fund should also have the privilege of not responding to demand for exchange, even before the quota was reached, where capital movements are involved.

What this matter boils down to is that the Fund should have the authority to determine whether the transactions causing a balance to turn unfavorable include such as the Fund would judge "illegitimate" under the circumstances. There are times when some types of capital outflow for some countries would be considered "legitimate", whereas the same type for other countries would be regarded as "illegitimate." There might also be instances in which all types of capital outflows might be considered "illegitimate", whereas for another country, all types might be considered "legitimate." No generalization can be made without all the circumstances being given. It is necessary only that the Fund have authority to make the decision on this matter and, further, as explained later, that the Fund has the authority to request the kind of information which would enable it to make an intelligent decision.

To aid in the settlement of international balance is the legitimate use of the Fund and this use is in no way interfered with by the above restriction. Better information on foreign balances and volume of exchange transactions than is now available in most countries will be necessary before it will be possible for the Fund to operate without error under this restriction, but the development of such statistical data should not be difficult, especially because of the prevalence of exchange controls in most countries.

(b) The sum in the Fund of the currency of the country making the purchase shall be, after adding the sum proposed to be sold to the Fund, not more than 100 percent of the total sum (currency, gold and notes) originally contributed to the Fund.

The restriction that the foreign exchange should be needed to meet adverse balances is not enough, however, to protect the strong assets of the Fund. If that were the only restriction imposed, a country could continue for a long time to permit an unfavorable balance of payments without calling forth the usual restraints. Without additional restrictions the Fund would in effect be placing the entire gold and foreign exchange assets at the disposal of any member country. The purpose of the Fund could not be to supply an unlimited amount of foreign exchange to any country which might not wish to adopt the proper measures to correct a prolonged disequilibrium in its transactions with foreign countries. A quantitative limit is therefore also necessary on the amount of foreign exchange a county could purchase from the Fund, without special action.

What limit it were best to set is difficult to decide, of course. It should be large enough to take care of fluctuations in the country's balance of payments that occur within a year or two, but should not be so large as to make it unlikely that it would be repurchased by the country in question within a reasonable time. It is suggested that a country should be able to purchase with its currency any other country's currency so long as the Fund's holdings of the purchasing country is not more than 100 percent of that country's original total contribution to the Fund. Since one-fourth of the original contribution was in form of gold (plus 1/4 in local currency and 1/2 in notes or bonds) the 100 percent increase in the holdings of the Fund actually represents an increase of 200 percent of the local currency subscribed. In other words, a country subscribing $100 million, consisting of $25 million gold, $25 million local currency, and $50 million obligations would be able to buy with local currency as much as $75 million of any currency needed. That may seem small and doubtless is for some countries. However, it should be noted the limit is not a rigid or final one. It is supplemented by an important qualification, to be described in a moment.

How the transaction would work out may be more easily understood by following through the steps of a transaction using a simplified illustration:

The Government (or fiscal agent) of Country A finds that the demand by its nationals for foreign exchange, arising out of trade and service transactions, is increasing relative to the supply, to the point where it must (a) give up more gold than it feels desirable, or (b) impose restrictions on imports --either through exchange controls or import controls, or (c) permit its currency to depreciate. In that situation, being a member of the Fund, it turns to the Fund for the assistance it is entitled to receive.

It purchases from the Fund as much of the types of currencies it needs, paying for it with its own currency. This it can do as its right so long as the sum of its currency which the fund possesses is not in excess of 100 percent of Country A's original total contribution.

The Fund can obtain the currency of Country A only from Country A. Therefore, if Country A's balance of payment position does not long remain in disequilibrium, other countries will sooner or later turn to the Fund to buy currency of Country A, and Country A will again be able to buy other currencies from the Fund if necessary.

If the balance of payments position among all the member countries did not stray from equilibrium by large amounts (relative to their foreign exchange assets) or for long periods, then the Fund would serve as a sort of reserve pillow absorbing the shock of pressures on exchange rates, thus safeguarding trade from unnecessary restrictions and exchange from unnecessary fluctuations. But it would be unwarranted to expect all the balance of payments situations to return quickly to equilibrium. For some countries it would frequently happen, and for almost all countries it would sometimes happen that an adverse balance of payment situation would persist. There are a number of reasons for this, but it would take more space to explain them than is justified in this report. Suffice to say that it would be wholly to be expected that some member countries would frequently find they have sold so much of their currency to the Fund that the Fund held the maximum 100 percent excess. When that point will have been reached by any country it will have already obtained substantial assistance.

Let it be assumed, for example, that Country A had originally contributed $100 million to the Fund, and due to the development of an adverse balance it has sold to the Fund $75 million in addition to the $25 million originally subscribed. When that point is reached Country A will have received what is virtually a costless "loan" of $50 million of other countries' currencies. It really is not a loan since Country A has given its own currency in exchange, yet Country A has been able to buy $75 million of foreign exchange with its own currency, whereas without access to the Fund it would have had to use gold or other foreign exchange resources. Since Country A has subscribed $25 million in gold to the Fund which it otherwise could have used to purchase foreign exchange, the gain it is able to make through its membership in the Fund is the use of an additional $50 million. That, however, need be only the beginning.

There is a provision which permits the Fund to increase its purchase of Country A's currency after the above-described maximim is reached, as follows:

A country can exceed the limit imposed by the regulation provided it can obtain approval of four-fifths of the member votes.

This approval should be given only if four-fifths of the member votes were of the opinion that (a) the anticipated balance of payments picture of the country in question were such as to warrant the expectation that the "excess" could be disposed of within a reasonable time, or (b) if the country in question had gold holdings which together with the gold it expected to accumulate within a reasonable time was adequate to replace the excess, and (c) if the country in question agreed to adopt and carry out measures designed to correct the disequilibrium measures which the Fund either approved or suggested.

This provision gives the desired flexibility. No country need suffer from lack of foreign exchange necessary to meet temporary drains. It need not even suffer from shortage of foreign exchange during a prolonged period of disequilibrium provided the Fund was satisfied proper steps were being taken to restore equilibrium.

Admittedly the operation of that flexible provision would call for technical knowledge, careful examination and good judgment by the Fund's staff. It is hoped that the technical staff which the Fund would gradually develop would be the most competent available in that special field. It would need to be because the problems it will have to deal with are difficult and because the success of the Fund in reducing fluctuations in foreign trade and in preventing monetary disturbances will depend largely upon the wisdom of the technical staff's advice. The Fund would doubtless be free from political pressure from any one country in its decisions, and should be able to make recommendations more apt to be in the long-run interest of the country concerned, than would likely be the case where decisions are dominated by short-run considerations or by domestic political considerations.

To what extent the Fund will be called upon to purchase and accumulate cannot be forecast. It depends on a number of changing factors, such as: how many countries will participate in the Fund, and how much each will invest; how rapidly foreign exchange controls will be eliminated; how much capital will be available for foreign investment, and finally, the pattern of world trade which will emerge shortly after peace is resumed.

Much also will depend on the extent to which some of the countries have foreign balances to which they will prefer to resort when experiencing adverse balances. That will mean that the Fund will not be able to convert some of the currencies which it had acquired as rapidly as would seem to be called for by the then-prevailing pattern of trade. Thus, for example, the Fund may accept sterling from England because England has turned to the Fund to meet an adverse balance of payments. Other countries, however, later developing adverse balances with England might not turn to the Fund for sterling. They might utilize sterling balances which they already have, or dip into ample gold holdings. The Fund would in that case be unable to diminish its holdings of sterling and therefore England would not be able to sell the Fund more sterling later if necessary except by action under the flexible provision.

The fact that the countries which will participate to the largest extent in the Fund are likely to be those least in need of resorting to the Fund for assistance of the character indicated above, would make it possible for the Fund to help most where it would be most needed. Only experience can show how far the Fund could go in eliminating fluctuations in exchange rates and in making the imposition of exchange and trade controls unnecessary. It is certain that the Fund cannot perform miracles, nor solve all problems involved in the maintenance of equilibrium in international accounts. It cannot and should not make it possible for countries to ignore the cardinal principle of international economic relations, namely, that a country must in the long run buy only as much goods and services as it sells. An important exception, of course, is a country which has a balance due it on capital account, but sooner or later even that country will have to sell more than it buys in order to pay interest and principal on its borrowings. To be sure, the country which has foreign exchange resources, in the form of gold or income from foreign investments, can continue to buy more than it seels so long as those resources last, but for most countries these resources are not present in abundance, and hence for most countries the Fund can operate to make their path much smoother provided the countries themselves approach their own balance of payments problem intelligently.

Even if countries ignore the basic limitations set upon any country's ability to buy more than it sells, the Fund can exercise considerable influence in helping them to correct this situation in time, and in ways which will create the smallest amount of destruction to worldtrade and least disturbance to their own economy.

It may be that experience will demonstrate that the limitations set upon the Fund's authority to agree to purchase currencies offered it are too strict. It may be that the commercial policies pursued by numerous countries, including more liberal tariff policies, will reduce the length of time in which countries are apt to experience adverce balance of payments. If so, the Fund can undertake much greater obligations. In any case the Fund is well protected against loss.

It should be remembered that the Fund in its operations is not undertaking the same risk of loss that would be involved in a usual extension of credit. The Fund gets foreign exchange in return for the currency it gives up, and each member government is required to make good any exchange loss suffered by the Fund through depreciation of its currency. Thus, the Fund not only has the foreign exchange which is always worth something, but it also has the obligation of the government to make good any exchange loss that might result. More than that, each government has invested with the Fund gold, currency, and its obligations, which the Fund would, in effect, have as collateral against potential exchange losses.

The Fund would receive additional protection against loss from the fact that a member government not meeting its obligations to the Fund could be dropped. Without knowing how many members will participate or how influential the Fund will become, we cannot say how serious a punishment being dropped from the Fund would be, but it is not unlikely that it would be serious enough to induce any country to make good its obligations to the Fund, difficult though that might prove to be.

Because the Fund will be undertaking so little risk, it can go much further in the assistance it gives to foreign countries than would be the case were the risk of loss great. Should the Fund find itself pressed for certain kinds of currencies, it has of course both assets and borrowing power which can, if necessary, be used to purchase the desired currencies.

The power of the Fund to deal in the bonds of participating government is an important one. It makes it possible for the Fund to come to the aid of any country which is being subjected to pressure on its exchange under circumstances that the Fund might wish to correct. The Fund could, of course, buy the currency of the country but the circumstances might, under certain conditions, be better handled by buying bonds and it might even help countries which for one reason or another do no have or cannot exercise adequate open-market powers and whose money market has become unduly tight.

Unfreezing of Blocked Funds

Special powers are called for to deal with the problem created by the growing magnitude of blocked balances. The countries in which large totals of balances are blocked are the United States and England (Germany is, of course, excluded) whereas the countries to whom those balances belong include almost the rest of the world.

The balances blocked in the United States present no monetary problem. They were blocked for political reasons and will be unblocked as rapidly as the political situation permits. There will doubtless be many cases in which for political or legal reasons, unfreezing will be delayed, but the cause of the delay will not be any scarcity of gold which may safely leave the country. There are more than one billion of earmarked gold, two billions of deposits, and possibly several hundred million of short-term investments, the withdrawal of which has been placed under some restrictions. A rapid withdrawal of any part of it, or all of it, can be handled with the utmost ease by the United States because of its large gold reserves. At most, it may prove necessary to lower reserve requirements to prevent a tightening of the credit situation here--should the outflow be great enough. With the cessation of war the release of dollar funds (equivalent to gold) capable of purchasing goods anywhere will prove a very important factor in stimulating trade and aiding reconstruction. The trouble, if any, is apt to be that nationals and governments of foreign countries will not elect to withdraw their funds from the United States rapidly enough.

The situation with respect to blocked balances in England is quite different. The gold and foreign exchange reserves which England will have at the close of the war are certain to be far too small relative to the sterling balances blocked there to permit England to remove restrictions on the withdrawal of funds by foreign owners. England may end the war with more than 5 billion dollars of deposits belonging to residents of other countries, while her liquid foreign exchange resources are not likely to be so much as a fifth of that. Moreover, England will need whatever gold she will be able to accumulate, and indeed should have more foreign exchange available than she is likely to have, in order to operate properly even were the total of foreign balances in England much smaller. Most of these balances belong to the Dominions who would wish to keep substantial sums in England in any case--unless there was imminent danger of sterling depreciation. Against some of the remainder there are offsetting blocked currencies. Nonetheless, the drain on British foreign liquid exchange reserves could easily be greater than England could safely permit.

The unblocking of these sterling funds is highly to be desired. Probably, no single action would do more to stimulate world trade, prevent pressure on numerous exchanges, and reduce the probability of widespread depreciation of currencies. The restoration of confidence in the soundness of British currency, the assurance that international monetary problems are to be intelligently handled, and renewed hope that currency stability will be achieved after the war that would follow a successful unfreezing of sterling, would alone justify every effort to solve through international action the problem of blocked balances in Britain.

The Fund would seem to be the appropriage agency to use for the solution of that problem. The method that could be employed to accomplish this is a bit complicated to describe but the importance of the subject warrants the attempt to outline it.

To accomplish a maximum of results with a minimum of risks the Fund should be given the power to purchase sterling, or any other currency offered to it, from any country other than the country whose currency is being purchased, provided:

a. The government selling its foreign balances (blocked in another country) to the Fund under this provision guarantees to repurchase 40 percent of the currency from the Fund at the price paid. The repurchase to begin after 3 years and to be made at the rate of not less than 2 percent a year of the amount acquired by the Fund under this authority.
b. England, on its part, (or whatever the country whose local currency belonging to residents of another country is being offered for sale to the Fund) agrees first to transfer title to the balances from the foreign nationals to the Fund, and to begin 3 years after sale to repurchase from the Fund 40 percent of the sterling acquired under this provision at a rate of not less than 2 percent a year, at the purchase price.

c. Not more than 20 percent of the currency offered should be paid for by the Fund with gold, half of which should be exempt from the condition imposed in paragraph d below.

d. The particular currency paid over by the Fund in exchange for the currency offered should be needed by the country to meet an adverse balance of payments. Thus, for example, if Canada wishes to sell to the Fund some of its blocked sterling balances in exchange for United States dollars, the Fund would have to be assured that Canada needs the United States dollars to make payments to the United States (for trade, services, interest payments, or even investments) and not to make possible an increase in Canada's gold holdings or an increase in her United States dollar exchange. In other words, if Canada wished to use the sterling accumulated by herself, or her nationals, to convert into funds to be spent in United States, or in Mexico or in Netherlands, the Fund could make that possible without, on the one hand, putting any strain on England and, on the other hand, without denuding the Fund of its gold assets. In fact, Canada would be able, according to the above provision, to add to her gold holdings by 10 percent of the blocked balances she sold to the Fund.

e. If the Fund's stocks of sterling or other currencies should decline the Fund can offer to reduce the rate of repurchase required of both governments as specified above, but should it do so, the countries involved must be relieved by the same percentage, and shall be deemed to have repurchased the amount by which they are so released.

Perhaps the operation would be more easily understood if the specific steps were outlined which a country would have to go through under the plan suggested here to realize on its blocked funds.

For convenience of illustration, let us take a specific case. Let us assume that China, England, United States and Mexico are involved in the transaction and all are members of the Fund. Let us assume that the Chinese Government has £ 50 million blocked in England and wishes to utilize £ 10 million of it in the ensuing quarter. The steps would be as follows:

1. China makes application to the Fund. The Fund after investigation is satisfied that the use of at least 90 percent of the £ 10 million is not to accumulate gold or foreign exchange. China can if it wishes add the million dollars of gold to her holdings.
2. The £ 10 million is transferred by the British banks from the Chinese Government to the Fund. The Chinese Government pays 1 percent (in yuan) to the Fund and the British pay 1 percent (in sterling) as a "service" charge.
3. The Fund gives to China
   a. the equivalent of £ 1 million in gold (if China wishes it), and
   b. the equivalent of £ 9 million in one or more currencies needed and requested by China--say, $12

million in United States dollars and 120 million Mexican pesos. If the Fund doesn't have enough Mexican pesos, it purchases what it needs.

4. After three years from the date of the transaction:
   a. China begins to repurchase from the Fund each year $800,000 worth (2 percent of 40 percent of 40 million dollars) of British sterling, at the same rates of exchange she received, paying for the sterling either in yuan or other currencies she received, depending upon the wishes of the Fund.
   b. England begins to repurchase the same amount of sterling each year, paying for the sterling either gold or "New International Units".
   c. China is free to do what she likes with her repurchased sterling, England having agreed in the first place that there would be no restrictions on its withdrawal.
5. Not later than 23 years after the transaction the situation would be as follows:
   a. China would have utilized the £ 10 million, while her balance of payments would be burdened by not more than 1-3/4 percent of the £ 10 million a year after three years.
   b. England would have been able to unfreeze China's balances, while imposing no burden on her (England's) foreign exchange resources for the first three years, and from then on 1-3/4 to 3-1/2 percent a year (2 percent of from 40 to 80 percent), depending upon what China elects to do with her repurchased 2 percent.

c. The Fund will have first exchanged $4 million of her gold assets, or possibly more if she had to purchase currencies with gold to satisfy China's demands, and will have exchanged the remainder of the $40 million of various currencies for sterling.

Then the Fund would get back each year gold from England to a sum not less than 2 percent of $18 million until the Fund will have received $18 million in gold. The Fund would also get $18 million of certain currencies from China, leaving the Fund with 2 million pounds sterling.

The Fund will also have earned 2 percent (1 percent in yuan and 1 percent in sterling) in the transactions, and some interest on her investment of sterling balances in British Government securities.

At the end of 23 years--or sooner if England permits--the Fund could sell the remaining £ 2 million of sterling and the transaction would be complete.

The above is the transaction under most unfavorable conditions. A more likely outcome is that either or both China and England could purchase back the sterling from the Fund a great deal sooner than 23 years. Nonetheless, a long period is permitted to assure an easy adjustment for both England and China in the event the situation would not be favorable to a rapid adjustment. The illustration has been that of Government-owned funds.

If, as is equally likely, the British sterling balances were owned by nationals of China instead of the Government of China, the general process would be the same but some details would differ.

First, the Chinese nationals would have to indicate to their Government that they wished their blocked balances released and also state what currency they wish in exchange and the purpose. If they wish yuan currency no purpose need be indicated, but should they wish dollars or pesos, it would have to be for reasons other than merely building up peso or dollar deposits, or accumulating any other foreign exchange. The Chinese Government would then make the arrangements with the Fund, after which the Chinese Government would transfer to its nationals the money which the Fund puts at China's disposal in exchange for their sterling balances. Title to the sterling balances would be transferred to the Fund.

Arrangements for the transaction would take some time, but for the individual holder of the blocked balance the powers would be simple. After the initial arrangements had been completed, the transactions between the Fund and the two Governments involved would assume an almost routine character. Careful watching of the balance of payments of the various countries concerned in the transactions would be necessary continuously. That task, however, would be one of the important current responsibilities of the Fund's technical staff at all times and with all countries. The condition and movements of the international accounts of the member countries would be to the Fund's research staff, what the thermometer, stethescope, x-ray, and microscope, etc., are to the diagnostician. Without a carefully drawn up and compiled quarterly balance of payments account of member countries the technical staff of the Fund would be greatly handicapped in their recommendation of decisions and policies. With adequate data in their hands they would be in a position to know and understand what was going on in matters pertinent to the work of the Fund.

To return to the question of how much the Fund could be expected to do with blocked balances, it might be that the sum of blocked balances which the Fund would be called upon to purchase would be greater than the Fund felt it could afford to take. If, for example, it were asked to absorb two billion dollars of blocked balances it might well hesitate if such assets were not to be liquid. It might be three years before they could sell any of it, and even then they might not be able to sell it at a faster rate than 4 percent a year. The Fund could, it is true, invest the assets in interest-bearing Government obligations (of the country in which the currency is blocked), but they could not convert those into gold or other currencies without either risking a loss on the transaction or adding to the possible drain of gold from the country whose obligations they were selling.

If the Fund attempted to sell a substantial amount of (say) British Government obligations payable in sterling to residents of United States, the price the Fund would get might be substantially less than what the Fund paid for the bonds.

Moreover, if the Fund invested the blocked sterling in British Government bonds, and then sold them in New York, and later the American sold the bonds in London getting sterling which would not be blocked, the end result would be that England would be subjected to the drain on her foreign exchange resources which she wished in the first place to avoid. It is clear, therefore, that if the Fund invests its sterling in British Government obligations, it should not be permitted to sell them except as England repurchased them according to the schedule, or unless the British Government approved the sale.

Yet the Fund would like to take over as much of the blocked balances as possible, but on the other hand could not tie up too much of her liquid resources in frozen currencies. A way out of the dilemma might be to permit the Fund to borrow in New York (or anywhere else except England) using as collateral the British Government bonds. With that possibility for converting a frozen asset into a liquid resource the Fund could afford to take more blocked balances. It might even be feasible to arrange that the bonds be special ones payable in either gold or sterling (at the holder's will), in order to increase their collateral value. Since 40 percent of the blocked sterling the Fund acquires would have to be repurchased with gold anyway, this latter possibility might be acceptable to the Government concerned.

The end result of the exercise of this authority should be:

1. Private holders of blocked sterling balances should be able to convert them at once into their local currencies

by selling them to their Government. With that currency nationals, as distinct from the Government, could purchase any currency they wished.

2. Their Government would be in possession of sterling which at only a small risk of exchange it could sell to the Fund for any currency it wished.

3. England could at once remove restrictions on the withdrawal of foreign-owned sterling balances without fearing any serious drain on her gold or other foreign exchange assets. She would have to purchase back only 40 percent of the funds withdrawn under this authority at the rate of 2 percent a year, beginning after three years.

Two gains would quickly emerge: one, the demand for withdrawal would be greatly lessened by the fact that foreign holders would have no reason to hurry their withdrawal, and two, the post-war pressure against sterling would be dissipated and hence the sterling rate could be more easily maintained.

If adjustment of the price of sterling in terms of other currencies were later justified by a basic unbalance, then only 40 percent of the resultant exchange loss would be borne by England, and not more than 40 percent by the country having blocked balances, and 20 percent by the Fund.

4. Finally, foreign purchasing power would be released to be spent wherever desired, and one of the potent obstacles to a return to fair trade practices removed.

This provision on blocked balances is definitely not proposed as a method of freeing balances which might accumulate currently after the war. Unless the funds to which this particular power is to apply is clearly delimited, the provision would overlap and largely nullify other provisions contained in the proposal specifically designed to meet current and developing situations in a country's balance of payments. The provision we have been discussing above is not intended to make it possible for owners of foreign balances--whatever the source of these balances may be--to withdraw those balances at will at the expense of the Fund's assets. It is hoped that the Fund ~~will~~ make it possible for all countries to remove restrictions on exchange transactions, but this particular provision should be used as the vehicle to free only blocked balances in existence at the date the country joins the Fund.

It is for the purpose of clearing up the present bad situation with respect to blocked currencies that this provision is included. In the event a similar situation develops in the future, authority is granted to the Fund provided four-fifths of the member votes approve to initiate a similar program which would apply to the then-existing balances.

To provide the data necessary for the operation of this provision each member country should be required to file with the Fund a record of the balances in its country owned by residents of foreign countries, and also a record of the balances of its nationals held abroad. These balances should be broken down in the significant categories as required by the Fund. A quarterly report should be filed keeping the information up to date.

The fact that each of the parties concerned, i.e. (1) the country in which the balances are blocked, (2) the country whose nationals own the balances, and (3) the Fund--will be undertaking an exchange risk should help prevent undesirable practices or misapplication of this provision.

In evaluating the effectiveness of this provision to liberate blocked balances, it must be borne in mind that the mere existence of this power will remove much of the eagerness to withdraw funds in the near future. That reaction would in turn make it easier for England (and other countries) to remove exchange restrictions. Even though the blocked balances in various countries outside of the United States may be as high as 6 billion dollars, only a portion of that would be called upon unless there were strong fears of depreciation of sterling--a development the Fund could do much to prevent. The greater the assurance that foreign exchange rates will be stable, and the knowledge that large portions of the funds will be unblocked periodically would encourage holders of these balances to diminish their withdrawal requests.

However, since the amount that the Fund might be called upon to absorb might be larger than it wished to handle at the beginning, the Fund is given the authority to set a maximum percentage of blocked balances that could be handled through this provision in any given period. It would be easy enough to adjust that percentage upward if circumstances indicated it could be safely done.

The Fixing of Rates

The Fund would fix the rates at which it will exchange a member's currency for another, and the rates at which it will buy and sell gold in exchange for local currency.

The guiding principle in the fixing of such rates should be stability in exchange relationships. To assure the maximum stability in rates, it is suggested that alterations in rates set by the Fund beyond the range of narrow fluctuations applying to all rates be permitted only with the consent of 4/5 of the member votes. If a country does not wish to accept or pay the rate fixed by the Fund, it can, of course, attempt to complete its transactions through other channels. Nonetheless the authority to set the rates of exchange at which the Fund is willing to operate can be an important and probably a decisive influence on the rate at which transactions are made outside of the Fund.

The service charge for exchange transactions should be as little as necessary to cover the direct costs of the operations.

Borrowing from the Fund

Any member country can borrow local currency from the Fund for one year or less up to 75 percent of the currency of that country held by the Fund, provided such loan is approved by 3/4 of the member votes.

A country borrowing such funds shall pay to the Fund an interest rate of 1 percent a year. Revenue from such loans shall constitute a reserve for the Fund which can be drawn upon to meet expenses or losses of the Fund.

The object of the provision permitting any member country to borrow local currency from the Fund for one year or less up to 75 percent of the currency of that country held by the Fund, provided such loan is approved by 3/4 of the member votes, is to make it possible for a member country to reduce the burden of participation on its budget. Some of the countries may at times be confronted with deficits, and the investment that they would have in the Fund should be a source to which they could turn in time of need to borrow at very low rates of interest. It may well prove to be the case that every country operating at a deficit would prefer to borrow up to the maximum of its local currency, at 1 percent, rather than go into the market and possibly pay 2 or more percent. Inasmuch as a fund could, if necessary, always obtain such local currency by rediscounting the paper in that market, there would seem to be no reason why the Fund should object to such practice on the part of those countries wishing to avail themselves of the low rate of interest. Aslo, from the Fund's point of view, it would be desirable to permit such loans since it would prove a source of revenue with which to meet expenses or losses of the Fund.

Borrowing by the Fund

It is suggested that the Fund should have authority to borrow at such rates as the Fund may recommend, the currency of any country, provided 4/5 of the member votes approve the terms, amount and conditions of such borrowing.

This provision gives the Fund power to obtain any currency it may feel it will need only for a short time. It also makes it possible for the Fund to expand its resources to meet short-term special demands.

<u>Currency sold to a Government in Default</u>

No sale of any currency from the Fund should be made to a member without approval of 4/5 of the member votes when the sale of such currency so sold is to make possible adjustment of a government foreign debt which had been defaulted. This provision is probably necessary in order to prevent utilizing the Fund for the purpose of servicing a foreign debt. The resources of the Fund should be used for such purpose only when most of the Board feels that the borrowing for debt adjustment is temporary, or when they are convinced that basic adjustments.

<u>Accept deposits, act as clearing house for international movements of funds, balances, checks, etc.</u>

The power to accept deposits and perform clearing functions would enable the Fund to operate more efficiently in its foreign exchange operations. It is not intended that the Fund shall perform banking functions other than those supplementary to the task of foreign exchange stabilization.

<u>Deal only with (a) the Treasuries of the participating countries, or with the official stabilization funds of those countries, and (b) with the bank designated by the participating government as its fiscal agent, and (c) with international banks and international corporations owned by at least five governments.</u>

The Fund is envisaged as an intergovernmental agency which should interfere as little as possible with the operations of private banks, brokers and dealers. It is only when the supply-demand relationship of exchange arising out of usual transactions through the customary channels are causing pressure in an undesired direction, that the Fund begins to operate.

The Fund will also wish to deal with the B.I.S. and the Inter-American Bank should the latter be in existence. The Fund shall have the authority to invest any currency it holds in "short-term" securities--commercial or government--of the country of that currency provided a 4/5 vote of the member votes shall approve and provided further that the approving votes shall include those of the country in which the investment is to be made.

The Fund shall also have authority to sell the obligation it holds of the member countries provided 4/5 of the member votes approve, and provided the representative of the country in which the securities are to be sold approves.

No sale of any currency from the Fund shall be made to a member without approval of 4/5 of member votes when the currency so sold is to be used or is to make possible adjustment of a government foreign debt which had been defaulted.

Value of Total Holdings Should Remain Unchanged

No change in the gold value of any currency of the participating countries shall be permitted to alter the gold value of the total currency holdings of the Fund. Through the day-to-day operations of the Fund, the proportion of various local currencies held by the Fund will constantly change, but the book value of the total assets would remain the same in terms of the unit of account (presuming the small service charges and interest revenue would cover operating expenses). The unit of account used should either be gold dollars or a new international unit defined in terms of gold. If the currency of any of the participating countries should depreciate, that country must deliver to the Fund an amount of its local currency equal to the decrease in the value of that currency held by the Fund. Likewise, if the currency of a particular country should increase, the Fund must deliver to that country an amount (in the currency of that country) equal to the resultant increase in the gold value of the Fund's holdings.

An exception to the above would be the blocked balances purchased by the Fund under provision described earlier. Those currencies could be kept in a separate account until repurchased or sold. The only portion upon which there might be a loss is in the 20 percent portion the exchange risk on which is borne by the Fund. The sole justification for placing that exchange risk on the Fund is the desire to spread some of the risk of sterling accumulations resulting from the war on all nations benefiting by the successful outcome. Of course, if that is not considered adequate justification, the Fund can be relieved of any risk.

The only serious bookkeeping loss that could be experienced would be in the event the unit of account--either a new international unit fixed in terms of gold or the dollar having a fixed gold content--were to appreciate in terms of all or most of the currencies. That is equivalent to saying that all other currencies depreciated in terms of the unit of account. There is no way to avoid that possibility unless the unit of account were defined in terms of an index of other currencies--a complicated device and of doubtful utility.

A country failing to contribute to the Fund sums due the Fund shall be dropped as a member, provided a majority of the member votes so decide. Any member dropped shall have returned to it an amount (in its own currency) equal to its contribution minus any sum due by that country to the Fund.

Eligibility for membership.

The conditions selected to be fulfilled before any country can be eligible for membership in the Fund constitute an important part of the plan. It will also prove to be one of the most disputed parts. Serious differences of opinion as to the wisdom of including many of the conditions listed are certain to exist. It will be said of some of them that they embrace far too wide an area of economic policy. Others on the list will be opposed on the grounds that they involve policy decisions which cannot be shared by or delegated to any combination of nations. And against some of the conditions listed opposition will arise because there will be different views as to the economic soundness of some of the requirement, and of the political feasibility of others. Finally some of the requirements for eligibility listed may be very difficult for many countries to accept because acceptance would involve abandonment, or rather suspension, of certain legislative powers. Nonetheless, the list is submitted because the chief purpose of this report is to suggest possibilities and stimulate discussion.

It is vital to the success of any international stabilization fund designed to play a really useful role that there be a suspension of certain economic elements of nationalsovereignty in favor of international collaboration. It is well to recognize at the outset that unless there is willingness to keep dormant, for a trial period at least, certain rights to unilateral economic action which directly affect other countries, there is no hope that any international instrument can be devised to help bring about the kind of collaboration among nations essential to a properous and peaceful world. If no government is prepared to sacrifice for the sake of a larger though possibly a less obvious good what it regards as an advantage when that advantage is obtained at the expense of some friendly power then the world will revert to the barbaric international economic relationships of the 'twenties and 'thirties.