DIARY

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July 29, 1942

About 9:30 this morning, I talked to Judge Rosenman and told him I would like to come over to see him because I felt that this order the President was thinking of drafting would only do half the job. He said that he would be interested, and I should come over later on.

Then I had a meeting in my office with some of the Treasury men, and then we went over to see Rosenman at 10:30. We were with Judge Rosenman for about an hour, and Harry White is to write up the meeting. (next page)

Rosenman was very much interested and said that the Treasury was certainly ingenious in thinking up new ideas. The principal thing I told him was that even if the President went ahead along the lines he was planning to follow, it would still leave the gap of $20,000,000,000 which would act as a pressure on prices.

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July 29, 1942.

Meeting at the White House
July 29, 1942
9:45 A.M.

Present: Judge Rosenmann
Secretary Morgenthau
D. W. Bell
Randolph Paul
H. D. White

Secretary Morgenthau explained to Judge Rosenmann that he felt the drafts of the Executive Orders which were being considered by Judge Rosenmann and representatives of Treasury and other agencies would be an unwise step at this time. The Secretary stated that virtually the chief support for the war effort and for the Administration on which the President could depend came from organized labor and that the proposed provision setting a ceiling on wages would antagonize labor. It would greatly weaken Murray's position and strengthen the position of Lewis, who had become a vicious influence on the American scene. He said the present labor leaders were bending over backwards in their effort to help in the present situation and that Murray had even become conservative by comparison with his earlier positions. The Secretary added he knew the President was angry at the farm bloc and might therefore be led to take action which he might later regret and that his proposal to put a ceiling on farm prices by Executive Order at this time might stir up trouble.

In any case, the Secretary went on to say, the fixing of wage ceilings for farm prices would leave the major problem of inflation unsolved. There is the fact that there will be a large mass of purchasing power — maybe $20 billion or so, even without any wage increases, which will exert pressure on price ceilings. The task is to devise some program which will mop up that $20 billions or prevent that $20 billions from causing inflation.

Judge Rosenmann indicated he was interested and appeared to agree with the general viewpoint as expressed by the Secretary.

The Secretary then went on to say that he had been exploring the possibility of meeting the problem of inflation through the instrumentality of Expenditure Rationing. He thought that the Judge might be interested in hearing about it. The Judge could then determine whether it might not be helpful to the President to have a program presented to him which might make unnecessary the issuing of an Executive Order putting a ceiling on wages and prices. Judge Rosenmann said he would be interested in hearing about the plan. After a brief explanation Secretary Morgenthau asked Mr. White to explain it in more detail. Mr. White did so and Judge Rosenmann asked several questions and said he was quite interested in the idea. Judge Rosenmann suggested that a one-page or two-page summary memorandum might be prepared which would describe the plan and the reason for it, for the President's perusal. The Judge said the President would probably want to finish up the whole matter before Queen Wilhelmina's visit the next week and wondered whether the memorandum could be prepared before then. Secretary Morgenthau promised he would have a memorandum ready by Thursday morning.

On Thursday morning there was another conference in the Cabinet Room of the White House attended by the same persons and Mr. Gaston. The Secretary submitted a one-page memorandum for the President to Judge Rosenmann which had been prepared in the Treasury. Judge Rosenmann read it and said it was a very excellent memorandum and that he would give it to the President. In leaving, he said: "Well, there is one thing about the Treasury, it certainly is resourceful."

The meeting adjourned after about ten minutes, but the Secretary remained behind with Judge Rosenmann.

MEMORANDUM TO THE PRESIDENT

In the light of the probability of a long war and its effect on Government financing, we have been considering in recent conferences in the Treasury Department further steps necessary to prevent a calamitous rise in the cost of living. We have come to the conclusion that more fundamental measures than any heretofore publicly proposed are essential.

Wage and price ceilings cannot control inflation. Even if wage rates and farm prices were frozen at present levels, next year would see a surplus of spending power of $20 to $30 billions. The pressure of this excess purchasing power would inevitably break through the price ceilings on a broad front. It would result in empty shelves, in large scale black market transactions, and in widespread evasion and dealer favoritism. It would give rise to queues and to inequitable and wasteful distribution. It would make the acquisition of the necessities of life a battle of wits.

There is no choice but the adoption of some proposal, no matter how drastic, that is capable of preventing the spending for consumer goods of this excess of $20 to $30 billions. We have considered several methods for accomplishing this result and have concluded that the most feasible plan is EXPENDITURE RATIONING. The plan has the additional merit that it can be put into effect without additional legislation. (Sec. 301, Second War Powers Act, 1942.)

Expenditure Rationing would consist of a limitation of the aggregate spending power so that it would be roughly equal to the aggregate of available consumers' goods at present prices. This would be accomplished by limiting, through a coupon system or some equivalent device, the amount that any individual or family could spend on consumer goods. Adequately administered it would insure that effective demand for all consumer goods would not exceed, but would be measured by, the supply of goods available. The plan would be made flexible so that purchases permitted would be increased or diminished as the supply of goods warranted. It would not completely replace specific rationing, which would still be necessary in the case of some scarce commodities.

Although variations of income as well as size of family would be factors in determining the permissible amount of spending allowed each individual, the Expenditure Rationing system would greatly reduce the inequality in spending that prevails now. For example, a family of four with an income of $1,500 might be allowed to spend it all, while a family with an income of $50,000 would not be permitted to spend more than (say) $10,000.

The plan will of course raise serious administrative problems, but this would be true of any plan adequate to meet the situation. The O.P.A. could administer the program, probably with not much greater personnel than now contemplated, because with Expenditure Rationing the administration of price ceilings and specific rationing would diminish in difficulty and importance.

Secretary of the Treasury

(Final Draft submitted to the President
via Judge Rosenmann, 7/30/42)

July 29, 1942.
9:53 a.m.

HMJr: Hello.

Operator: The Secretary is on.

HMJr: Hello.

Vice President Wallace: Hello.

HMJr: Hello?

W: Hello, Henry?

HMJr: How are you, Henry?

W: Oh, fine. I suppose Harry White has kept you informed on this Argentine matter.

HMJr: I'm not sure that he has, but if he hasn't it's my fault, not his.

W: Yeah.

HMJr: What are you referring to, Henry?

W: Well, you may remember this Argentine freezing matter that a....

HMJr: Oh, yes.

W: ....the preparation of a - of a wire which was sent down to Norman Armour....

HMJr: Yes.

W: ....the - asking Armour to - directing Armour - the Secretary of State....

HMJr: Yeah.

W: ....sent him instructions directing him to take - make certain representations to the Argentine Government.

HMJr: Yeah.

W: The representations were never made, and Acheson was never told.

HMJr: I see. Well, that's nice, isn't it?

W: I thought you'd be interested in knowing that our friend Welles took on himself the responsibility to see that - the thing was never done and Acheson was never told.

HMJr: Why, I think that's outrageous. Well, you'd like me to look into it, I take it.

W: I don't know that you - all I'm - all I'm asking you to do is to - is to talk to Harry White, that's all.

HMJr: Well, I - I - since they sent Merle Cochran down to the Argentine, and I asked Harry yesterday whether we've had any cables, and - since he's gone we've had no information. You know, they promised me almost daily cables from the Argentine, and I was going to write Mr. Hull a letter and ask him, "Well, what's happened to Merle Cochran and his cables?"

W: Yeah.

HMJr: You see? And they made me all kinds of promises on that....

W: I....

HMJr: ....but I - I get what you're after, and I'll take a look at it.

W: I - I'm not asking you to precipitate anything, but I just thought you ought to be - if you weren't current, you ought to be current and know the....

HMJr: Well, I'll get current. I'm not. But I will be shortly.

W: (Laughs) All right, Henry. All right.

HMJr: Okay.

W: Goodbye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 29, 1942

TO Secretary Morgenthau

FROM H. D. White

Subject: Treasury communications with State Department relating to Argentina.

The Treasury officially knows that the following action has been taken with respect to Argentina in the past two months:

1. The State Department prepared a long instruction to the Embassy in Argentina at the time of Merle Cochran's visit, in which the Ambassador was authorized to make strong representations to the Argentine Government and indicate the failure of Argentina to carry out its obligations under Resolution V of the Rio Conference. This instruction was cleared with the Treasury Department and was carried to Buenos Aires by Mr. Meltzer, who accompanied Cochran.

2. On Friday oflast week we transmitted to the State Department copies of the statement of our conversations with the Argentine delegation to the Washington Conference relating to Argentina's freezing controls and their lack of cooperation under Resolution V of the Rio Conference. In addition we sent a memorandum prepared by the Treasury as background for the conversations. We understand that the State Department intended to send these documents to the Embassy in Buenos Aires for their general background information.

3. Last week the Treasury Department asked the approval of the State Department to block the Bemberg assets in the United States. (The Bembergs represent a group of industrial interests in Argentina who have \$25 - \$50 million in the United States. It is strongly suspected that the Bembergs are controlled by French, and perhaps German, interests.) The State Department presumably sent a cable to the Embassy in Buenos Aires asking for their recommendations on the Treasury request.

July 29, 1942.
10:30 a.m.

HMJr: Hello.

Operator: Gamble.

Ted Gamble: Hello.

HMJr: Gamble, I'm seeing Mrs. Roosevelt tonight, and I'd like some statement on that theatre business for tonight.

G: It is all in the - being written right now, Mr. Secretary.

HMJr: Well, please see that it goes to Mrs. Klotz so that I'll get it, will you?

G: Yes, sir.

HMJr: And you're going to stop these fellows from - ask the theatre people not to have any between-the-acts' talkers.

G: I've covered that in the memo, yes, sir.

HMJr: You have.

G: Yes, sir.

HMJr: Good.

G: It's all in there, everything you asked about. I've had these people in here, and have talked to Mr. Fabian in New York this morning, straightened Mr. Cohen out, and I had Mr. Smith in here personally and straightened him out.

HMJr: Right.

G: I have a statement from him which I am attaching to it.

HMJr: You sent for him?

G: Yes, sir. No, I did not send for him. I talked to him on the phone and asked him to send this statement in, and he brought it in.

HMJr: I see. And I'll get that, but see that it comes to me via Mrs. Klotz.

G: It will be in her hands within the hour.

HMJr: Thank you.

G: Surely.

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AGENDA FOR MEETING WITH EXECUTIVE COMMITTEE OF THE OPEN MARKET COMMITTEE AT 3:00 P.M. ON JULY 29th IN THE SECRETARY'S OFFICE.

1. Change in reserve requirements.
   (Federal Reserve will probably want to discuss at same time the short-term interest rate)

2. August Financing:

   (a) Reopen registered 2-1/2% bond of 1962-67

   (b) Cash offering of 1-1/2 billion dollars (Unless 3(b) below is adopted it might be safer to offer $1,700 M)

   (c) Treasury bill program (now $350 M a week)

3. Long Term Program

   (a) Change limit on Series A Tax note from $1,200 to $5,000. (Some have suggested $10,000.)

   (b) Change Series B Tax note to make it available for investment purposes as well as tax purposes; also make it a 3 year obligation and increase rate to about 3/4%.

   (c) Discuss possibility of offering late in September at one time $4 to $6 billion in Treasury securities to consist of two or three different maturities.

July 29, 1942.
3:10 p. m.

FINANCING

Present:

Mr. Bell
Mr. Buffington
Mr. Haas
Mr. Viner
Mr. Baker
Mr. Tickton
Mr. Eccles
Mr. Szymczak
Mr. Sproul
Mr. John Williams
Mr. Goldenweiser
Mr. Draper
Mr. Piser
Mr. Rouse
Mr. Stewart
Mr. Alfred Williams

H.M.JR: Bell, even though we are starting a week ahead of time, I wondered if you didn't want to tell the men how much money we would need for the rest of this calendar year. Go as far as you can see.

MR. BELL: All right. This program is based on a general fund balance, or working balance at the end of the month, of not less than a billion nine hundred million - eight or nine hundred million - at any time, because we spend that money now in fifteen days. It is necessary to have that balance at the end of the month because the financing is in the first, say, ten days of the month, and we spend the balance by the time the next money comes in. It is always based on the assumption that we will get a billion dollars a month from savings bonds, from two hundred and fifty to three hundred and fifty in tax notes, and that the present Treasury bill program of three hundred and fifty million will run through the cycle.

On that basis we need new cash over and above those items of two billion, two hundred and fifty million in August; in September, two billion five hundred million. These figures are reduced some from what I gave you the other day, because of the additional fifty million in Treasury bills; three billion seven hundred and fifty in October and November.

MR. SZYMCZAK: You didn't mention September, did you?

MR. BELL: Two billion five. Three billion seven hundred and fifty in each of the months of October and November, and three billion two hundred and fifty million in December.

That is based on an expenditure program for just war activities alone of four billion two hundred million in July, which I think we are probably going to exceed a little; four billion six hundred million in August; five billion in September; five billion three hundred million in October; five billion five in November; and five billion seven in December.

This two billion two hundred fifty million in August is the over-all financing, including the reopening of the two and a half's, if that is done.

Of course, in addition to all of this, we have our refunding program of about nine hundred million, three notes maturing between now and December 15.

H.M.JR: December 15?

MR. BELL: December 15. We have two Treasury notes, one of three hundred and forty-two million on September 15, two hundred and thirty-two million on December 15, and three hundred and twenty million of RFC notes on October 15.

Then, of course, we have the billion and a half of C/I's on November 1, which must be rolled over.

That completes the program to the end of the calendar year.

H.M.JR: Well, Bell has given me a little agenda here. I don't know how you want to go at this thing. The first thing we have got down here is the question of whether we want to reopen the two and a half percent bonds, '62-'67, and give the Victory Fund Committee something to do.

MR. ECCLES: I think we are all agreed on that. We have been discussing it. I know we are in unanimous agreement in feeling that that should be opened, that there can be somewhere between six and seven hundred million dollars gotten in August from that source.

H.M.JR: Had you thought of the date - I mean opening it at the same time as the other financing?

MR. ECCLES: No, I would open it before. I see no reason why that couldn't be opened next week.

MR. BELL: Monday?

MR. ECCLES: Yes.

MR. BELL: That would be August 3.

H.M.JR: How do the rest of you feel about that?

MR. SPROUL: We are in favor of reopening the two and a half's, and doing it next week, and giving a little time for work on that before you go into your next financing.

H.M.JR: Open it as of Monday, say?

MR. SPROUL: Yes. We also discussed the suggestion - I think there was general agreement on it - it would be desirable to make those bonds usable in payment of estate inheritance taxes, as the F and G bonds are.

MR. BELL: We have an amendment drawn for that. We are agreeable to that.

H.M.JR: You and I agreed on that?

MR. BELL: Yes, we did.

MR. ECCLES: We discussed that last week with the staff people and all agreed that that should be done.

MR. BELL: There have been a number of suggestions coming from the Victory Fund Committees that the two and a half registered be made coupon. We don't like that here in the Treasury very much. We didn't get a chance to discuss it with you people.

MR. ECCLES: We discussed that this morning, and we felt that if you are going to put out in October a market issue, open-end market issue, that it would be undesirable to make this issue a market issue except insofar as banks are concerned. It seemed to us that we had better leave it as a registered, non-coupon bond. That is, it would be too much like the open-end market issue that was promised for October, and it would, no doubt, encroach to a considerable extent in that field. There would seem to be less need, or less place, for a large open-end market issue in October if this modification proposed was made in this issue.

MR. BELL: We think that if you are going to make it a coupon, even distributing it to those outside of the banking system you might want to extend the time, because we were told, you remember, when we priced it before, that we would have to price it on a basis less than the '67-'72's because it would not sell in the market on the same basis, about a point or better difference. If you are going to make it a coupon it seems to me that you have got to extend that time - if that argument was sound before.

MR. SZYMCZAK: That is right.

MR. ECCLES: Except that the '67-'72's have been put out a considerable time. It is an issue, we all recognize, that we put out before the war, not since the war, and if we had to do it over we possibly wouldn't put it out. Therefore, there would seem to be not very good reason for tying financing to that particular issue. That is pretty well salted away now, and there is very little of those securities on the market.

I would feel that you had better tie your financing to something else rather than that one.

MR. BELL: There was another point made in connection with this two and a half, and that is there is some resistance on the part of investors putting their money in a registered security, one that is restricted, like that, and they thought that if you could let it get out that we were not going to issue a two and a half percent marketable security, that more people would go into this registered security.

Did you get into that, Bob?

MR. ROUSE: I don't quite get your distinction, Dan. The market people feel that, just as you say, individuals don't like registered securities to a considerable extent, and that that was the reason for suggesting the coupon bond, that you would get a much wider response andthe volume of sales would be substantially larger. There are these other considerations which have been mentioned, which I think have a good deal of merit.

MR. BELL: They are waiting now for a two and a half market security, and they are not going into the two and a half registered, whereas, if they had some idea there was not going to be a two and a half market security like '67-'72, there would be a lot more of them go into the registered.

I think it is a little difficult to announce we are not going to have a two and a half marketable security. I don't know as we want to do that.

MR. ROUSE: A good many of those people prefer two percent bonds under those circumstances that are marketable, whether marketable in the full sense - where you have the support of the full market.

MR. ECCLES: If you are going to make this issue a two and a half market issue, except so far as the banks are concerned, it would be a market issue, but the banks just couldn't hold it. Then it seemed to us that there isn't very much of a place for an open-end market issue in October, that these people that want a nonregistered coupon bond would take what was offered in October when it is proposed to offer an open-end market issue, and try to get a large amount of money.

It seems to me that you destroy the effectiveness of that financing if you make this a coupon bond. If you are not going to put the October out, then I would favor making this a coupon bond as indicated, a two and a half percent coupon bond, that could not be taken by the banks, and then don't put out a market open-end offering in October.

MR. VINER: Which one would you wish to protect most? Wouldn't that be a consideration?

MR. ECCLES: We have been talking about the place for both of them.

MR. VINER: But if one competes with the other, you may want to protect one rather than the other.

MR. SZYMCZAK: It depends on how much you want to get. From October, you want to get five or six billion. Therefore, you want to keep that with all of the trimmings you can put on it.

H.M.JR: Don't take that for granted.

MR. SZYMCZAK: That was just the thought--

MR. ECCLES: I think I would favor making this much broader - giving this a broader market, if you are not going to do it, because you do have a lot of investors that don't want a registered issue, that want a coupon nonregistered bond, and you would sell a lot more of these securities on an open-end coupon bond than you would sell on a registered bond.

It may well be that you want to adopt that for everybody as a market issue and everybody - except prohibit the banks from taking it, in which case what you would then put out in October would be maybe a two percent bond similar to what we put out here a month ago that everybody can take. But I wouldn't then go higher than a two percent market bond if you make that change. If you don't make that change, then I think possibly a two and a quarter percent open-end market bond would have a place.

MR. SPROUL: That question you raised, Dan, about waiting for a market issue at two and a half - I think that was substantially broken down when these two and a half's came out last time - the resistance broken down. I think more of it broken down with the reopening and the continued lack of a market offering would do the job, rather than requiring an announcement.

MR. BELL: I think that is true. I think this time you will find people going into it that wouldn't go into it before. I think that is true.

H.M.JR: How would you sum it up? Do you want to leave it the way it is?

MR. BELL: That is what I would do except adding the provision for payment of estate taxes.

MR. ROUSE: Is there any need to keep the sixty-day clause?

MR. BELL: I don't think I would keep the sixty-say clause.

MR. ECCLES: You could still leave itas it is, and then, in October, if you decided not to put out an open-end market issue, say two and a quarter bond, you could then modify this bond at this time and use this as the open-end market issue that could be taken by everyone except banks.

MR. BELL: You could if it was justified at that time.

MR. ECCLES: If you didn't decide to add another market bond such as has been discussed, you could.

MR. SPROUL: I think that is right. If there isn't going to be such a bond, the Victory Fund Committee people feel that they can sell a lot more of the two and a half if it is made a coupon-bearing bond than they can in its present form.

H.M.JR: Bell was worrying, if you make it a coupon bond it would be too sweet.

MR. SPROUL: I don't, myself, see that it is too sweet. I think we can fix it on the twenty to twenty-five, two and a half percent rate and stand there, and there is no need of feeling it is too sweet. The only thing you are really comparing it with is '67-'72, and I consider that outside of the range of our market structure now.

MR. BELL: It is selling one hundred and one now.

MR. SPROUL: That is because it is the only open-market bond, two and a half, available, and this restriction against the bond holding would take care of that.

MR. ECCLES: There will be enough demand for that two and a half long bond for banks with savings accounts to keep that in line, even if you put this - make this a market issue and exempt the banks. You would have plenty of support for the other.

H.M.JR: What about the sixty-day clause?

MR. BELL: I would be inclined to leave the sixty days off this time. It was on the original, and there are eight hundred and eighty-two million of those out which can be cluttered around the market, and I don't see much use putting the restriction on this. There will be some restrictions, because we can't deliver the bonds next month.

MR. ROUSE: May I ask if the provision for acceptance and payment of taxes - estate taxes - would apply to the outstanding as well as the new issue?

MR. BELL: Yes.

MR. ROUSE: Good.

H.M.JR: Well, think over this sixty-day thing. You don't have to settle it right now.

MR. ROUSE: There was one other question on that; that was the length of time you would leave the books open. I think it would be desirable to have a somewhat longer period than you did before so that there can be a more intensive selling drive than it was possible to engage in last time. I am thinking in terms of something like three weeks.

H.M.JR: We don't have to make up our minds on that, either.

MR. SPROUL: I think you ought to have it in mind as a possibility.

H.M.JR: I am open to suggestions.

MR. SZYMCZAK: I take it, Allan, you don't have in mind announcing that you are going to keep it open three weeks, but--

MR. SPROUL: But keep it open longer.

H.M.JR: Now, the next thing I would like to talk about is this tax anticipation note. First this A note - should we increase it from twelve hundred dollars to some other sum, and if so, how much?

MR. ECCLES: I think we had agreed on five thousand.

MR. BELL: Yes, we did in our group the other day.

There have been some suggestions coming from the Victory Fund Committee going as high as ten. I think we are all agreed on five - that that would be sufficient.

MR. SZYMCZAK: I think if you are going to increase it to five you have got a good start. If you want to go higher later - if you go to ten you may have to come down.

MR. ECCLES: Five thousand taxes covers a pretty big income. It is nearly a two percent rate on a liability here that is very short term.

MR. SZYMCZAK: Especially if you are going to keep your B and increase the rate on your B, there is no reason in the world to go beyond five.

MR. BELL: Five - all right.

H.M.JR: Then on the B, it says here, make it available for investment purposes as well as tax purposes, also make it a three-year obligation, and increase the rate to about three-quarters of a percent. Then there were some refinements of those, George, weren't there?

MR. HAAS: Yes. At the present time the interest only accrues if it is used in payment of taxes, and the provision was suggested that after a holder had held the note for six months he could turn it in and receive interest, and also that they could be put up as collateral for loans in the banks.

MR. BELL: When we discussed it with the Federal Reserve people last week, they thought that it didn't offer the inducement that possibly the short tap which they suggested offered. So we have been considering, since then, the question of allowing the rate to increase by steps, say we allow four cents a month like it is now, maybe, for six months, and then run five cents a month for another six months or a year, then six cents a month, seven cents a month, eight and nine, and that would get up to an average rate in that three-year period of about point seventy-seven, and we would run it for--

MR. ECCLES: That would be all right.

MR. BELL: We would run it up to December 31, '45, which would be three years and five months.

MR. ECCLES: Our feeling on this, as proposed by George, as discussed with him in relation to the short open-end note that we have discussed, was that there wasn't the same inducement to hold it as there was in the case of the other. It didn't have quite as much selling appeal as the other would have; that in the case of the other issue it provided either a six-month or a year, a year and a half, two years, two and a half, or three years, whatever is in the one instrument; that the purchaser of that would have it available to cash in when he needed the money, but there would be the increasing inducement to hold it.

Now, it seems to me that this would pretty largely meet that advantage.

MR. SZYMCZAK: There was only one question on that, Dan. Would you still call it a tax note, or would you give it a different name? How are you going to classify it?

MR. BELL: We talked about it yesterday and we didn't come to any conclusion as to the name. We talked about tax investment note. I don't know what we should call it.

MR. HAAS: Would there be any objection to continuing the same name? It has advertising value.

MR. BELL: Yes, it has already gotten a name for itself.

MR. SPROUL: Have you given any consideration to some days' notice if it is turned in for cash and not in payment of taxes?

MR. BELL: Yes, we would have to have some notice in case they are going to cash it.

MR. ECCLES: I think so. We had proposed--

MR. BELL: Sixty days, I think.

MR. ECCLES: We had proposed that it must be held for six months. You don't want funds to go into it unless you know they are going to--

MR. SPROUL: No interest unless they are used for taxes.

MR. ECCLES: That is right, and after that period, if they want to cash it in, you shouldn't have that demand liability without some notice and preparation. We had proposed a sixty-day notice.

H.M.JR: Does that mean you would have to hold it eight months before you could cash it, or six months?

MR. ECCLES: You would have to give sixty days.

MR. BELL: In four months they could give notice.

MR. ECCLES: After that period - well, at least, the thing is you wouldn't have dumping in of a lot of these certificates for cash without having some idea of knowing what preparation you would have. It is a demand liability, otherwise, and we feel that a demand liability in a short security of that sort just shouldn't be made available - that they should be required to give some notice.

MR. BELL: Do you think sixty days is enough?

MR. ECCLES: I think so. If you get more than sixty days you tend to destroy, I think, the marketability.

MR. SZYMCZAK: They automatically give you a notice if you go beyond sixty days. Nevertheless, in self-protection, if it were longer than sixty days--

MR. BELL: We are not exactly set on this graduated rate, yet. We would like to talk to some of your people, particularly Piser, about that before we go ahead with it.

H.M.JR: When would you do that one?

MR. BELL: I think that ought to be announced, if we are going to adopt it, before August 1, so that no one will invest in the old tax notes and we can have the new securities available and in the banks by August 15, if we have notification by, say, Saturday of this week.

H.M.JR: August 1 is Saturday, isn't it?

MR. BELL: Yes, it would have to be done Friday, I think, for Saturday morning's papers.

MR. ECCLES: That would give your Victory Fund Committee a security that they could sell to the investor; that both the corporation and the individual trust estates that wanted it could have a certain part of their funds in a short-term security, so that when they go out to sell the one, they may often find the customer that would be interested in the two, so that the same effort, the same contact, would have the two to sell. I think it is desirable to get that in the hands of the Victory Fund Committee just as soon as we can get it there.

MR. SZYMCZAK: It would have this value - you have already got a B note, and you just sort of ease into this thing.

H.M.JR: Well, George Buffington started with his tax notes, so he is familiar with it. He knows all about it.

MR. ECCLES: This, of course, wouldn't be registered. It is an endorsed certificate.

MR. SZYMCZAK: Inscribed.

MR. ECCLES: That is what I mean, which would reduce - that is some advantage as against it being registered, isn't it. I mean there is a good deal less work in connection with it.

MR. BELL: Less work in Washington.

H.M.JR: Which is important.

MR. BELL: Yes, very important.

MR. ECCLES: It has, it seems to me, all of the features of the short tap if you give it that sliding scale. It has practically all of the features in that it is an inducement to hold, it is on tap, available in any amount that you want to purchase it in; and I think that is a thing that we are greatly in need of, having it always available in whatever amounts a purchaser may desire a security for short-term funds.

The difficulty on the tax note, it was a one-purpose instrument, used only for taxes at a low rate. In the case of bills, or even certificates, the certificates were put out occasionally - they weren't always available, and you never knew whether you were going to get all you subscribed. You would get an allotment. This seems to me to meet all of the requirements of the investor who has the type of funds that we feel we are desirous of getting ahold of.

H.M.JR: It does do that.

MR. ECCLES: I think it does. Do the rest of you feel that way about it?

MR. SPROUL: I would like to have it on the shelf where we could sell it.

H.M.JR: Oh, I thought you meant-- (Laughter)

MR. SZYMCZAK: Like to put it on the shelf and take it off the shelf. (Laughter)

MR. DRAPER: He is slipping a little.

H.M.JR: He is not slipping, it is the hot weather. His similes are mixed. (Laughter)

The other thing, I would like to continue for a little while longer, three hundred and fifty a week. I don't want to boost that just yet. How long have we been running three fifty?

MR. BELL: Just one week, last week; today we get the second one.

H.M.JR: Did you give me some date in September?

MR. BELL: I gave you a date that Mr. Sproul suggested that you might want to change. I think it was September 9, wasn't it, because you said that was the date that the three hundred million dollars - September 2 would be the date that the three hundred million, the last three hundred million, matured, I think.

H.M.JR: That date he wants to do what, reduce it? (Laughter)

MR. BELL: Increase it to four hundred million.

H.M.JR: Well, we can watch it. We could watch it from week to week.

MR. SPROUL: I think what you want to do there is watch it from week to week, and it is partly a matter of when you need some additional funds and partly how the market is taking the bills that are out. You get the four hundred, then you may want to go beyond that to higher.

MR. SZYMCZAK: And how you are going to distribute it to get the two billion excess reserve.

MR. ECCLES: We had a program with reference to both bills and certificates that involved - we didn't necessarily fix the time - it wasn't a question of whether it was next week or next month, but looking toward the course of the next few months - a volume of bills of five hundred million a week. The size of the financing program is such that we feel that that amount of bills is going to be necessary.

The Fed would like to be able to have a large enough volume of bills in its portfolio to tend to offset the currency that goes on into circulation. We are getting a large increase in currency. How much longer it will continue, of course, nobody knows. I can't help but feel it is going to level off if you get up to the peak of national income. National income has been growing, and it has been perfectly logical for an expansion of currency along with it, but you reach a point of full national income here, and there is less need, certainly, for further expansion of currency. It may well be that at some point currency will start coming back, and if the Fed has got enough bills so they can offset the currency that comes back by just letting the bills run off, it tends to offset it; and we feel, from an operating standpoint, that a larger amount of bills, that is, that amount of bills, is going to be required in the market.

There is getting to be an increasing interest in bills. Of course, as we have discussed before, this question of a half rate as a means of broadening your market even much further than it has been broadened - of course, you can never prove that, but at the same time, I am sure that the three-eighths bill did - we were able to get a substantial amount outside of New York, whereas you couldn't have done it with the quarter bill.

You might argue that a three-quarter bill would get even more out, but I recognize there is a point, and I think the half of one percent is the peak. I would say that that is the peak at which you could fix a bill rate and not, maybe, affect your pattern. That is, that half of one-percent rate, and the Fed then establish a discount rate of a half of one percent on all Government securities that matured in one year or less. Anything maturing within a year's period would possibly get a substantial increase in the use of some of the excess reserves outside of the money market, and would likewise get a broader interest outside of the banks. Even the three-eighths has gotten about a billion dollars of bills outside of the banks, and the banks outside of New York have come in for bills when

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If we can pull in more of those, make them get a more effective use of them, and a broader distribution, we feel that it is very much worth while.

A five hundred million bill offering would meet that and could very well easily be absorbed, we think, under that kind of a situation.

Then we would like to recommend that we work to the end of getting eight billion of year's certificates out, coming due on a quarterly basis, possibly starting in August with two billion, and putting two billion out each quarter until you have finished the cycle of eight billion of certificates.

Now, I don't know just what that rate would be, but we feel that it is important to establish whatever peak the bill rate may be. I mean, if we are going to have a peak bill rate at some time in the future of a half, it should be done at the time action is taken with reference to excess reserves, and at the same time that two billion offering of certificates is put out, so that the two billion offering of certificates would be priced in line with the half a percent Federal Reserve discount rate; that is, establishing a half whereas it is only one new, and establishing a bill-buying rate.

So the certificate then would be priced in line with that, and you would then have established a pattern - a permanent pattern - of a half for bills and whatever that would hit with certificates - maybe seven-eighths, or it may be as high as one percent, but it certainly wouldn't be higher than that.

That would give you six billion of bills and eight billion of certificates as a program looking to the next year.

Then, as a part of that whole picture, we would decrease the reserves in the money market, say, four hundred million at a move, say, two percent each month over the next three months. There is a billion two hundred million available reserves, and by using this power that we just got from Congress, you could give the money market - while at the same time you are stabilizing your rate picture, and keeping it stable by dropping that - give the money market four hundred million each month for the next three months.

At the end of that time you would - we would know a little more, I suppose, about the tax picture, and a little more about other things. We would know whether you were going to put out a large issue in October, and we would, likewise, know how well the various open-end issues were going, and know how much money we could get outside of the banks. What we couldn't - we would have to then move to decrease the reserve requirements over the country as a whole to meet whatever financing had to be done through the banks, or we would carry out open market, or possibly there would likely be some temporary borrowing. So you would have a combination of the three, giving them reserves through the change, giving them the reserves through open-market operations, and giving them the reserves through a special discounting provision.

Now, that doesn't get away from your suggestion of maintaining the three and a half million - I mean three hundred and fifty million of bills a week for the present. I think we all feel that possibly for the month of August when you expect to put out - to raise a couple of billion dollars or a billion and a half through certificates, if that is the program, then it possibly wouldn't be advisable to increase the offering of bills.

H.M.JR: Well, it isn't quite clear in my mind. Supposing we go along the way we have been talking here, open up the two and a half percent, '62-'67, and we keep the bills about where they are, and we make the changes in the A and the B tax notes. While I haven't mentioned it, you people discussed it before. We offer about a billion and a half of these certificates.

Now, what isn't clear in my mind, supposing that is the program for August, the refund coming in somewhere the end of August or the beginning of September - some place where it is convenient - is it the pleasure of the Federal Reserve Board that they will make a change - I mean--

MR. ECCLES: Decrease the reserves in the money market.

H.M.JR: Yes.

MR. ECCLES: I think we would have to. I think we would find it very difficult to put out a billion and a half or two billion of certificates in August without reducing the reserves in the central reserve cities. Otherwise we would have to carry out a very large open-market operation.

H.M.JR: Could I ask this, Marriner, of the Board? Again saying that this is approximately the program, reducing the reserves in successive three steps, as I understand it, from twenty-six to twenty in New York and Chicago, when would you announce that, if you were going to do it?

MR. ECCLES: We hadn't discussed that.

H.M.JR: I mean, would you announce it prior to our Treasury financing?

MR. ECCLES: I think so. I think it would have to go into effect, possibly, simultaneously with that.

MR. SZYMCZAK: The announcement - but it would be in effect about the 15th.

H.M.JR: But the announcement would be--

MR. SZYMCZAK: You also want to prepare, not only for your August financing, but your open-market operations and your discounts and your decrease of reserve requirements to be tied into your October financing - September and October.

H.M.JR: What is the date you have in mind?

MR. SZYMCZAK: We were just talking tentatively about August, September, October 15.

H.M.JR: But if you were going to do it, you wouldn't give the thing a chance to work, say, next week?

MR. BELL: Payment would be on August 15. That ought to be the effective date.

MR. ECCLES: We would have to announce it to take effect a week or ten days before the actual date. For instance, if the 15th is the date your payment comes in, that is when they would need the reserves, and their subscriptions would likely be based upon the announcement - if announcement was made - along with your announcement of financing it would serve the purpose.

H.M.JR: But if we were going to do our financing, say, next Tuesday or Wednesday - I mean, if we do our financing Thursday and Friday of next week, as I understand it the announcement would be simultaneous with the Treasury financing.

MR. ECCLES: I am saying this, that if we were going to move to reduce the reserve requirements, it should be simultaneously with that, but what I would like--

MR. BELL: A day before.

MR. ECCLES: What we would like you to consider in conjunction with that action, and before you try to put out your certificates, is to consider establishing a half of one percent bill rate, and thus establish a half of one percent discount rate. Now, the reason--

H.M.JR: Marriner, let's be - if you don't mind, this argument has been put up to me over and over again.

MR. ECCLES: Not in connection with a specific financing program.

H.M.JR: I think so.

MR. ECCLES: No, we haven't. Remember - right now--

MR. SZYMCZAK: On the discount rate, this is the first time we have brought that up. We have been talking about the rate on the other.

H.M.JR: You have talked to Bell about it.

MR. BELL: Yes, we discussed it.

H.M.JR: Believe it or not, Bell repeats to me what happens. (Laughter)

MR. SZYMCZAK: I don't know how or when. (Laughter)

H.M.JR: Well, he does.

MR. SZYMCZAK: We are quite aware of the fact that even after we decrease reserve requirements, that, by itself, will not be sufficient. There are other things in this picture - open-end market operations, and discounts that have to supply the funds to the market.

MR. ECCLES: Well, it isn't that we don't recognize the need of giving the market such reserves as the banks must have to do the amount of financing that the Treasury has to do. Now, we know that, plus open-market operations, has got to be done, that the financing has got to be done, that after everything is done to finance outside of the banks, then the banks are going to have to finance some amount. We would like to see that - and I assume you would - reduced to a minimum.

H.M.JR: I so stated.

MR. ECCLES: And whatever that minimum is--

H.M.JR: Even though Senator Taft doesn't believe it.

MR. SZYMCZAK: If they will only increase the taxes you won't have to do as much.

MR. ECCLES: Whatever that minimum is, we expect through open-market operations and through the change - either that, or change of reserve requirements, or both, will give the banks the funds to buy what is necessary to be purchased.

We feel this way, however, about that rate - that in the banks outside of New York we could place more bills and certificates with this adjustment in rates - both with the banks outside of New York, and to holders outside of the banks; that it will not be necessary to give to the banks in the same amount of excess reserves. We feel, if that kind of a program is carried out, we would be doing everything that we could do without disturbing the pattern of rates to getas much financing as possible outside of the banks, and that is why merely to reduce the reserves in New York and Chicago is a short road. It is three months and is over with, and then you are right where you are now, again.

MR. SZYMCZAK: Also as to the certificate.

MR. ECCLES: In three months you are just where you are now, and you are out of reserves, in the money market. We will still - it will be necessary, then, to find a way of using more effectively, if we can find a way of doing it, the reserves outside of the money market, and likewise, placing more bills and more certificates outside of the banks.

We would have reached a ceiling in your short structure, as you have in your long structure, and we think we would have been doing everything that could be done, and the Treasury would be doing everything that could be done, then, to get funds outside of the banks, and to use existing reserves. And from then out, we would feel that we had a reason for changing reserves in the country as a whole, because we would have done everything we could to effectively utilize existing reserves and to have placed outside of the banks all we can.

Now, we are in this situation, which is somewhat of a difficult one. Whenever we change reserve requirements, it becomes a matter of a policy record that we have got to report to Congress and we have got to give the reasons for it.

MR. SZYMCZAK: Good or bad.

MR. ECCLES: I well recall, in '37, when we increased reserve requirements, although that was a matter that was thoroughly gone over and discussed, I was up on the Hill only four times during that year, for the reasons for the actions and whether or not we had created a depression. I don't want to have to to up again unless I have got some pretty good reasons. I feel that it is part of a program that can be supported if these fellows should put you on the spot.

H.M.JR: Well, Marriner, let me just say this: I am not prepared at this time, for lack of evidence that anybody has yet been able to present me as to why I should increase the bill rate from three-eighths to a half. Now, I have yet to have anybody - other than they think that that would create wider distribution outside of the banks - but I have yet to be presented with any factual evidence. Therefore, I am just going to hold off doing anything about it.

MR. ECCLES: Well, if you put your certificates out this month, then of course you would price them on a three-eighths bill rate, and that more or less freezes the bill rate.

H.M.JR: We wouldn't do any different than what we have been doing.

MR. BELL: No, those certificates, in October, would be nine-month certificates.

MR. DRAPER: What rate would you put on?

MR. ECCLES: What do you mean, "October certificates"?

MR. BELL: You say they are a year's certificate, and they are based on three-eighths. There are a lot of certificates out on the same basis.

MR. ECCLES: No, but if you put out in August a certificate, a year's certificate, how would you price it? The pricing would reflect, of course, a three-eighths bill rate.

H.M.JR: That is an argument that if we have got to price them on a half, then I have got to pay more for my certificates.

MR. SPROUL: That is right, but you would presumably be doing more financing at short terms, so the aggregate cost of your financing would be less than if you didn't exploit this short-term market to the full.

I think it is also important in connection with this question of reserve requirements and excess reserves and the rates - it is important, it seems to me, to give every indication that we are not depending on the maintenance of very large excess reserves and the banking participation in the financing which goes with it, but that we are making every effort, of which we think this would be one, to sell securities both outside the money market and outside the banking system.

H.M.JR: Well, on that basis we could increase it one-eighth every financing, and I--

MR. ECCLES: Well, we are not proposing that without affecting your intermediate long bonds.

H.M.JR: Forty percent of these bills, now, are held outside of the banks.

MR. ECCLES: That is right.

H.M.JR: And there is no evidence that anybody has yet been able to give the Treasury to show that by an increase in the rates of one-eighth of one percent, we are going to go more than forty percent, which I think is a remarkably high figure and a very good showing.

MR. ECCLES: I think it is for three-eighths.

H.M.JR: I think it is amazing.

MR. ECCLES: I think it is.

MR. DRAPER: We only got that result by plugging them on.

H.M.JR: So much more credit to you.

MR. JOHN WILLIAMS: Isn't it partly the size of the bill market, if you are going to have a much larger bill market--

H.M.JR: Gentlemen, you might just as well lay off me. (Laughter)

MR. DRAPER: Aren't you allergic?

H.M.JR: I am not allergic, but I am open to evidence, and so far this is just all a hunch.

MR. ECCLES: Of course, you can't produce evidence on any issue when we are proposing to increase this rate on tax anticipation notes. You haven't the evidence, but - and that has been true in connection with practically every offering we make - it is just the best judgment of the Federal Reserve System after a good deal of consideration.

H.M.JR: Marriner, if I had said to you before we started this new program, "With three-eighths how much of it would go outside the system?" I don't think anybody would have made an estimate of forty percent.

MR. ECCLES: I don't suppose we could have known.

H.M.JR: No, but I think it is very good. Now, there is no use trying, by increasing the rates, to do the impossible.

MR. ECCLES: But you put the Board in this sort of a position with reference to the excess reserves, that if we could say that a bill rate of a half was established - a discount rate was established - we did everything possible to get the use of existing reserves before we moved to--

MR. SZYMCZAK: Outside of New York.

MR. ECCLES: That we moved to get existing reserves and we move to place securities outside, and that the increased reserves were called for because it was the only way that the necessary amount of financing could be done.

H.M.JR: Well, now, that is a new argument. Let me just - it has never been put up to me on that basis before. Let me just ask you a question - two questions, of the Board. Can't you face anybody and say, "At three-eighths we made a very good showing in going outside of the banking circles?"

MR. ECCLES: But there is still two billion of excess reserves outside and a billion two hundred million in New York, and they would say, "Well, you give more reserves when you have got that amount of reserves."

H.M.JR: Let me ask you another question. Is there any rule or unwritten rule that you can't have a buying rate at a half and a bill rate at three-eighths?

MR ECCLES: Well, the point is that it--

MR. BELL: That is what I would like to see.

H.M.JR: I mean, what is this that you can't put your rate at a half on buying, and keep your bill rate at three-eighths? I mean--

MR. SZYMCZAK: You mean discount.

H.M.JR: Discount, yes, I mean the discount.

MR. ECCLES: At a half - you mean we can put a discount at a half? Sure we can.

H.M.JR: I mean, is there some book that some professor has written that says you can't do it?

MR. ECCLES: We never contended that. We had never--

H.M.JR: How many professors have we got here? (Laughter)

MR. VINER: There is the book-writer (indicating Mr. John Williams).

H.M.JR: I am serious. I mean, is there something somebody has written that says it can't be done?

MR. ECCLES: We never said that. We never had any idea of establishing a discount rate at less than a half. We had an idea, even if you continued the bills at three-eighths, that is, if we continued the buying rate at three-eighths, that doesn't necessarily mean that the discount rate couldn't be a half or that we had any idea of reducing the discount rate below a half.

H.M.JR: Now let me put it another way. Do you mean to say to me that I am putting you in an impossible position by keeping the rate at three-eighths, so that you can't move on excess reserves?

MR. ECCLES: No, I am not saying that. I am saying that you give us a much better reason to take action with reference to excess reserves after we establish a pattern of short rates. That is certainly as high as you could go in line with the intermediate and long rates. We have established that pattern, and then--

H.M.JR: Am I embarrassing you and putting you in a false position? I don't want to do that. I would go along with you. If you say to me I am putting you in a false position, the Board, making it impossible for you--

MR. ECCLES: You give us a reason, a program that we have indicated makes a pattern that calls for and justifies - except for New York - let's assume we give New York the four hundred million a month that has been proposed; in three months from now New York would still likely be out of reserves, and the rest of the country would have reserves. Now the query, would you then continue to reduce New York, which we could do, below the rest of the country? That is the dilemma that we face.

H.M.JR: Then let me ask you one more question, and this will be the last one today on this subject. On this thing, this is what I have got. If I stick to my position for one more financing - I mean I don't want to do anything on the rates - does that mean that my saying to you gentlemen of the Federal Reserve Board, "Now, gentlemen, we of the Treasury feel that we want to stay at three-eighths for one more financing?" - are you going to say to me, then, that if I offer a billion and a half of certificates, it won't go?

MR. ECCLES: No, no, of course it will go.

H.M.JR: Then I don't care what you do about your excess reserves.

MR. ECCLES: Of course it will go.

H.M.JR: I don't care what you do about your excess reserves.

MR. ECCLES: Because if you offer a billion and a half of certificates, either we would have to carry - either reduce the excess reserves or carry on an open-market operation.

H.M.JR: Then I don't care as long as--

MR. ECCLES: Your offering is going to do--

MR. SPROUL: That offering of a billion and a half could be floated successfully without your doing anything about reserve requirements.

H.M.JR: I don't care. I have asked you, "Am I embarrassing the Board by sticking to my position?" The answer is, "No". "Am I putting you in a false position - false light?" "No." "Can I go ahead with my present program for the next financing?" You say, "Yes". Then I don't care.

MR. ECCLES: All we are--

H.M.JR: Then all I say is, think it over, and if, between now and Friday, you could tell me what you would do with your excess reserves, I would like to know. I mean, what you decided - if you could let me know between now and Friday noon - certainly that isn't hurrying you too much.

MR. ECCLES: No, what we are trying to do is to advise you what we think would be the best thing to do.

H.M.JR: And I have asked you to come over and I have listened, and - I mean this isn't anything new. I think it has been put up to me at least - pretty near for two months, hasn't it?

MR. DRAPER: Maybe longer, I don't know.

H.M.JR: And I still am from Missouri on the thing. I still am unsold.

MR. ECCLES: How can we show you?

H.M.JR: I forgot - I have a Senator outside.

I tell you how you can show me. I think the way to show it to me is in some concrete manner to prove that through increasing the rates that we can get fifty percent of the bill market into the hands - outside of the banking system. I mean some way--

MR. ECCLES: All we have got is from our bank presidents.

MR. SPROUL: Quote the whole experience of any buying and selling. If you reduce the price you can sell more goods if the demand is indefinite, as it would be in this case.

H.M.JR: Well, but--

MR. ECCLES: If you put a certificate out, what maturity were you thinking of making it?

H.M.JR: We haven't talked of that - just one thing - really I have to see this man. One other thing, if you want to - when are we meeting again, Friday?

MR. BELL: No, I had no date set.

H.M.JR: I would like to meet with you again Friday.

MR. BELL: I think the financing ought to be announced either Wednesday or Thursday of next week.

H.M.JR: If you gentlemen could come in about ten-thirty, Friday, I would like to see you. One thing was suggested - you could think about that. It came from Kansas City in connection with the Victory Fund, that after we sell a bill and the rate is established, that we say - or you say that we will sell another fifty million dollars at the same rate, any bank can subscribe, say, up to twenty-five thousand, not to exceed fifty million - if it was more than fifty million, then we would prorate it.

MR. ECCLES: During the week?

H.M.JR: During the week.

MR. ECCLES: That is a suggestion that came from Kansas City?

H.M.JR: Yes, and we like it.

MR. ECCLES: That any time during the week, up to twenty-five thousand, they could get what bills they want at three-eighths.

H.M.JR: Well, whatever--

MR. SPROUL: Whatever rate was fixed in the bidding.

H.M.JR: Whatever the rate was in the bidding.

MR. ECCLES: Would that work out all right?

MR. SPROUL: If it can be done under the law, it sounds all right.

H.M.JR: So as not to exceed another fifty million.

MR. ECCLES: That would mean an additional--

H.M.JR: Another fifty million that week. That would give a test.

MR. BELL: I might read that paragraph, Mr. Secretary. It is short: "The Committee also was of the view that Treasury bills should be continued to be offered in such volume each week as the market would absorb them at, or slightly under the buying rate for Treasury bills which has been established by the Federal Reserve Banks. In that connection, several members expressed themselves as feeling that the rate on Treasury bills has now been pegged by the establishment of the buying rate by the Federal Reserve Bank. It was suggested that the bills, up to some fixed amount, remain on tap at the highest bid price at which bills were all wanted on the last previous offering. It was reported that many individuals and corporations are unwilling to submit bids, but that they would purchase bids if they were available in stipulated amounts at around three-eighths."

MR. DRAPER: That sounds good.

MR. ECCLES: That would be helpful.

H.M.JR: That would be a test.

MR. ECCLES: That would be a test of three-eighths; at least you would be getting more than you are getting on the three-eighths basis.

MR. BELL: Outside of New York and Chicago.

H.M.JR: It would make a test on how much further we can go on the three-eighths.

MR. SPROUL: There is one question, what is the situation as to the equity of the fellow who bid before this announcement was made, and who paid a much higher price and got a lower yield?

MR. VINER: I would like to inject my old recommendation, that you make the highest bid at which you award the bids the prevailing price at which you give them to all successful bidders.

H.M.JR: If you would consider Dr. Viner's suggestion - I really will have to stop.

Thank you all.

Eccles.

July 29, 1942

FINANCING PROGRAM

The Federal Reserve System has worked out for the Secretary's consideration the following program for Treasury financing for the next few months:

1. Increase in the weekly bill offering up to 500 million dollars a week over the next few months. An increase in outstanding bills would serve to accelerate the distribution of securities outside of the New York City and Chicago banks.

2. Increase in the amount of outstanding certificates by offering 2 billion dollars of one-year certificates in August with a view to having four quarterly issues of 2 billion dollars each or a total of 8 billion dollars. This also would serve to distribute a larger amount of securities outside of New York City and Chicago banks.

3. Reopening of the registered 1962-67s immediately. These bonds could be modified and made more attractive by making them redeemable at par in payment of estate taxes.

4. Offering of an open-end issue of marketable bonds in the form of a popular issue to meet the large requirements for October.

5. Offering of a short open-end note issue to attract the large and growing funds of corporations and other investors, which for one reason or another are not placed in marketable securities. The System renews its recommendation that such an issue be offered. If this is not acceptable to the Treasury, the System believes that the proposed extension of the use of tax notes would be preferable to leaving this field uncovered.

The Federal Reserve System is prepared to take the following actions:

1. The System is prepared to do whatever the Secretary may deem helpful to support an adequate program of taxation as the most effective means of reducing the amount of securities that commercial banks will need to purchase.

2. Reductions in reserve requirements. The System is prepared to reduce reserve requirements for central reserve city banks by 2 points in August, 2 points in September, and 2 points in October. This would bring the level of requirements for these banks to 20 per cent, which is the level for reserve city banks. It would release approximately 1.2 billion dollars of reserves.

3. Increase in the bill buying rate to 1/2 of 1 per cent and establishment of a discount rate of 1/2 of 1 per cent on Government securities maturing within one year with the understanding that these rates will be maintained for the duration.

4. The System proposes to continue to maintain the existing pattern of rates on intermediate and long-time securities.

In proposing the program of financing outlined above, the Federal Reserve System was influenced largely by the following considerations:

1. Desirability of increasing substantially the amount of short-dated obligations in the form of bills and certificates. This will have the advantage of offering an adequate outlet for bank funds, as well as for some liquid nonbank funds. It would also offer a large medium for open market operations of the Federal Reserve System. It is particularly important for the Federal Reserve System to have a large proportion of its portfolio in short securities, because they can be readily liquidated by being allowed to run off in case a large return flow of currency sometime in the future should unduly increase bank reserves. Moreover, the proposed increase in the short debt would maintain a proper composition of the debt, in view of the very large increase in the total.

2. The reopening of the open-end 62-67 issue and the adoption of some form of an open-end short issue is for the purpose of having adequate outlets for investment funds and temporarily idle funds of corporations and individuals.

3. The offering of a large open-end open market issue in October is to afford an opportunity for a strenuous selling drive to reach all groups of investors, bank and nonbank, which is similar to what is being done successfully in other countries.

In connection with the proposed monetary program, the System's considerations were principally as follows:

1. We should like to see the bill rate raised to ½ per cent, because we think this would help to mobilize some of the unused reserves of banks outside of the money centers, and also some nonbank funds. Establishment of a ½ per cent rate at this time, prior to the issuance of a one-year certificate, makes it possible to have a rate on the certificates that is more likely to attract nonbank funds. It is proposed not to touch the rate again for the duration, except at the Treasury's suggestion.

2. In proposing to establish a discount rate of ½ of 1 per cent on advances secured by short-time Government's, the System's purpose is to assure those who buy such Government's that in case of a temporary stringency they will be able to obtain funds from the Federal Reserve Banks at a rate that will involve no loss. Neither will they have to part permanently with any part of their portfolio. This supplements the posted buying rate and is a further step to convince the buyers that short-time Governments are as liquid to all intents and purposes as excess reserves.

3. The proposal to reduce reserve requirements in central reserve city banks at this time is in recognition of the fact that it is these banks that are approaching a shortage of reserves. Reducing them to the level that prevails at reserve city banks will release about 1,200 million dollars, which will help take care of the situation until the late autumn. At that time the entire picture will need to be reviewed once more.

The Secretary

TREASURY BILLS

	July 29	July 22	July 15	July 8
mount offered	$350 M	$350 M	$300 M	$300 M
ids tendered	645	679	651	646
ow rate	.297%	.301%	.316%	.297%
igh rate	.376	.372	.372	.372
verage rate	.369	.368	.365	.365
mount in New York	$172 M	$179 M	$151 M	$173 M
mount in Chicago	57	69	59	38
mount in San Francisco	23	19	17	16
mount in balance of country	98	83	73	73

7/29/42

DWB

Treasury Department
Division of Research and Statistics

Date July 31, 1942

To: Miss Chauncey

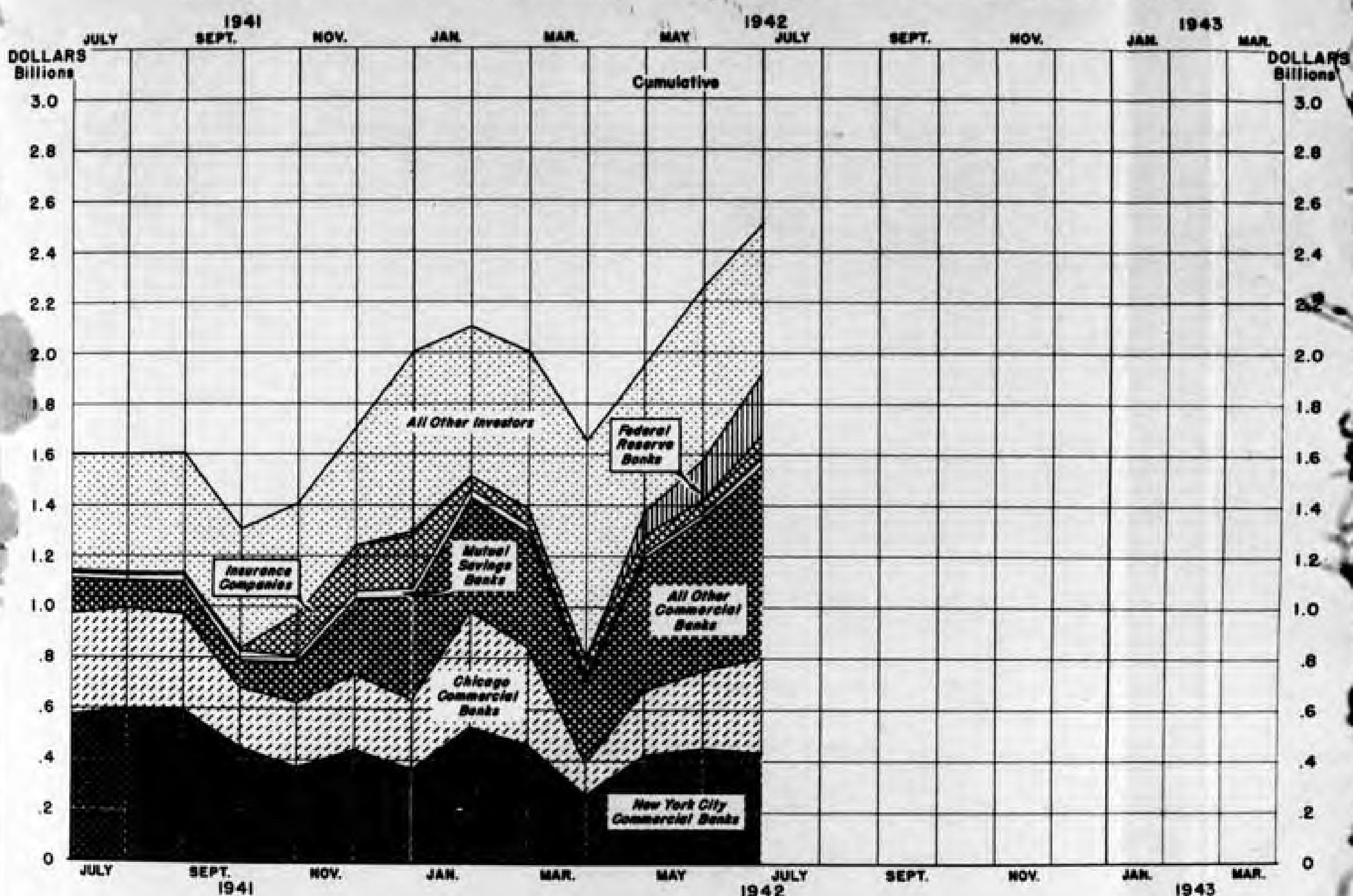
From: E. Kailey EK

Mr. Haas had this chart with him when he attended the conference luncheon with the Secretary on July 29. He undoubtedly left it with the Secretary at that time.

However, this identical chart is being used as Chart No. 2 in the financing memo which we are giving the ~~[illegible]~~ Secretary today.

7/29/42

OWNERSHIP OF TREASURY BILLS, CLASSIFIED BY TYPE OF INVESTORS



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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 29, 1942.

TO Secretary Morgenthau

FROM George Buffington G.B.

RE: EXAMINATION COVERING SECURITIES HELD BY STATE BANKS AS TRUSTEE FOR THE ACCOUNT OF INDIVIDUALS

NEW YORK

Mr. W. F. Sheehan, Manager, Bank Examination Department, New York Federal Reserve Bank, states that in examinations made of smaller banks in New York State securities held in trust are fully examined to assure complete segregation from bank assets. In the case of large metropolitan banks where the methods of handling trust accounts are well known to the examiner, a detailed check of each security is not made. A periodic spot check is made by the examiner which Mr. Sheehan states, in his opinion, is adequate to insure proper segregation.

ILLINOIS

Mr. C. B. Upham advises me that Illinois State Bank Examiners probably make the most thorough check of any state in the country regarding securities held by State banks as trustee. You will recall that my statement to you yesterday was predicated upon my knowledge of conditions in Chicago. Mr. Upham states that he is advised State Examiners in Chicago examine each security in each trust in the two State banks located in the metropolitan district.

NATIONAL BANKS

Mr. Upham states that National Bank Examiners make a thorough check of all securities held in trust to assure complete segregation from other assets.

STANDARD FORM No. 14 A
APPROVED BY THE PRESIDENT
MARCH 10, 1926

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

TREASURY DEPARTMENT
WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

War Bonds - Official
(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE 3—14117

JULY 29 1942

SENATOR CARTER GLASS
LYNCHBURG, VIRGINIA

TERRIBLY SORRY BUT I CANNOT COME ON TWENTY-THIRD BUT CAN COME ON TWENTIETH IF AGREEABLE TO THE COMMUNITY WITH SINCERE REGARDS

HENRY MORGENTHAU JR

July 29, 1942

My dear President Quezon:

Please forgive this delay in acknowledging your generous note of July 10. It was more than kind of you to accept my suggestion that you speak in behalf of the Treasury's War Bond Campaign. You may be sure that I will take advantage of this and you may expect to hear in the near future of several suitable engagements from which you may select one or more to suit your convenience.

As to the investment of Philippine funds in the United States, I should like to discuss this matter with you at your convenience.

I sincerely trust that you are, or soon will be, fully restored to good health.

With deep affection and respect, I am

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Delivered by Messenger to The Shoreham Hotel 7/30/42 at: 3 PM (Shoreham Hotel, Mr. Quezon' Suite advised he would be there 8/3/42)
Harmon

The Honorable,
The President of the Philippines,
Washington, D. C.

PHO:DWB:MLE
July 28, 1942

Photostat file NMC
Orig. File to Thompson

Office of the President
of the Philippines

Washington, D.C.
July 10, 1942

My dear Mr. Secretary:

I have just returned from Hot Springs where I went for my prescribed rest, but had to come back because the altitude in that place did not help my blood pressure to come down, and I find your very kind letter of June the 30th. I am most grateful for the sentiments expressed therein. Of course, it will be my pleasure to place myself at your disposal and make as many speeches as may be desirable as soon as I am allowed to do so by my doctors.

Although you have expressed no interest in my purchasing war bonds with funds of the Government of the Commonwealth now deposited in the United States, I am going to do it just the same. We have several million dollars here which can be used for this purpose. If for some reason, say, for publicity purposes, you should want me to make the transaction through any particular individual or agency, please let me know.

With warm affection, I am

Very sincerely yours,

Manuel L. Quezon

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

JUL 29 1942

My dear Mr. Delano:

To be quite frank, I was surprised to get your letter of July 22nd protesting against the War Bond billboard in the south Treasury yard.

My record on billboards when I was Conservation Commissioner speaks for itself. When I started, there were some 2500 billboards in the Adirondack Park and wholly through moral persuasion I succeeded in getting over 2000 of them removed.

The fact is I, myself, hesitated for a number of days before giving my approval to having this sign put on the Treasury ground. It occurred to me, however, that if the English people were willing to put a War Savings poster on the base of Nelson's Monument in Trafalgar Square, we were being unduly squeamish in not using the Treasury yard for a similar purpose. I think when we, as a nation, are engaged in a life and death struggle, such little niceties as to where a billboard should or should not be placed in order to stimulate the purchase of War Bonds are not terribly important.

Knowing that you feel as strongly as I do about the war, I am

Photostat file to NMC
Orig. File to Thompson

sure on further consideration that you will withdraw your protest.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Frederic A. Delano
Chairman of the Board
American Planning and Civic Association
Washington, D. C.

PHO:jrd

Recd 7-25

My dear Mr. Delano:

To be quite frank, I was ~~rather~~ surprised to get your letter of July 22nd protesting against the War Bond billboard in the south Treasury yard.

My record on billboards when I was Conservation Commissioner speaks for itself. When I started, there were some 2300 billboards in the Adirondack Park and wholly through moral persuasion I ~~got~~ succeeded in getting over 2000 ~~bill-boards~~ of them removed.

~~I hardly need tell you that we are at war and~~ the fact is I, myself, hesitated for a number of days before giving my approval to having this sign put on the Treasury ground. ~~but it seemed to me that the English people led the way when they permitted the base of the monument to Nelson in Trafalgar Square to be used to advertise War Bonds.~~ I think when we as a nation are engaged ~~head over heels~~ in a life & death struggle ~~war,~~ such little niceties as to where a billboard should or should not be placed in order to stimulate the purchase of War Bonds are not terribly important.

Knowing that you ~~and I~~ feel ~~equally~~ as strongly as I do about the war, I ~~hope~~ am sure on further reconsideration that you will withdraw your protest. ~~against a War Bond sign on Treasury property.~~

Yours sincerely,

American Planning and Civic Association

FORMERLY AMERICAN CIVIC ASSOCIATION AND NATIONAL CONFERENCE ON CITY PLANNING

GENERAL HEADQUARTERS
901 UNION TRUST BUILDING, WASHINGTON, D. C.

July 22, 1942

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

My dear Mr. Secretary:

We have observed with sorrow the huge billboard erected by the General Outdoor Advertising Company in the south yard of the Treasury Building.

You may remember some years ago, when the same company secured permission of the Community Chest and the Secretary of the Treasury to erect a similar board advertising the Community Chest. In response to the protests of our Association and other civic-minded citizens, this board, together with others, was discontinued. It was our contention at that time, and we still believe it to be true, that such boards do not do the causes they are erected to support any real good. In fact, public sentiment is so opposed to billboards that many of us in the Community Chest feared that the board would actually harm the chest. Probably the patriotism that induces the American people to buy bonds is such that the sales will not be affected adversely by the public sentiment against billboards, but we sincerely doubt if the board will help sell bonds. Moreover we dislike to see the Treasury of the United States being used to help make billboards acceptable to the American people by using them for worthy causes (always with the billboard company's name plainly marked on the board).

May we respectfully protest against the use of the Treasury grounds for billboards, no matter what worthy cause they advertise?

Sincerely yours,

Frederic A. Delano

Chairman of the Board

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 29

TO Secretary Morgenthau

FROM Mr. Gamble

With reference to the Bruce Smith, Max Cohen and Monroe Robinson conversations with Mrs. Roosevelt concerning motion pictures:

I had Mr. Bruce Smith in my office this morning and asked him to give me a story in his own words which is attached to this memo. After listening to what he had to say, I feel certain that this was nothing more than speculation on the part of Cohen and Smith.

I do not think that either of them are qualified to pass on the motion picture program but, feeling important, they injected themselves into an activity that directly is none of their business. Apparently Mellett recognized this for nothing happened as a result of their visit with him.

I also talked to Si Fabian of the War Activities Committee this morning and asked him to see in the future that Mr. Cohen confined his work to the State of New York, where he is assigned, and that any matters concerning the national aspects of this program be cleared through the regular channels.

I also asked Mr. Fabian about "Minute Men" or speakers appearing in theatres. He advised me that the theatre committee had been opposed to this from the very beginning and that while there had been an instance or two of speakers appearing before audiences and interrupting the program, that they were continuing a program to discourage this. He further stated that they would get out a bulletin in the near future to the 16,000 theatres asking that this matter be watched very closely so that there would not be even an occasional instance of such interruptions.

Mr. Smith was advised that he would fast destroy his usefulness to this program unlesshe confined his efforts to the job he has in New York. I am sure we need have no further concern about the activities of Mr. Cohen and Mr. Smith.

I might add further that it is my understanding that every effort is being made to improve the quality of the material reaching the screens. The industry by and large has done just the things that have been asked of them by the various Government Departments.

I understand that one of the things these men mentioned to Mrs. Roosevelt was that they would like to get the John Ford films shot at Midway released to the theatres. This, as you will recall, is something that Mr. Skouras has been working on for the Treasury and can be more properly handled by him than through the local efforts of our people.

There is little doubt but that there has been some confusion in the handling of the whole vast motion picture program; for example, distribution of the films have not been timed properly to prevent the accumulation of several subjects on one program which in my opinion does more harm than good.

The War Activities Committee is now getting well under way and there is reason to expect that there will be considerable improvement in all future theatre participation.

We here have been very much concerned with the ineffectiveness of motion picture shorts. The consensus of opinion is that the material supplied does not help the sale of bonds. With the big drive of the motion picture industry coming along in September we are very eager to obtain material (probably current pictures now in the possession of the War or Navy Departments) which could be released to the Treasury Department if the proper approach were made. Mr. Max Cohen and I discussed the subject in general with Mr. Mellett about ten days ago in Washington the day before Mr. Mellett came to New York to attend a meeting of the War Activities Board of the Motion Picture Industry. Mr. Cohen and I had hopes, after our talk with Mr. Mellett, that some vital material would be released. It was apparent at the meeting the following day that Mr. Mellett certainly at the moment did not intend to release this material.

The early part of last week Mr. Monroe Douglas Robinson, who is a cousin of Mrs. Roosevelt, and who is doing an outstanding piece of work for us in speaking to large groups, chiefly Labor, discussed with Mr. Patterson, Mr. Max A. Cohen, Mr. Pritchard, and myself, the possibility of arranging an appointment with Mrs. Roosevelt to enlist her support in an effort to help us get certain materials, the idea being that a special unit could be created in New York for the purpose of making one or two short trailers each week to be released to Motion Picture theatres through the newsreels.

In our talk with Mrs. Roosevelt yesterday we made it clear that we were talking to her entirely as individuals with the idea of helping the Treasury Staff in obtaining the most effective material possible. Mrs. Roosevelt was extremely enthusiastic about what we had in mind and was in complete accord with us as to the ineffectiveness of the present material that is being given to the Treasury Department to promote the sale of War Bonds. She stated that she would like very much to take the matter up with the Secretary, believing that he would take some very definite action about it, and she wanted to know if we, who were at the meeting yesterday, would come down to Washington to discuss with the Secretary, as we had with her, just what we had in mind. We told her that we would of course be delighted to do this.

(Mr. Bruce Smith's statement)

CONFIDENTIAL
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UNITED STATES SAVINGS BONDS - SERIES E

Comparison of July sales to date with sales during the same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days			
		July	June	May	July as percent of June
July 1942					
1	$ 15,821	$ 15,821	$ 19,834	$ 12,679	79.8%
2	14,880	30,701	27,841	24,263	110.3
3	16,822	47,523	40,811	46,532	116.4
6	29,797	77,320	58,199	55,460	132.9
7	17,724	95,044	82,988	73,824	114.5
8	21,599	116,643	98,197	97,049	118.8
9	22,746	139,390	125,245	114,218	111.3
10	24,772	164,161	134,157	128,670	122.4
11	19,077	183,238	154,242	151,956	118.8
13	26,550	209,787	169,920	161,346	123.5
14	15,744	225,532	186,470	177,133	120.9
15	18,407	243,938	201,700	194,047	120.9
16	17,828	261,766	225,684	208,939	116.0
17	22,345	284,111	233,218	223,242	121.8
18	12,233	296,344	249,033	247,532	119.0
20	31,368	327,712	261,321	257,374	125.4
21	12,239	339,951	280,742	271,079	121.1
22	18,184	358,135	291,729	290,485	122.8
23	18,261	376,396	321,114	309,584	117.2
24	18,588	394,984	331,806	323,705	119.0
25	10,695	405,679	347,673	347,494	116.7
27	32,577	438,256	362,550	360,564	120.9
28	17,449	455,706	378,505	375,702	120.4

July 29, 1942

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

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

Comparison of July sales to date with sales during the same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days: July	June	May	July as percent of June
July 1942					
1	$ 12,597	$ 12,597	$ 9,705	$ 7,302	129.8%
2	9,389	21,986	17,601	15,168	124.9
3	10,455	32,441	26,235	25,516	123.7
6	16,734	49,175	40,009	33,145	122.9
7	13,386	62,561	49,353	48,751	126.8
8	21,852	84,413	55,888	60,817	151.0
9	17,172	101,585	67,414	67,213	150.7
10	22,983	124,568	72,366	72,794	172.1
11	17,050	141,618	82,310	80,845	172.1
13	20,614	162,232	89,852	85,410	180.6
14	14,358	176,590	95,254	94,391	185.4
15	15,400	191,991	101,464	102,106	189.2
16	13,842	205,833	108,715	108,923	189.3
17	15,314	221,147	112,279	114,129	197.0
18	9,696	230,842	119,749	123,534	192.8
20	21,888	252,731	126,048	127,724	200.5
21	9,447	262,178	134,062	138,908	195.6
22	16,327	278,505	137,429	149,502	202.7
23	15,174	293,679	147,698	156,587	198.8
24	14,399	308,077	153,532	161,404	200.7
25	8,816	316,893	162,774	171,335	194.7
27	21,244	338,137	170,547	179,208	198.3
28	12,385	350,522	176,410	189,271	198.7

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

July 29, 1942.

ource: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

CONFIDENTIAL

UNITED STATES SAVINGS BONDS - TOTAL

Comparison of July sales to date with sales during the same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days: July	June	May	July as percent of June
July 1942					
1	$ 28,418	$ 28,418	$ 29,539	$ 19,981	96.2%
2	24,269	52,687	45,442	39,430	115.9
3	27,277	79,964	67,046	72,048	119.3
6	46,531	126,495	98,208	88,605	128.8
7	31,110	157,605	132,341	122,575	119.1
8	43,451	201,056	154,085	157,866	130.5
9	39,918	240,974	192,659	181,431	125.1
10	47,755	288,729	206,523	201,464	139.8
11	36,127	324,856	236,552	232,801	137.3
13	47,164	372,020	259,772	246,756	143.2
14	30,102	402,122	281,724	271,525	142.7
15	33,807	435,929	303,163	296,152	143.8
16	31,670	467,599	334,398	317,861	139.8
17	37,659	505,257	345,497	337,371	146.2
18	21,929	527,186	368,782	371,066	143.0
20	53,257	580,443	387,369	385,098	149.8
21	21,686	602,129	414,804	409,987	145.2
22	34,511	636,640	429,158	439,987	148.3
23	33,434	670,075	468,812	466,171	142.9
24	32,987	703,062	485,338	485,109	144.9
25	19,510	722,572	510,446	518,829	141.6
27	53,821	776,393	533,097	539,771	145.6
28	29,834	806,228	554,915	564,973	145.3

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

July 29, 1942.

ource: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

Sales of United States Savings Bonds 63
From July 1 through July 28, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

CONFIDENTIAL

Date	Series E				Series F and G				Total			
	Actual Sales		Quota, July 1 to Date	Sales to Date as % of Quota	Actual Sales		Quota, July 1 to Date	Sales to date as % of Quota	Actual Sales		Quota, July 1 to Date	Sales to Date as % of Quota
	Daily	July 1 to Date			Daily	July 1 to Date			Daily	July 1 to Date		
1	$ 15.8	$ 15.8	$ 23.6	66.9%	$ 12.6	$ 12.6	$ 19.4	64.9%	$ 28.4	$ 28.4	$ 43.0	66.0%
2	14.9	30.7	47.9	64.1	9.4	22.0	36.4	60.4	24.3	52.7	84.3	62.5
3	16.8	47.5	73.0	65.1	10.5	32.4	50.6	64.0	27.3	80.0	123.6	64.7
6	29.8	77.3	126.0	61.3	16.7	49.2	82.6	59.6	46.5	126.5	208.6	60.6
7	17.7	95.0	139.3	68.2	13.4	62.6	94.2	66.5	31.1	157.6	233.5	67.5
8	21.6	116.6	162.2	71.9	21.9	84.4	114.5	73.7	43.5	201.1	276.7	72.7
9	22.7	139.4	189.8	73.4	17.2	101.6	129.5	78.5	39.9	241.0	319.3	75.5
10	24.8	164.2	216.0	76.0	23.0	124.6	139.9	89.1	47.8	288.7	355.9	81.1
11	19.1	183.2	236.6	77.4	17.1	141.6	147.7	95.9	36.1	324.9	384.3	84.5
13	26.5	209.8	273.2	76.8	20.6	162.2	160.6	101.0	47.2	372.0	433.8	85.8
14	15.7	225.5	287.6	78.4	14.4	176.6	168.0	105.1	30.1	402.1	455.6	88.3
15	18.4	243.9	311.6	78.3	15.4	192.0	181.8	105.6	33.8	435.9	493.4	88.3
16	17.8	261.8	335.5	78.0	13.8	205.8	193.5	106.4	31.7	467.6	529.0	88.4
17	22.3	284.1	358.7	79.2	15.3	221.1	202.8	109.0	37.7	505.3	561.5	90.0
18	12.2	296.3	377.4	78.5	9.7	230.8	210.5	109.6	21.9	527.2	587.9	89.7
20	31.4	327.7	411.8	79.6	21.9	252.7	223.9	112.9	53.3	580.4	635.7	91.3
21	12.2	340.0	425.9	79.8	9.4	262.2	231.8	113.1	21.7	602.1	657.7	91.5
22	18.2	358.1	451.1	79.4	16.3	278.5	247.0	112.8	34.5	636.6	698.1	91.2
23	18.3	376.4	477.5	78.8	15.2	293.7	260.1	112.9	33.4	670.1	737.6	90.8
24	18.6	395.0	503.8	78.4	14.4	308.1	270.7	113.8	33.0	703.1	774.5	90.8
25	10.7	405.7	525.0	77.3	8.8	316.9	279.5	113.4	19.5	722.6	804.5	89.8
27	32.6	438.3	562.7	77.9	21.2	338.1	295.1	114.6	53.8	776.4	857.8	90.5
28	17.4	455.7	577.2	79.0	12.4	350.5	304.3	115.2	29.8	806.2	881.5	91.5
29			601.3				322.1				923.4	
30			625.8				337.5				963.3	
31			650.0				350.0				1,000.0	

ffice of the Secretary of the Treasury, Division of Research and Statistics. July 29, 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.

Note: Quota takes into account both the daily trend during the week and the monthly trend during the month.

TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

July 29, 1942

MEMORANDUM FOR

Assistant Secretary Sullivan.

There follows an estimate of the additional office machine equipment which has been reported to be needed by industry and Government to handle the collection of a part of the regular income tax at source under the plan contained in H. R. 7378.

	Type of Machine	Quantity
1	Adding machine	1,192
2	Addressograph	342
3	Addressograph cut-off	15
4	Bill feed	15
5	Billing machine	231
6	Bookkeeping machine	120
7	Calculating machine	1,937
8	Change machine	31
9	Check signer	3
10	Check burster	3
11	Check endorser	64
12	Check writer	588
13	Combination typing and adding machines	1,160
14	Cancelling machines	1,200
15	Coder	15
16	Collator	107
17	Comptometer	1,843
18	Duplicating machine	718
19	Elements of a card punch set-up	271
20	Elliott-Fisher bookkeeping machine	64
21	Elliott-Fisher billing machine	64
22	Fan-fold typing machine	1,880
23	Graphotype	46
24	Interpreter	15
25	Key punch	507
26	Lister	15
27	Multi-control	33
28	Multiplier	463
29	Plug board	39
30	Payroll machine	3,215
31	Posting machine	143
32	Printer	249
33	Stencil machine	140
34	Stencil-cutting machine	144
35	Sorting devices	64

	Type of Machine	Quantity
36	Standard register	284
37	Sorter, electric	348
38	Tabulating reproducer	117
39	Totalizer	15
40	Tabulator	584
41	Typewriter	4,813
42	Verifiers	255
43	Not stated	300
	Total pieces of machines of all types	23,652

The distribution of the above estimates by users of the equipment is as follows:

Type of machine	Bureau of Internal Revenue	Bureau of the Public Debt and Treasurer's Office	Federal Reserve Banks	Commercial Banks	All other Industry	Totals
dding machine	300	10	50		832	1,192
ddressograph					342	342
dressograph cut-off					15	15
ill feed					15	15
illing machine					231	231
ookkeeping machine				120		120
alculating machine	64				1,873	1,937
hange machine					31	31
heck signer					3	3
heck burster					3	3
heck endorser	64					64
heck writer					588	588
ombination typing and adding machine				1,160		1,160
ancelling machines				1,200		1,200
oder					15	15
ollator				40	67	107
omptometer					1,843	1,843
uplicating machine	64				654	718
lements of a card punch set-up					271	271
lliott-Fisher Book-keeping machine	64					64
lliott-Fisher Billing machine	64					64
anfold typing machine				1,880		1,880
raphotype					46	46
nterpreter					15	15
y punch					507	507
ster					15	15
ulti-control					33	33
ultiplier				60	403	463

	Type of machine	Bureau of Internal Revenue	Bureau of the Public Debt and Treasurer's Office	Federal Reserve Banks	Commercial Banks	All other Industry	Totals
9	Plug board					39	39
0	Payroll machine					3,215	3,215
1	Posting machine					143	143
2	Printer					249	249
3	Stencil machine				140		140
4	Stencil cutting machine	64			80		[illegible]
5	Sorting devices	64					64
6	Standard register				20	264	284
7	Sorter, electric					348	348
8	Tabulating reproducer				60	57	117
9	Totalizer					15	15
0	Tabulator				80	504	584
1	Typewriter	2,100	11		1,000	1,702	4,813
2	Verifiers					255	255
3	Not stated					300	300
	otal pieces of machinery of all types	2,848	21	50	5,840	14,893	23,652

Explanation of Sources of Information and Method of Estimate

1. Bureau of Internal Revenue.

The Accounts and Collection Unit derived its estimate on the basis of its present production records in respect to the listing of tax returns for assessment and its experience in the administration of the social security taxes. The estimates contemplate a double shift use of the machines.

2. Bureau of the Public Debt and the Treasurer's Office --

Estimates made by Mr. Edwin L. Kilby, Assistant Commissioner of Public Debt and Mr. George O. Barnes, Assistant to the Treasurer.

3. Federal Reserve Banks --

Estimates made on information furnished orally by Mr. V. Willis, Assistant Vice President of the Federal Reserve Bank of New York and Mr. Alfred T. Sihler, Vice President of the Federal Reserve Bank of Chicago.

4. Commercial Banks --

Estimates made from information furnished by Messers Mylander and Quaremba of the Tax Committee of the American Bankers Association.

5. All other industry --

Estimates made from information supplied on 463 questionnaires filled in as a result of personal interviews with employers. Questionnaires for employers having 100 or more employees were distributed by three groups, those reporting employers having 100 to 1,000 employees, 1,000 to 10,000 employees, and 10,000 and over employees. The types of machinery reported by the employers as needed were stepped up on the ratio of the number of questionnaires in each group to the total for the country.

Reliability of the Estimates

1. The estimates are definitely understated, in that the basis used for distributing the number of employers by groups according to number of employees is that contained in the Social Security Bulletin of April 1942 which represents the distribution for 1940. The 1942 figures would be at least 20 percent higher but since such are not available the 1940 data were used.

2. The estimates may be overstated in respect to the group of employers with 100 to 1,000 employees because the employers in the lower portion of the bracket could possibly manage without any additional equipment of any kind owing to the relatively small number of employees.

3. For the most part, the persons furnishing the information cautioned that the estimates given on such short notice were, at best, only hurried guesses based on their knowledge of the situation.

General Observations

While the added needs of industry for machinery to handle the collection of tax at source may not appear impressive and, in general, ways and means can probably be found to handle this burden by a majority of all employers, there are two factors which should be borne in mind:

(1) Added employees are being taken on by many of the larger employers, particularly in the war industries and by January 1, 1943, the present equipment of these employers will be hard pressed to perform the essential payroll work. Moreover, before the year 1943 has passed, much replacement of present equipment will be needed by essential industries which replacement must be made for the most part from stocks now on hand due to the limitations which are now being placed upon the further manufacture of office equipment. In other words, the needs are going to be increasingly pressing while the supply of equipment will constantly decrease.

5 - Memorandum for Assistant Secretary Sullivan.

(2) The majority of employers have ample office machines to handle payrolls and the collection of tax at source, and the number of hours machines are in operation are frequently limited to one eight-hour day, or less. This gives the appearance of an overall machine cushion which might permit industry to absorb the added burden of collection at the source. Consideration must be given, however, to the fact that payroll work is necessarily seasonal and subject to rather rigid dead lines. As a consequence, it is not practical to make 24-hour-a-day use of a lesser number of machines by a particular employer. Neither is it practical to pool office machine equipment in such a way that several employers can use the same machinery. Therefore, just because a majority of the employers can find ways and means to meet the problem is of no help to certain others, no matter how limited, who have real need for equipment but who can not obtain it. This is especially true of new firms coming into the field to handle the expanding business resulting from the war effort.

Norman D. Cann
Acting Commissioner.

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DEPARTMENT OF STATE

ASSISTANT SECRETARY

7/29/42

Draft No. 2 of Relief and Rehabilitation Administration, to be considered at the meeting in Mr. Acheson's office, Thursday, ~~June~~ July 30, at 4 o'clock.

STRICTLY CONFIDENTIAL July 29, 1942

Relief and Rehabilitation Administration

Draft No. 2

The Governments whose duly-authorized representatives have subscribed hereto,

Having subscribed to a common program of purposes and principles embodied in the Declaration of January 1, 1942, known as the United Nations Declaration and the Joint Declaration of the President of the United States of America and the Prime Minister of the United Kingdom of Great Britain and Northern Ireland dated August 14, 1941, known as the Atlantic Charter,

Being determined that immediately upon the liberation of any area by their armed forces the population thereof shall receive aid and relief from their sufferings, food, clothing and shelter, aid in the prevention of pestilence and in the recovery of the health of the people and that preparation and arrangements shall be made for the return of prisoners and exiles to their homes, for the resumption of agricultural and industrial production and the restoration

of

of essential services, to the end that peoples once freed may be preserved and restored to health and strength for the tasks and opportunities of building anew,

Have agreed as follows:

Article I

There is hereby established the United Nations Relief and Rehabilitation Administration.

1. The Administration shall have power to acquire, hold and convey property, to enter into contracts and undertake obligations, to designate or create agencies and to review the activities of agencies so created, to manage undertakings and in general to perform any legal act appropriate to its objects and purposes.

2. The objects and purposes of the Administration shall be as follows:

(a) To plan, coordinate, administer or arrange for the administration of measures for the relief of victims of war in any area under the control of any of the United Nations through the provision of food, clothing, housing facilities, medical and other essential services and to facilitate in areas receiving relief the production of these articles and the furnishing of these services so far as necessary to the adequate provision of relief.

(b) To formulate and recommend measures for action by the United Nations for the coordination

of

of purchasing, chartering of ships and other procurement activities in the period following the cessation of hostilities for the purpose of avoiding the enhancement of prices and of providing an equitable distribution of available supplies.

(c) To formulate and recommend for individual or joint action by the United Nations measures of reconstruction and development, the need for which may be indicated by its experience in planning and performing the work of relief and rehabilitation.

(d) To formulate and recommend measures in regard to such other related matters as may be proposed by any of the member governments and approved by unanimous vote of the Policy Committee.

Article II

Membership

The members of the United Nations Relief and Rehabilitation Administration shall be the governments signatory hereto and such other governments as may upon application for membership be admitted thereto by action of the Council or the Policy Committee thereof.

Article III

The Council

1. Each member shall name one representative upon the Council of the United Nations Relief and Rehabilitation Administration, which shall be the policy-making body of the Administration. The Council shall, for each of its sessions, select one of its members to preside at the session.

2. The Council shall be convened in normal session not less than twice a year by the Policy Committee. It may be convened in special session whenever the Policy Committee shall deem necessary, and shall be convened within thirty days after request therefor by a majority of the members of the Council.

3. The Policy Committee of the Council shall consist of the representatives of China, the Union of Soviet Socialist Republics, the United Kingdom, and the United States of America, with the Director General presiding. Between sessions of the Council it shall exercise all the powers and functions thereof. It shall invite the participation of

the

the representative of any member government at those of its meetings at which action of special interest to such government is discussed.

4. The Council may establish regional committees to advise it on the making of plans and formulation of policy for the relief and rehabilitation of Europe, the Far East and of any other areas where such committees may be found desirable. The regional committees shall normally meet within the area and shall comprise representatives of the member governments directly concerned with the problems of relief and rehabilitation in that area. The Regional Committee on European Relief when so constituted shall take over and carry on the work of the Inter-Allied Committee on European Post-War Relief established in London on September 24, 1941.

5. The Council may establish such standing committees as it considers desirable to advise it, and in the intervals between sessions of the Council to advise the Policy Committee, in respect of particular problems such as nutrition, health, agriculture, transport, materials and supplies,

repatriation

repatriation and finance. The members of such committees shall be appointed by the Policy Committee, with the approval of the Council if it be in session and otherwise subject to its ratification, from members of the Council representing the governments most directly concerned in each case or alternates whom such members may nominate because of special competence in their respective fields of work. Should a regional committee so desire, subcommittees of these standing committees shall be established to advise the regional committees.

6. The travel and other expenses of members of the Council and its committees shall be borne by the governments whom they represent.

Article IV

The Director General

1. The executive authority of the United Nations Relief and Rehabilitation Administration shall be in the Director General, who shall be appointed by the Council on the nomination of the Policy Committee.

2. The Director General shall have full power and authority for carrying out relief operations contemplated by Article I, section 2(a), within the limits of available resources and the broad policies determined by the Council or its Policy Committee. Immediately upon taking office he shall in conjunction with the military and other appropriate authorities of the United Nations prepare plans for the emergency relief of the civilian population upon the occupation of any area by the armed forces of any of the United Nations, arrange for the procurement and assembly of the necessary supplies and create or select the emergency organization required for this purpose. In arranging for the procurement, transportation, and distribution of supplies and the administration of relief, he and his representatives shall consult and collaborate with the appropriate authorities

of

of the United Nations and shall, wherever practicable, use the facilities made available by such authorities. Voluntary relief agencies may not engage in activity in any area receiving relief from the Administration without the consent and unless subject to the regulation of the Director General.

3. The Director General shall also be responsible for the organization and direction of the functions contemplated by Article I, sections 2(b), 2(c), and 2(d), and shall make such recommendations to the Council, the Policy Committee and other committees of the Council as he may deem appropriate.

4. The Director General shall appoint such Deputy Directors, other officers, expert personnel, and staff, at his headquarters or elsewhere, including the staff of field missions and secretarial and other necessary staff for the Council and its committees, and may delegate to them such of his powers as he may deem appropriate.

Article V

Supplies and Resources

1. Each member government pledges its full support to the Administration, within the limits of its available resources and subject to the requirements of its constitutional procedure, through contributions of funds, materials, equipment, supplies and services, for use in its own, adjacent or other areas in need, in order to accomplish the purposes of Article I, section 2(a). All such contributions received by the Administration shall be accounted for.

2. The supplies and resources made available by the member governments shall be kept in review in relation to prospective requirements by the Director General, who shall initiate action with the member governments with a view to assuring additional supplies and resources as may be required.

3. All purchases, by any of the member governments made outside their own territories during the war for post-war relief purposes shall be made only after

consultation

consultation with the Director General, and shall, so far as practicable, be carried out through the appropriate United Nations agency.

Article VI

Administrative Expenses

The general administrative expenses shall be borne by the member governments in proportion to be determined by the Council. The governmental authority of any territory receiving aid from the Relief and Rehabilitation Administration shall in addition place at the disposal of the Administration any sums required in the currency of that territory for local expenditure in the administration or distribution of such aid.

Article VII

Amendment

The provisions of this agreement may be amended by unanimous vote of the Policy Committee and two-thirds vote of the Council.

TELEPHONE EXECUTIVE 4800 EXT. 30

77

INDIAN SUPPLY MISSION
1139 CONNECTICUT AVENUE
WASHINGTON, D. C.

K. C. MAHINDRA

July 29, 1942

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

Dear Mr. Morgenthau:

I have pleasure in sending you a letter of introduction from Edgar Snow, whom I have had the privilege of meeting in India. Mr. Snow's enthusiasm was infectious, and we have had many pleasant discussions on his very interesting experiences in China.

I shall deem it a great favor if you will give me an opportunity to call on you some day at your leisure.

I am going to New York on Friday afternoon, but expect to be back in Washington the following Wednesday.

Yours sincerely,

K. C. Mahindra

K. C. Mahindra

KCM:dr

Telegrams: CECIL DELHI.
Telephone: 5936.

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Proprietors : THE HOTZ TRUST,
HOTEL CECIL,
DELHI.

July 2, 1942

Ref. No.

Dear Henry Morgenthau:

This may serve as a kind of footnote to official introductions which doubtless will bring Mr. K. C. Mahindra into contact with you very soon. He is, as you know, the new chief of the India Purchasing Commission in the U.S.A.

During my stay here I have especially appreciated knowing Mr. Mahindra, who is one of this country's outstanding industrialists and one of its most realistic thinkers along economic lines.

You know my interest in Industrial Cooperatives in China, of course, and will understand why I have been thinking along these lines for India, too. The more I see of this part of the world in ~~wartime~~ the more convinced I become that only by encouraging industrialization, to some extent at least, along cooperative ways, can America perform its historic mission of economic as well as political liberation in colonial countries. I don't mean it is our sole responsibility, of course, but it is clearer every day that we cannot escape a large measure of responsibility.

It is wonderful that we are going to have in America a practical business man of India who can check, from experience, the feasibility of methods of help proposed. I do hope you find time for a talk with Mr. Mahindra about the possibilities I suggest.

I saw Manuel Fox in Chungking a few days before I left and I felt he was a brave man to come back and shoulder the tasks that face any financial advisor there. He is a grand guy.

With best greetings to Mrs. Morgenthau and yourself,

Sincerely yours,
Edgar Snow
Edgar Snow

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Treasury Department
Division of Monetary Research

Date July 29, 1942 19

To: Secretary Morgenthau

From: Mr. White

You may be interested to note that according to the enclosed telegram from American Embassy at Chungking, it is rumored in Chungking that the Chinese Government has ordered its commanders in Eastern China not to offer determined resistance to the Japanese forces. Moreover, one known case of this is cited.

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PARAPHRASE

A telegram of July 23, 1942 from the American Embassy at Chungking reads substantially as follows:

With regard to the Chekiang area, Japanese forces evacuated Wenchow a short time after occupying that city on July 11 and on July 17 the city was reoccupied by Chinese forces. However, on July 18 Wenchow was retaken by Japanese troops from naval vessels and they held it. On July 17 the Chinese retook Juian (south of Wenchow) and claim that they are still holding it.

With regard to Kiangsi Province, the Japanese have withdrawn from a number of places, showing that it is not their intention to hold the Chekiang-Kiangsi railway. Hengfeng and Yi (garble) on the railway have been reoccupied by the Chinese who anticipate that the Japanese will withdraw from Shangjao and perhaps from Chuchow. The Chinese point out that the Japanese are engaged in extorting money and systematically plundering towns, evidently as a preliminary to evacuation. However, the Chinese say that even in case they could reoccupy the strategic airfields in Kiangsi and Chekiang Provinces, the Japanese could without great difficulty prevent reconstruction of the airfields.

In southern Honan Province near Sinyang, in Suiyuan Province south of Paotou, and in southern Shansi Province apparently insignificant clashes have taken place on a small scale between Japanese and Chinese troops. Successes in these operations are claimed by the Chinese.

According to information received from an American naval observer who returned a short time ago from Chekiang Province, although the Chinese commander at Lishui had well-equipped forces and was anxious to fight, he was obliged for political reasons to retire without putting up a fight, under orders from Chungking. No report had been received by the Embassy of unconfirmed reports to the effect that the Chinese commanders in Chekiang were advised from Chungking not to offer determined resistance to the Japanese forces.

No economic or political developments of note have occurred recently. The financial situation was not appreciably affected by lowering of the United States dollar Chinese fapi rate to five cents. The sale of United States dollar certificates and bonds continues in insignificant amounts. The Embassy is disposed to question the statement contained in the message to the Treasury (transmitted in the Embassy's telegram of July 15) to the effect that no appreciable difference would have resulted from improvements in methods and terms of issue. It still is the opinion of the Embassy that even at this late date encouraging effects upon sales would result from trust fund arrangement and trustworthy assurance of free use of dollar credit upon redemption.

When announcing the arrival of Mr. Currie in Chungking, the Chinese Government spokesman said that without doubt Mr. Currie's second visit will be even more fruitful than was his first visit. In response to an inquiry whether more planes were needed in addition to the planes of the present United States Army Air Force, the spokesman said, "Of course -- more". In response to a question the spokesman said also that the list of other needed material is very lengthy.

There is nothing in the present situation in general, so far as the Embassy sees, which would cause the Embassy to change its belief that the Chinese will in their own way continue to weather the storm and maintain their policy of resistance to the Japanese.

Copy:lc:7/28/42

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: Chungking

TO: Secretary of State, Washington

DATED: July 29, 1942

NUMBER: 881

CONFIDENTIAL

Reference is made to the Department's telegram of July 23, 1942, 8 a.m., No. 663.

The Department is informed that the law referred to in my telegram No. 855 is entitled "The Public Treasury Law promulgated June 9, 1938". The Embassy will attempt to supply a translation by airmail. This subject was discussed in a despatch from the Consul General at Shanghai to the Department dated September 15, 1936 and numbered 2532.

Regarding this matter, the British Ambassador here with the Inspector General of Customs has called on me. It was agreed by us that any formal or informal representations would be of no avail but that we might each take any opportunity which presented itself from time to time in our conversations with influential members of the Government to express our interest and concern for the continued integrity of the customs service as of outstanding importance

to

to China. The Inspector General was urged by us to continue his efforts to obtain a reasonable modification of the application of the law to the customs. We pointed out that the situation does not appear to us to have reached the point where it would be considered necessary by the foreign staff to be paid off.

Currie has also been informed of this matter by me and he has promised that in his conversations with the Chinese, he will take every opportunity that presents itself to comment on this situation.

GAUSS

DCA:BBS:CLA 7/30/42

Copy:vw:7-31-42

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 260

Information received up to 7 A.M., 29th July, 1942.

1. NAVAL

The 6,000 ton U.S. ship which was ashore on the West Coast of NOVA ZEMBLA (OPTEL No. 256) arrived at ARCHANGEL on the 28th. A Naval Trawler was torpedoed and sunk on the 25th by U-boat which she was hunting South-West of FREETOWN.

2. MILITARY

EGYPT. On the night 26th/27th and the following day we made a limited offensive thrust in the Northern Sector, Australian Troops gained their first objective at SANYET EL MITEIRIYA by first night but were later strongly counter attacked and forced to withdraw to their original positions. Further South 69th Infantry Brigade passed through a gap in the mine fields cleared by First-South African Division but they were heavily counter attacked later and forced to withdraw suffering some casualties. In the Southern Sector there was considerable activity but no engagements have been reported.

RUSSIA. Strong Russian attacks continue in the VORONEZH area. Russian resistance to the German advance in the DON bend West of STALINGRAD is stiffening. The German bridgeheads Southwards across the Lower DON are being extended. The evacuating of ROSTOV is admitted by the Russians but there is no confirmation of the fall of BATAISK.

3. AIR OPERATIONS

WESTERN FRONT. 27th/28th. Revised figures of enemy casualties: 8 destroyed, 7 probably destroyed, 10 damaged. Hurricanes and Bostons attacked 24 goods trains and 3 railway centres in HOLLAND and Northern FRANCE.

28th. Mosquitos dropped bombs at LUEBECK, ESSEN and COLOGNE. About 20 enemy aircraft crossed the South coast at various places. One JU 88 was destroyed. One Spitfire was lost but the pilot is safe. A Sunderland destroyed a Messerschmidt in the BAY OF BISCAY.

28th/29th. 336 aircraft were sent out: HAMBURG, 254; Aerodromes 82. Owing to deteriorating weather 96 aircraft were recalled, the remainder met extremely bad conditions including continuous cloud, electric storms and severe icing, about 40% reached their objective. 33 bombers are missing from the HAMBURG operation and 3 fighters from aerodromes.

EGYPT. 26th/27th. Our bombers attacked TOBRUK Harbour, a landing ground at EL DABA and M.T. in the battle area. One ship was probably sunk.

27th. In operations over the battle area 4 enemy aircraft were destroyed and 3 damaged. 3 of our fighters are missing and 4 more of our aircraft were destroyed by Messerschmidts while taking off from an advanced landing ground.

27th/28th. 10 enemy aircraft operated over the SUEZ CANAL area, one Heinkel was destroyed and another damaged.

4. HOME SECURITY

27th/28th. BIRMINGHAM: The latest casualty figures - Killed 65, seriously wounded 139. Public utility services are not badly affected.

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(Classification)

.... Enclosures

Copy No. ....
(For Record Section only)

MILITARY INTELLIGENCE DIVISION W. D. G. S.

MILITARY ATTACHÉ REPORT Spain
(Country reported on)

Subject Passive Defense. (Brief descriptive title) I. G. No. 9840 6420

From M. A. Madrid Report No. 7703 Date July 29, 1942.

Source and degree of reliability:
"Boletin Oficial", July 18, 1942.
Received in G-2 August 19, 1942.

SUMMARY.—Here enter careful summary of report, containing substance succinctly stated; include important facts, names, places, dates, etc.

"Boletin Oficial", July 18, 1942, published law granting several supplementary credits to Presidency of the Government.

Distribution by originator ....

Routing space below for use in M. I. D. The section indicating the distribution will place a check mark in the lower part of the recipients' box in case one copy only is to go to him, or will indicate the number of copies in case more than one should be sent. The message center of the Intelligence Branch will draw a circle around the box of the recipient to which the particular copy is to go.

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CHIEFS OF ARMS AND SERVICES

Inf.	Cav.	FA	CAC	AC	AAF	Sig.	Armd.	Ord.	QM	CWS	Med.	Engr.	Fin.

Attaché at	CG Phil.	CG Pan.	CG Haw.				Eval. & Dissem.Br.	W/D L/O B.E.W.	
							4	x	

Enclosures:

(Classification)

WAR DEPARTMENT
G. C. S. 17 (Rev.)

16—24237-2 U. S. GOVERNMENT PRINTING OFFICE

SPAIN

I.G. No. 9840
6420

Subject: Passive defense.

The "Boletin Oficial" of July 18, 1942 published a law granting several supplementary credits to the Presidency of the Government, aggregating 871,500 pesetas, to be used during the present calendar year for passive defense.

The above appropriation will be mainly devoted to meet expenses incident to the upkeep of the "Jefatura de Defensa Pasiva y del Territorio" and provincial agencies. This organization renders little effective work judging from the fact that out of the above appropriation, 100,000 pesetas only will be used for "trials and tests of material used in passive defense".

R.W. DUSENBURY,
Colonel, G.S.,
Military Attaché.

From: M.A., Madrid | Report No. 7703 | July 29, 1942.

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7·29·42

NTELLIGENCE REPORT 34

CONFIDENTIAL

This document contains information relating to the national defense of the United States within the meaning of the Espionage Act, as amended, U. S. Code 50, Sections 31 and 32. Its transmission or communication in any manner to any unauthorized person is prohibited by law.

OFFICE OF WAR INFORMATION

BUREAU OF INTELLIGENCE

COPY No. 7
Henry Morgenthau, Jr.

Such recommendations and suggestions as may appear in this report have not been cleared in advance with the Director of the Office of War Information and do not necessarily reflect his views or those of the Office of War Information. Recommendations and suggestions, if they do appear, are only submitted by individuals in the Bureau of Intelligence who have assembled the data and they are offered for the consideration of appropriate authorities.

The Bureau of Intelligence of the Office of War Information uses a variety of procedures and techniques to obtain its data on the attitudes of people and on what is brought to their attention. These procedures and techniques have been found reliable after extensive experimentation over a period of years.

C O N T E N T S

[redacted]

Public attention during the week was focused upon the fighting fronts of the war. The news editors of both press and radio consistently treated the struggle along the Don River as the prime subject of interest. Throughout the week, it dominated front pages and news broadcasts.

The news from Russia was presented with alarm and a good deal of pessimism. Accounts of the Red army's retreat were supplemented by a variety of reports concerning the need for a second front and by think-pieces on the possibility that the United Nations might soon undertake an invasion of Europe.

In the Pacific, the situation around the Japanese-occupied Aleutians held chief attention. Considerable emphasis was placed upon the statements of Senator Brewster and the delegate from Alaska, Anthony J. Dimond. For a day at least, American submarine successes against Japanese shipping were dramatized.

The fighting in North Africa received only secondary attention. Toward the end of the week, indeed, it was relegated, in many instances, to inside pages. So, too, was news of RAF activities over Western Europe, with an occasional spurt of excitement over American participation in these raids.

At home, various aspects of the cost of living program remained important news topics. Congressional action on the production of synthetic rubber was given special stress. Interest sagged pronouncedly in the trial of the eight Nazi saboteurs; but the FBI hunt for the three German agents still at large was widely highlighted.

Perhaps the outstanding single domestic topic was the proposal broached by Henry J. Kaiser for the mass production of transport planes. This, in conjunction with the cancellation of the Higgins shipbuilding contracts, occasioned a number of speculative stories.

Treatment of news was, on the whole, rather feverish. Few of the week's events gave cause for celebration. And neither newspapers nor radio sought to avoid the ominous implications of the war's progress.

EDITORIAL ATTITUDES

discontent

Commentators have watched these events of the past week with a growing sense of frustration. They have an uneasy conviction that we are losing on important battlefronts of the war — along the Atlantic coast, on the Russian front, perhaps even in the Aleutians. They feel that momentous opportunities are slipping away from us and may never recur.

They have reacted to frustration with anger, or at least with irritation. These feelings are directed now to almost all phases of the Government's conduct of the war. Underlying them, there appears to be a nebulous suspicion that the men who guide the United Nations war effort are deficient in essential resourcefulness and imagination.

The notion that our leaders are shackled by outworn concepts of warfare was brought into sharp focus by Henry Kaiser's proposal to build a large fleet of flying transports as a means of overcoming the submarine menace. There has been a good deal of grumbling over the Navy's failure to reduce ship losses in the Caribbean and the western Atlantic. Isolationist commentators have been most vehement in their complaints on this score, denouncing Secretary Knox and sometimes the President himself as complacent or incompetent. Mr. Kaiser's novel scheme for by-passing the enemy submarines has crystallized the general discontent.

It may be inferred, indeed, that the very radicalism of the plan has been largely responsible for capturing the imagination of critics who confess that they do not know its feasibility. Almost all comments on the plan are of a hopeful nature, yet the common assumption is that the project will be shelved — and shelved because it conflicts with the conventional ideas of marine-minded men. Walter Lippmann, for example, delivers an annoyed admonition: "Before anyone settles down to prove that the difficulties of the Kaiser plan render it impossible, let us be assured that the proposal is in the hands of men whose only interest is how the difficulties can be overcome."

And the Christian Science Monitor suggests that "the people can insist that his proposal shall not be cast aside or delayed just because 'it never has been done.' They can see to it that worthy but hide-bound officials or rival commercial interests do not block a trial of this hopeful plan."

Impatience with the Government is manifested equally and in large volume on the economic front. Comments on the anti-inflation program continue to berate the President, as well as Congress, for inadequate measures to check a real danger. The Treasury's tax program is disliked chiefly because of its failure to propose a sales levy. And wage increases are attributed by irate commentators to a lack of firm leadership on the part of the President.

For the first time since he took over the reins of the production program there has been a considerable volume of criticism directed at Donald Nelson. He, too, is now accused of insufficient vision and realism. Although there was general disapproval of congressional passage of the Gillette bill, Nelson himself has been widely blamed for failing to straighten out the rubber tangle.

In addition, critics seized peevishly upon the President's interest in the New York State gubernatorial election to charge that he is putting politics ahead of the war effort. One of the harshest comments was made over the air by H. V. Kaltenborn: "The President's favorite game is politics. He plays it extremely well. So let's not be too censorious when he seeks a little change and relaxation in the all-absorbing problems of the war."

The subject about which editorial dissatisfaction has been most acute, however, is the continued presence of Japanese troops in the western Aleutians. Recent statements by Senator Brewster and by the Alaskan delegate, Mr. Dimond, have brought editorial attention back to this sore spot. There is a pronounced impatience on the part of commentators over the failure to dislodge the Japanese.

"This is not a 'token' invasion, or a 'face-saving' invasion designed to please the Japanese masses", observes the New York Times. "It is a business invasion in force, an invasion designed to cut the lines of communication between North America and Siberia and prepare the ground for an attack on Continental Alaska."

Other commentators consider the occupation a prelude to Japanese action against Siberia. There is almost universal agreement that the situation contains dangerous possibilities and should be remedied by immediate and drastic measures. Again there is a considerable tendency to blame the Government for a lack of imagination in grasping the full significance of the Japanese landings in the Aleutian Islands. A good many commentators indulge in heavily sarcastic references to the "fog" which veils activities there.

united command

In much of the criticism directed at the administration's conduct of military and naval phases of the war, there appears to be a basic assumption that the fault lies in a failure to achieve united command. Disunity of command is often blamed for ship losses along the East coast and even more frequently for the situation in the Aleutians.

The appointment last week of Admiral Leahy as Chief of Staff to the Commander in Chief was widely hailed as a step in the direction of achieving a united command. Few commentators, however, accepted it as more than a partial and tentative move toward the desired goal. They applaud the Admiral and rejoice that he will be able to spare the President some of the burdens of consultation with military and naval chiefs. But there is considerable demand at present for the delegation to some military or naval officer of authority in his own right to carry out the constitutional duties of the President as Commander in Chief. Many commentators suggest, indeed, that this officer should have undisputed charge of all of the forces of the United Nations.

The divisionist press has urged such a command with especial vigor. The McCormick and Patterson newspapers insist redundantly that the President is not qualified by experience and education for the determination of military strategy and that he fails to give sufficient heed to the advice of properly qualified officers. They blame British reverses on a similarly unwarranted assumption of authority by Prime Minister Churchill. Now and then, less hostile editorial pages also question the wisdom of entrusting the direction of military and naval affairs to civilian leaders.

second front

The week's dismay has produced a thunderous revival of demand for what is commonly called a second front — that is, invasion of western Europe by British and American forces. There is a genuinely angry impatience over the failure of

Britain and the United States to relieve the Russians in what appears to be a time of desperate need.

Some commentators would be satisfied with a large scale aerial assault on Germany. The Scripps-Howard newspapers insist that this is the pattern for victory. They urge that American bomber production be concentrated for this purpose, shipped to England and sent in tremendous mass raids over German industrial cities night after night. "The war cannot be lost by such an air offensive", their editorials insist. "It might be won that way."

The St. Louis Post-Dispatch is representative of those newspapers which feel that nothing less than a full-fledged invasion will suffice for the current crisis. "No matter how hard it is to start a second front now", this newspaper queries, "how much harder will it be if Russia falls and the victorious seasoned German armies return to the West?"

On July 24, the Washington Post devoted a feature editorial to an "all-out" plea for the immediate opening of a second front.

> "Only the bold should now be in control of United Nations' strategy. For it is only the bold who can make decisions, and the crying need in the leadership of the United Nations is decisions to match the enemy's.
> "Russia's extremity in the face of the Nazi onslaught provides the latest — perhaps the last — clarion call for decisions.... The people, of course, know nothing about high strategy. But they do realize that even if a second front would entail a heavy toll in blood and material, that would be as nothing compared with the fearful slaughter which would be the price of waiting around for extermination."

The demand for vigorous offensive action against Germany voiced by the nation's outstanding commentators appears to stem from a real and terrible sense of urgency. There is a fever of anxiety among almost all of them. They believe that the war may be lost or won this summer. And they are in terror of losing it by default. The compelling cry everywhere is for action.

POPULAR REACTIONS

direction of military strategy

There appears to be considerable popular susceptibility to the isolationist argument that war strategy should be determined exclusively by military and naval leaders.

During the first week of July, the American Institute of Public Opinion asked a national cross-section the question, "Do you think that Roosevelt and Churchill should have final decision over the military and naval plans of the war, or do you think these plans should be decided by the military and naval leaders of the United Nations?" The results were as follows:

Roosevelt and Churchill	21%
Military and Naval Leaders	66
Both	1
No Opinion	12

The implication contained in the question, that the courses are mutually exclusive, was, no doubt, in large part responsible for the nature of the responses; clearly, it accounts for the fact that only one percent of the total gave the obvious answer "both". Nevertheless, the responses do suggest the inference that a large portion of the public fails to understand the responsibilities of the President and the Prime Minister and is distrustful of civilian determination of military and naval affairs.

This inference is supported by the answers to another question asked by Dr. Gallup at the same time — "Should the President, as Commander in Chief of the armed forces of the country, name a military leader to direct both the Army and the Navy?" The results were:

Yes	49%
No	36
No Opinion	15

This question, too, may invite an affirmative response through its implication that the President is now making insufficient use of expert military and naval counsel. The attitude is a dangerous one which divisionist critics are sedulously fostering. For the most part, however, the responses probably suggest only popular eagerness for a united command.

second front

There is also extensive public enthusiasm for the opening of a second front. This may be either responsive to or responsible for the recent wave of editorial sentiment in the same direction.

Early in July, the American Institute of Public Opinion asked a national sample this question: "Would you like to see England and the United States attempt a large scale attack on Germany and Western Europe in the near future, or do you think they should wait until they are stronger?" The results were:

Attempt Attack	48%
Wait	34
No Opinion	18

It should be noted that the interviewing on this question was conducted prior to the recent Nazi successes around Rostov and also prior to the revived editorial fervor for an invasion effort.

Interest in a second European front is also indicated by answers given to a multiple-choice question which the Bureau has posed to national samples from time to time: "Which one of these do you think the United States ought to do now in the war against Germany and Japan?" The answers given to interviewers early in July constituted a complete reversal of those secured in response to the same question when it was asked in May. The results in the two interviewing periods were as follows:

	May	July
(a) Fight Japan with most of our forces and send just enough help to Europe to keep Hitler from making more gains	33%	22%
(b) Fight Germany with most of our forces and send just enough help to the Pacific to keep the Japanese from making more gains	22	34
(c) Attack Germany and Japan with equal force	27	28
(d) Pull our forces close to home and use them to protect our own shores	7	7
Not ascertainable	11	9

These results illustrate clearly the drift of popular attention from the Pacific to the European sector of the war. The reasons most commonly given by those who now urge that our strength be concentrated against the Nazis are that they are stronger than the Japanese, that they are the main threat to our welfare and that the defeat of Japan can be easily accomplished once Germany is beaten.

DEVELOPING SITUATIONS

living conditions in war production areas

The influx of new workers to war plants has created serious community problems. Existing housing, health, recreational and transportation facilities in some cities are pitifully inadequate. They pose difficulties for the community in general and for the immigrant workers in particular. Studies conducted by the Bureau of Intelligence in 15 war production centers revealed living conditions which seriously impair the morale and productivity of workers.

housing

In June a small national sample of war workers was asked the question, "Would you say that housing conditions for defense workers around here are satisfactory, only fair or poor?" Only three out of ten regarded housing conditions as "satisfactory"; an equal number called them "only fair", and one quarter complained that they were "poor".

Interviewers found that the concentration of workers had created living conditions for some of them which were clearly detrimental to their health and to their ability to carry on their jobs. In several of the cities studied, many day shift and night shift workers share rooms and sometimes use the same beds. It is not unusual to find 10 to 12 men crowded into a single room -- sometimes with beds arranged in decks and with inadequate light, ventilation and sanitation.

In Hartford, for example, an interviewer reports that one woman rents space on the basis of three shifts a day, so that a man who has finished work has no place to go until it is his turn to sleep.

An interviewer in Seattle reports that housing officials expect an influx of more than 6,000 women war workers within the next few weeks, yet they know of only 100 rooms available.

Workers are often subject to grievous rent extortion. Rent ceilings have operated in some communities to impede the construction of new housing facilities by private means. In other places, the rent ceilings are flagrantly disregarded.

An interviewer in Birmingham submits the following account of observations made by one of the town's richest and most prominent citizens, a banker:

> "Rents? Why, they're high, just like they ought to be. I got some houses here in town I used to rent for $9 a month. I'm getting $40 for them now and they ain't nothing but nigger houses at that. A fellow came in here the other day and asked me if I had a house for rent. I told him I had one at $40 a month. He went out to see it and came back in a little while. He said, 'You mean to tell me that shack is worth $40 a month?' Sure, it ain't worth that much, but I can get that for it, and if you don't want it at that price, stand aside, for there's fellows ten deep wanting it at that price."

transportation, recreation and other services

The housing shortage has, in many cases, required workers to live at some distance from the plants in which they are employed. Men working in Mobile, for example, drive to their jobs from Pensacola — 50 miles away. When their tires wear out, these workers may have no means of getting to their jobs. Long trips of this sort add two or three hours to the working time of men who put in 10 or 12-hour shifts at a plant.

Public transportation facilities within communities are, of course, heavily overstrained. The routes of crowded streetcar and bus lines sometimes fail to take workers anywhere near newly constructed factories.

Other community services are similarly inadequate. In some communities, doctors, dentists, nurses and hospitals are too few to care for the suddenly increased populations. Water and sewerage facilities are sometimes unequal to the needs of a community which may have doubled in size. The health commissioner of Hartford, Connecticut, made the following admission to an interviewer:

> "Hartford is building up an intolerable condition and it will require only a spark to set it off. I am expecting something to happen any day. It is as touchy as hell. It would be very easy for an epidemic to spread like wildfire through this city."

Similarly, recreational facilities have failed to meet the needs of the newcomers. There are insufficient playgrounds for the children and too few healthy places of amusement for workers who have left their families behind them.

negroes

In all of these communities, the severest hardships are imposed upon Negroes. For they are generally confined to black ghettos in which the dwelling shortage is most acute and in which housing and sanitation facilities are at their very worst. Landlords show little compunction over gouging fantastic rentals out of Negroes for quarters scarcely fit for human habitation.

consequences

Perhaps the most damaging effect of the overcrowding in war production centers is that many workers are obliged to leave their families in the communities from which they have migrated. They are thus forced to undergo the expense of maintaining two establishments and are deprived of the satisfaction of family associations.

The communities to which they move, moreover, are not, in general, friendly to the newcomers. Themselves subject to the discomforts of overcrowding, the older residents of war production centers are inclined to look upon immigrant workers with hostility and resentment. They are unsympathetic to the novel customs and accents which outlanders bring along with them. The result is that new workers are made to feel that they are aliens and unwanted.

Many become discouraged and return to the friendlier places from which they were drawn. Recruitment and retraining of new men is consequently necessary, involving inevitably a diminution of production.

An even more serious result lies in the effect of these conditions upon the morale of workers. They react to community hostility, rent extortion and the discomforts to which they are subjected by resentment toward the Government charged with the conduct of the war effort. Their own patriotism is corroded by the profiteering they see about them. Dissatisfied and deprived of rest, relaxation and family association, these men become unable or unwilling to work long hours under the speed and tension required for war production.

farmers' attitudes toward workers

A recent investigation of the views of farm people in twenty-four counties throughout the country disclosed comparatively little of the hostility towards labor and the marked envy of war workers which has been reported in previous Surveys. The greater satisfaction farm people feel about their own situation evidently makes them less prone to criticize workers and labor leaders.

Almost half of the farmers interviewed in the course of the recent investigation feel that city workers are better off now than farm people. But not many would trade places with them all the same. One in four of those who think that city workers are better off at present express the view that they will be worse off after the war. Others feel that even though workers make more money than farmers — particularly when the farmers' property investment and long hours are considered — their lot is still not enviable. Workers, many farmers feel, can't call their souls their own. They can't experience the enjoyment and satisfaction which come from living in the country. As one Ohio farmer says:

> "I wouldn't want to change places with a worker in any factory. Not even if I could make more money than I'm making now. I like to be out here in the country. It gets in your blood, I guess."

With farm people relatively well content with their own situation, there are evidently excellent opportunities for cultivating greater sympathy among them for workers. In one Iowa county, the farmers interviewed showed an unusual understanding of workers' problems. It turned out that the county agent there had recently held a debate in the course of which he had presented a great deal of information a bout workers' economic situations and their everyday worries.

<u>other findings in the study</u>

With a favorable price relationship, prospects of a fine harvest, and satisfaction in supplying "food for victory", farmers are in the happiest state of mind they have been in for some years. Their biggest anxiety is farm labor shortage; the problems of tires, machinery, repairs, storage, transportation to market are generally viewed as future problems rather than as things to worry about now.

(For details of this study, see "Farmer's Machinery and Transportation Problems", Report #19, Division of Surveys, available on request)

mexican workers

In the far West powerful employer groups are demanding that Mexican laborers be imported to meet an acute demand for additional workers. The large growers of California, led by the Associated Farmers, want Mexicans brought in to help with the summer and fall harvests. The Southern Pacific Railroad wants to import Mexican track laborers to fill a shortage in its maintenance-of-way forces.

The Mexican Government is reluctant to permit its citizens to enter the United States to work, because it feels that they are badly treated here. It has turned back a large number of workers who sought to enter the United States in response to advertisements broadcast over Mexican radio stations. The Government has unofficially indicated that if workers are really needed to harvest the California crops it will withdraw its objections, but it insists on guaranties of adequate living conditions and return transportation for all workers.

The Mexican Consul General in Los Angeles emphasizes the importance of overcoming discrimination against Mexicans in all types of employment. The Mexicans now in California, he points out, have little opportunity for employment in highly paid industrial jobs, and he blames this discrimination in part on the influence of large growers, who are eager to keep the Mexicans on as agricultural hands.

In addition to affecting the Good Neighbor policy and complicating the industrial discrimination problem in California, any mishandling of the present situation might give the United States a black eye throughout the hemisphere. Hearings, scheduled for July 24-25, on employment discrimination against Mexicans now in the United States have been postponed until mid-August at the request of the State Department, which believes that the airing of their grievances will injure our country's prestige throughout Latin America. Lawrence Cramer, Secretary of the President's Committee on Fair Employment Practice, takes the position that Mexicans, at least, are already well aware of the discrimination against their countrymen in the Southwest, and will be heartened by the news that the United States Government is taking cognizance of it in order to combat it.

The dilemma the situation presents underscores the need for close Federal supervision of the treatment of any additional Mexican workers who may be imported at this time and activity to discourage discrimination against those already here. The problem is essentially one of War Information policy — whether or not to publicize a delicate situation for the purpose of effecting a reform.

sore spot

Newspaper and radio commentators have been almost unanimous in criticizing the Government's handling of the rubber shortage. Their most common complaint is that a confused picture has been presented to the public. More recently, however, some of them have undertaken enthusiastic support of one or another of the devices for synthetic rubber production — not infrequently with the hopeful implication that the whole problem can be solved.

This notion that an easy way can be found out of the rubber shortage is encouraged by a plan recently presented by rubber manufacturers. Divisionist newspapers reported the plan dramatically and made obvious editorial efforts to create a belief that the entire rubber problem is due to governmental ineptitude.

Misunderstanding of the problem and of the possibilities inherent in synthetic production appears to be so widespread as to require prompt official clarification. Lack of rubber enters so intimately into the average citizen's life that it can become, if the causes for it are misconceived, a major source of discontent.

MEETING OF BANKERS AND INSURANCE
REPRESENTATIVES IN THE SECRETARY'S
OFFICE ON THURSDAY, JULY 30, 1942,
AT 9:30.

Will attend:

Mr. B. M. Edwards
Mr. W. R. Burgess
Mr. George L. Harrison
Mr. Tom K. Smith

Unable to attend:

Mr. Charles E. Spencer, Jr. (On a trip)
Mr. E. E. Brown (In Mexico City)

DWB

July 30, 1942
9:30 a.m.

INFLATION

Present: Mr. Bell
Mr. Sullivan
Mr. Gaston
Mr. Paul
Mr. Friedman
Mr. Cairns
Mr. White
Mr. Blough
Mr. Stewart
Mr. Bernstein
Mr. Viner
Mrs. Klotz

H.M.JR: I will read this out loud. "We have been discussing in recent conferences, the wisdom and mechanics of directly controlling wages and farm prices. Irrespective of the merits and details of the various proposals that have been considered in this connection, these measures reach neither the fundamentals nor the magnitude of the inflation problem we are facing. Wage and price ceilings cannot prevent inflation. In this memorandum we would like, therefore, to submit for your consideration a tentative program which should deal effectively with the surplus purchasing power problem and which, if well executed, would make comprehensive wage and price ceilings unnecessary."

Is this written as though it were for the President or for Judge Rosenman or for me?

MR. WHITE: Judge Rosenman, which you thought he might show to the President. We didn't put it in its final form. We will incorporate any changes you might want.

H.M.JR: Is there a minority report on this?

MR. WHITE: There may be one sentence about which there is a difference in point of view.

H.M.JR: For the benefit of Gaston and Sullivan, I want to say that this thing that we are doing here - there is nothing that is more confidential than this. I have told this to everybody else every morning, so it is nothing personal, but every morning I have opened the meeting with the same statement, notwithstanding the fact that some of it is in the New York Times.

"Even if wage rates and farm prices were frozen at present levels, next year would see a surplus of spending power of $20 to $30 billion. This excess purchasing power will break the price ceilings on a broad front. It will result in empty shelves, in large scale black market transactions, and in widespread evasion and dealer favoritism."

"Empty shelves" necessarily?

MR. WHITE: Well, they will buy up a lot of inventories.

H.M.JR: "It will give rise to queues and to inequitable and wasteful distribution. It will make the acquisition of the necessities of life a battle of wits.

"We have no choice but the adoption of some proposal, no matter how drastic, that is capable of preventing the spending of the $20 to $30 billion of excess purchasing power.

"For many months the Treasury has been considering and discussing with other agencies of the Government, a plan for EXPENDITURE RATIONING. We believe that this program can be put into effect without additional legislation."

I have got to swallow on that one.

"Expenditure rationing consists of a limitation of the aggregate spending power so that it is roughly equal to the aggregate of available consumers' goods at present prices. This is accomplished by limiting the amount that any individual or family can spend."

MR. WHITE: Walter Stewart had a good phrase he suggested this morning that might be added there. I think it was: "This would be equivalent to the application of selective service to consumer spending" - something like that.

H.M.JR: Good.

"Although variations of income and size of family will be factors in determining the permissible amount of spending allowed each family, the Expenditure Rationing system would greatly reduce the inequality in spending that prevails now. For example, a family of four with an income of $1,500 might be allowed to spend it all; a family with an income of $2,500 would be permitted to spend (say) $1,800 on consumer goods; a family with an income of $10,000 would be permitted to spend (say) $5,000; a family with an income of $50,000 would be permitted to spend (say) $10,000.

"By explicitly determining the amount that each individual is to be permitted to spend, expenditure rationing provides a system for equitably distributing a limited supply of goods and services among the great mass of our population. Although their expenditures are limited, individuals will be substantially assured that goods and services will be available for purchase with their expenditure allowance."

Well now, right there I will come back. The thing which is missing is this, if you will listen to me, that the proportion that you might - it would have to be a sliding scale, because if you had a little more goods you could increase the amount proportionately; if you had a little less you could tighten it up, and I don't think at any time that has been explained; and even if you hadn't thought of it, you should think of it, because just the flat statement "that goods and services will be available for purchase with their expenditure allowance" - I mean, I think there should be something in there that the formula will be adjusted to the amount of civilian goods available, and as goods increase and decrease the formula can be raised or lowered.

MR. WHITE: Yes, sir.

H.M.JR: That isn't in there, and I think it is terribly important.

MR. WHITE: It was in an early draft. We cut it out.

H.M.JR: Don't you think that is important? That is the thing that appeals to me. You sit down and say that sixty billion dollars is available. Well, we have arrived at the formula, the basic formula for the family from twelve hundred up, so that you adjust that formula up and down as the civilian goods increase or decrease. Otherwise, that sentence wouldn't be true, and it isn't self-explanatory. Do you accept the criticism or suggestion?

MR. WHITE: It is very excellent. It is necessary.

H.M.JR: It is the guts of the whole thing. I mean, first you fix your basic formula, then you find out from whomever has got charge how much civilian goods are going to be available for the next three months, and you may have to adjust this thing up or down every three months.

MR. WHITE: The formula would be revised from time to time so as to adjust the purchasing power to the amount of goods available.

H.M.JR: Yes, but I want to put - first you arrive at a basic formula just the way you do on the income tax, starting with the family of twelve hundred dollars. That family can spend it all; the family of fifteen hundred dollars might be able to spend eighty or ninety percent; a family with two thousand dollars might only be able to spend seventy. You have your basic formula, and then depending upon the goods you add or subtract on your basic formula.

MR. WHITE: Yes, I think we can incorporate that either in one or two sentences.

H.M.JR: Am I all right on that?

MR. WHITE: I think we all agree. It was in there once.

H.M.JR: The only thing is, I come in fresh and I miss something then. And as I say, it is like getting my gas card. I get my units; today they are worth four gallons a unit. At the end of the month they might say, "Well, the next month you are only going to get three." The thing might improve; I might be able to get five gallons. I get my units, but I adjust them up and down depending upon how much is available. O.K. gents?

MR. BELL: Yes.

H.M.JR: Wonderful.

"All persons will receive a ration allowance. The right to spend this allowance will be represented either by coupons or some other device. The ration allowances might be distributed to consumers principally through their employers and also through other agencies."

I don't like that.

MR. WHITE: The sentence isn't necessary. We don't have to explain the mechanism in that detail.

H.M.JR: I don't like that "through their employers." I don't like that at all.

MR. WHITE: You mean you don't like the plan or the sentence?

H.M.JR: That "principally through their employers." No, it should be done through rationing boards.

MR. WHITE: If there is any doubt, let's cut the sentence out. We will have a lot of time to discuss the actual mechanism.

H.M.JR: Then take these things out.

MR. BELL: It isn't important.

H.M.JR: I mean, why should an employer have that terrific--

MR. WHITE: We felt that that was the most convenient way for distributing. It is open to discussion, and not necessary to put in.

H.M.JR: Very bad public relations.

"All retailers of consumers' goods or services would be permitted to sell goods only when the surrender of the ration permit accompanies the purchase payment. An appropriate system of enforcement will be set up to check up on retailers as well as consumers."

I think you ought to put in there - I would like very much to have a sentence that "We have had two or three years' experience with food stamps."

MR. WHITE: It is so small a sample, I have not enough familiarity with it.

H.M.JR: And they did it very carefully and they did it very well, and I tell you the man - I am right - who was the man who did all the advance work?

MR. BELL: Milo Perkins.

H.M.JR: But I mean, I think if you did it the President would immediately click in his mind - I mean, if his reaction through here is this can't be done, and if you could - this is too long, anyway, for him. I mean, this is too much; it has got to be boiled down to one page. Immediately say on this, "You have the experience, the retailer and consumer, through your food supplies, if as difficult a thing as that would work out successfully," - I mean, if that could be brought up in the beginning, then he would say, "Of course they did it that way." I know how his mind works.

"This system will enormously lessen the need for specific rationing, but there still will have to be some specific rationing for those necessary commodities which are disproportionately scarce.

"It would take several months to perfect the plan and prepare the machinery for its administration. Therefore, if it be desired to put the plan into effect by December 1, it is necessary to begin the preparatory work soon."

I would say "at an early date," I wouldn't date it.

"The OPA could administer the program probably with little additional personnel because with Expenditure Rationing the administration of price ceilings and specific rationing will diminish in difficulty and importance.

"In addition to the above proposal, there are two other comprehensive plans that we are studying. These are, first, a proposal for compulsory saving large enough to mop up the surplus purchasing power; second, a spendings tax with exemptions which imposes a tax penalty on additional spending, a penalty that becomes more and more severe as spendings increase, eventually reaching prohibitive levels. Both those latter plans would require legislation."

I will come back to those last. The first thing, Herbert, before you get immersed in this thing, you have got to be our city editor and reduce this to one page, see, Herbert, you can do that, can't you?

MR. GASTON: That can be done.

H.M.JR: I mean, there is too much verbiage in here. You can take that and put it down to one page. On the whole, I think it is a good job. In the room again, I happen to know that the President is leaving tonight. I am going to call up Judge Rosenman and see if we can see him, because we have got to get to him today so the President will take it with him.

MR. WHITE: We can single space this and get it on one page.

H.M.JR: No, there is too much verbiage and surplus stuff there. You can have a condensed one page and then attach a longer memorandum to it if the President is interested. But there has got to be a heading, title, and so forth, and so on.

MR. BELL: There is a lot of meat in here; you can't cut too much of it out.

MR. PAUL: You can cut out the first paragraph.

H.M.JR: There is a lot of stuff Herbert can take out, from his experience, just take a blue pencil, and still leave a good news story, but I want to see - then I will discuss these last two pages, which I don't understand.

Before I go on the last paragraph, let's go around the room and see who are the dissenters or if there is anything in here that anybody - I don't suppose there is anything that I have dealt with which is more important than this in years, so if anybody has any doubts, I wish they would speak up, because they will be doing me a favor.

MR. BELL: I don't think there were any doubts about it last night.

H.M.JR: Let's go around.

Dan?

MR. BELL: I think it is all right.

H.M.JR: Any doubts?

MR. BELL: No. I think it is all right.

H.M.JR: Huntington?

MR. CAIRNS: I have no legal doubts at all as to the plan set out in this paper.

H.M.JR: Got any social doubts?

MR. CAIRNS: No, I think the administrative problem is going to be a terrific one.

MR. BELL: The one they got is terrific.

MR. CAIRNS: Yes, that is right.

H.M.JR: But as to the legal?

MR. CAIRNS: No.

H.M.JR: Well, who is going to tell me how this can be done legally, under what authority?

MR. PAUL: One of the three of us can tell you. Mr. Cairns worked - you go ahead, Hungtington.

MR. CAIRNS: It is based on a provision which I might read, which is very broad.

H.M.JR: But not rough, I hope.

MR. CAIRNS: "Whenever the President is satisfied that the fulfillment of requirements for the defense of the United States will result in a shortage in the supply of any material or of any facilities for defense or for private account or for export, the President may allocate such material or facilities in such manner, upon such conditions, and to such extent as he shall deem necessary or appropriate in the public interest and to promote the national defense."

MR. PAUL: That is a wonderful provision.

MR. CAIRNS: Under that provision - that provision has been utilized for automobiles, typewriters, bicycles, gasoline, and so on.

MR. VINER: It seems to me that that sounds pretty specific. You have got to name automobiles and so on.

MR. CAIRNS: Oh, no.

MR. VINER: Purchasing power would be the thing--

H.M.JR: Well--

MR. CAIRNS: That power seems to me to be clearly broad enough to proceed on a coupon basis. If you use money, licensed and unlicensed money, we run into additional difficulties, but I don't think the difficulties are insurmountable.

H.M.JR: Well, again in the one place, somewhere, please put your legal references, because immediately the President is going to say, "What authority have I got to do this?"

MR. CAIRNS: We have a full draft opinion being written now.

H.M.JR: In the one page.

MR. PAUL: We can simply say War Powers Act.

H.M.JR: See Section so and so.

MR. BELL: Right after that sentence put in parenthesis at the end of the third paragraph - right after the sentence where we say, "This program can be put into effect without additional legislation," see so and so.

H.M.JR: Definitely. Immediately he will say, "Well, how does the Treasury get that way," so please put that in.

MR. CAIRNS: It is a wonderful power legally.

MR. GASTON: There is a way to take care of Jake's doubts on that point. That is, his proclamation can list specifically or by classes the character of materials and commodities which he is allocating.

MR. CAIRNS: This is a simple problem.

H.M.JR: Anything else?

MR. CAIRNS: That is all I have, Mr. Secretary.

H.M.JR: Harry?

MR. WHITE: I think that in our brief discussions we are streamlining the plan and minimizing the administrative difficulties, and maybe there might be a sentence in there, if you like, saying it is going to be a very difficult task to administer. I don't think that is a reason not to adopt it, but it may be that in our simplification the person first hearing of it - it seems simpler than it will prove to be because he isn't aware of a good many of the difficulties, but again, I think that is true of any plan that they will hope to accomplish the same result.

H.M.JR: I think it is a good presentation to put in something about that.

MR. VINER: There undoubtedly will be great administrative problems, but you can be sure there would be with any adequate alternative.

H.M.JR: There is your sentence. But I mean, it is a good thing to take the wind out of the sails of the Henderson people by saying just that, that there will be great administrative difficulties, but so will there be in any other plan. Are you through, Harry?

MR. WHITE: That is all.

H.M.JR: Viner?

MR. VINER: I am for this. I feel very strongly that it is entitled to fairly serious consideration. I would want to see it worked out a little more before a verdict on it - and that is all you are asking is that they give this very serious consideration?

H.M.JR: No. What-is-his-name will ask me at this stage, "Do you recommend it?"

MR. BELL: You have refrained in this memorandum from recommending it.

H.M.JR: No, at this stage I have to say to Rosenman or to the President that I do or don't recommend it. We can't fool around with it any longer.

MR. VINER: I don't know of anything better at the moment. If you must make a recommendation today then I say I subscribe to it as the best thing I can think of at this moment.

H.M.JR: Let's go back over so that there is no misunderstanding. Are you ready to recommend this to me?

MR. BELL: Yes, I am, but yesterday we said that we didn't want to recommend it; we just wanted to have it considered so that we could work out the details.

H.M.JR: That was yesterday.

MR. BELL: That was the reason for putting in a tentative program, consideration of a tentative program.

H.M.JR: But that was yesterday; and if Rosenman - Rosenman asked me yesterday for my curbstone opinion, and didn't I say that I was for this?

MR. BELL: Yes, but you also said that you weren't prepared to give the details.

MR. PAUL: It was clear yesterday he only wanted your curbstone opinion.

H.M.JR: No, well--

MR. BELL: Still I agree with Jake that it is the best thing that is presented, and I am willing to go along.

H.M.JR: You are?

MR. BELL: Yes, sir.

MR. CAIRNS: I would recommend it provided you stick to the coupon rationing.

MR. BELL: Yes.

MR. VINER: And not the money?

MR. CAIRNS: Not the money. The money hasn't been analyzed for me to understand.

MR. WHITE: That is something that needn't concern you at this time, Mr. Secretary. We had a device which we felt was highly desirable, and it was an improvement if it was legally possible. Naturally, the legal considerations would be decisive. If we can get them to change their opinion with respect to the legality, then we will reexamine the advisability from other points of view, so that their objections, I think, to the money rests on legal grounds. It wouldn't be decisive in any case if it rests on other grounds. Then I doubt whether they have had an adequate opportunity to understand it. Those of us who have gone through it very thoroughly feel that it is a manna from heaven if we could use it for this kind of a proposal; but I don't think you need to decide that now, because it could be done either way, with some greater difficulties in the case of coupons, but notinsuperable.

Would you agree to that statement? I mean, you have been through the money aspects.

MR. FRIEDMAN: I certainly think the money device is far superior to the coupon device if it is legal.

MR. WHITE: And if we couldn't prove that to them, then we would abandon it; but I am pretty sure after a long discussion we could demonstrate that fact.

MR. PAUL: The money device isn't in here now, so don't worry.

MR. VINER: There are two different administrative devices for carrying out the same system, and we are not going into the administrative matter here, so it is not necessary to raise that issue.

MR. CAIRNS: If there is a phrase "coupon book or some other device," I would recommend it on the basis of the coupon device.

MR. WHITE: There is some difference of opinion as to the legality.

H.M.JR: That isn't it. The point is, the important thing is that my General Counsel's office says that this particular thing in here can be done legally without legislation, which makes it very much more attractive.

MR. PAUL: We do say that. We are inclined to think that even if we use the money we can do it, but we have no doubt about the plan as set forth.

H.M.JR: Don't let's get bogged down on this thing.

Harry, do you recommend this?

MR. WHITE: I did six months ago; I still feel the same way.

H.M.JR: You haven't changed?

MR. WHITE: Not on this point.

H.M.JR: Viner - I asked you.

Now, Friedman?

MR. FRIEDMAN: Yes, sir. On the administrative side, I just checked up the cost of Selective Service administration for the last twelve months. It was thirty-two million dollars, and this would in many respects parallel that.

MR. VINER: That is a volunteer activity. The great bulk of the Selective Service work is done by unpaid volunteers.

MR. FRIEDMAN: You could use to some extent unpaid volunteers.

MR. VINER: I wouldn't take it for granted.

H.M.JR: Henderson has got a hundred and twenty million dollars, hasn't he?

MR. WHITE: I think the phrase we use here, no matter what the cost is, it is worth it - I mean, it might cost two hundred million dollars, three hundred million dollars - no one knows.

H.M.JR: Let me hear the others. Just relax.

MR. WHITE: I thought I was on the point.

MR. FRIEDMAN: Yes, sir, I think this would be a very much preferable alternative to anything that is now in the cards in the form of specific rationing or direct price control.

H.M.JR: Blough, have you had a chance to study this?

MR. BLOUGH: I - yes, I studied it some months ago and a little at this time. I don't think anybody can be without doubts, but I believe, as the others have said, that this is the best thing that appears at the present time. I don't think it should take the place of strong efforts in either the tax field or in the savings field, or in specific rationing, but that it is an important method which is workable and should be recommended.

H.M.JR: Some time, Harry, show me where you recommended it six months ago, because I have no recollection of it.

MR. WHITE: Where did this thing start?

H.M.JR: Yes, but you withdrew it. Just look up your record. Look up your record.

MR. WHITE: I mean, I will simply state what it was we said, that they recommended it for careful investigation, and after we had examined it with OPA and WPB they had very serious doubts of the administration. I said then that if they had serious doubts of the administration or were opposed to it - they did have doubts, strongly opposed to it, and I said, "You had better drop it until they come around," which we did. There was some more history to it. I don't think anyone who was present at the discussion would question our enthusiasm for the plan at that time. However, it doesn't matter; I recommend it now.

H.M.JR: Well, do you want to get in on it or don't you know enough about it?

MR. SULLIVAN: I just read this, Mr. Secretary, and the thought that first strikes me is that you have already decided that this is to be done without any ceilings on either wages or farm products, and I wondered what serious consideration had been given to having both. I think you are going to have to use everything you have got to do this job.

H.M.JR: Well, this is to supplement that.

MR. SULLIVAN: Well, it doesn't read that way.

MR. VINER: It may render the others obsolete, but I don't think anybody here would propose we take off the other ceilings when we impose this, but we may find that the others become unnecessary.

MR. WHITE: There is no ceiling on wage rates. On this suggestion it is not necessary to put one on.

MR. BLOUGH: I certainly don't subscribe to that portion of the memorandum.

MR. SULLIVAN: I don't either; that is the only thing I have, Mr. Secretary. This presupposes that this single device alone, without wage and price ceilings, will do the job, and maybe it will, but I haven't yet been convinced of that.

MR. WHITE: Exactly.

H.M.JR: I tell you what you do, these men are available, supposing you see them afterwards and talk to them, will you?

MR. SULLIVAN: Yes, sir, but I supposed from the phrasing of this first paragraph that you had already gone into that and made your decision.

H.M.JR: There is a lot of back history on it. I beg your pardon, there is a lot of back history on it.

Randolph?

MR. PAUL: I am just a lawyer; I am not an economist; but I think we ought to do it. On the legal end Huntington has covered everything. I say, I think we might even be able to do it with the money device, which is immaterial now. I think we should do it. I think the situation is very critical, and even if there is a little doubt, we have to take a chance.

H.M.JR: Bernstein?

MR. BERNSTEIN: I am for it.

H.M.JR: Stewart?

MR. STEWART: I would like to put a question with some shadings. You ask me whether I think it is a good idea. I think it is a good idea, and I am in favor if you carry it beyond that in this form; and in the talk I have had, it is not yet a plan or a program in detail. I would, therefore, feel that you were not getting the recommendation of the staff on a detailed program, and there raise the question whether you want to recommend beyond the stage of saying, "Here is an idea," and once you get the idea established you begin to get excited,before you have explored all of the exceptions and difficulties and arrangements, and so on, about everything that is implied in there. So if you say, "Has one any doubts as to whether you should recommend," then I say, "Yes, I have doubts," because it hasn't gone through that stage; it has gone further in Harry's mind and in Harry's group than in this staff.

H.M.JR: Do you think I should recommend the idea?

MR. STEWART: I think if you recommend the idea without being in your own mind fully aware of all the implications in administrative arrangements and exceptions, that you will go through a heartache later when those things develop.

H.M.JR: Well, Walter, it is the idea - I mean, after all, I can't know what the administrative difficulties are, and with all due respect to everybody in the room, I don't think that they can, either, because I don't think anybody has gone far enough. So all I could say to the President is, "We in the Treasury think the idea is a good one, and we recommend the idea." Now, we know there is a lot of administrative difficulty.

MR. STEWART: Personally, I think that is bad administration. It puts one in the mood of settling an idea rather than settling its difficulties. There is no other plan I know of that would have fewer difficulties in it, but any plan is going to have difficulties. I would say that if this thing is now so urgent that it must be gotten into now, as an idea, I don't think it ought to go - even then I would not recommend it without saying that it is at the stage where your staff is making further exploration, you want to examine, there are difficulties involved in it. I would want some sort of thing which made me more than recommend an idea. I think that is dangerous administration.

H.M.JR: If you don't mind, I am going to try to pin you down a little closer. Do you object?

MR. STEWART: No, I would like it.

H.M.JR: Here is the problem which I am facing. I think the chances are, let's say, two out of three that if we don't give the President this idea he will go along with the other one which you are familiar with. Now, given those two alternatives, knowing that he is going to leave tonight, that he doesn't want to be - he is very difficult to reach when he is away - I have from now until tonight to give him something as an alternative to the other route. Being in that position myself, should I go ahead with this?

MR. STEWART: Let me put the question differently then. To what degree of recommendation do you want to make - what degree of commitment, in order to get the idea to him?

H.M.JR: Well, going around this way, I have got to say to Rosenman, "Do you or don't you recommend this idea, or are you leaving it up to the President?" I don't think it is fair to give the President something like this unless he puts me on the spot, and--

MR. STEWART: Well, that is just the unfortunate element of time. You are being put on the spot because, as I view it, this group has not explored the ideas as far as Harry has nor is there as much agreement on detail or program, and that, I think, is not full representation of the Treasury's point of view. It is not mine.

H.M.JR: But, I still - I have got a practical situation--

MR. STEWART: You have to make up your own mind. You asked if I have any doubts. That is the area in which my doubt lies.

H.M.JR: ...as to the idea, as against a ceiling on wages and agricultural prices.

MR. STEWART: They will not be effective.

H.M.JR: This will not be?

MR. STEWART: No.

H.M.JR: And this?

MR. STEWART: That idea as it now stands is deliberately arranged as a sales memorandum and therefore minimizes the difficulties and makes it attractive. That is not the way to adopt an idea. The way to adopt an idea is to see ahead of time all the difficulties that are going to be involved.

H.M.JR: Just putting in a sentence to say--

MR. STEWART: That won't do it. That is why your own personal and oral communication is decisive; in this one it is a question of whether your own mind has recommended the point. I know it is a good idea, the best one the group has had. We have agreement in principle upon it, but now you ask me to recommend. I am not going to recommend an idea in which the administrative problems have not been explored fully.

H.M.JR: Herbert, I don't know, getting this fresh, whether you want to get in on it or not.

MR. GASTON: Just from what I have heard in the past on this general idea I am very much attracted to it, and I think that considering the situation you spoke of you would be justified in recommending the adoption of some plan for the limitation of over-all consumer spending. I think it is worth - the other device of spending taxation is worth consideration in this connection as a different mechanism for achieving the same object, but it may be that this is a better plan than the taxation plan.

The difficulties, as I see it, in this plan are two. One is the question of administration. Of course the difficulties are immense - a question of whether it can be done. The second is the possible complaint of inequity in connection with it. I am thinking of the man, the workman, the war worker, who perhaps may make six or seven thousand dollars a year and may be limited to the expenditure of four thousand dollars. He sees a man with an income from some other source who is making twenty thousand and is allowed to spend considerably more, and he may complain that he is contributing just as much or more; that income is not the decisive factor as to whether a man is contributing to the war effort, and he needs more consumer goods; and he ought to have a right to spend just as much as that other man; and that income ought not to be the deciding factor.

MR. CAIRNS: The basic principle of this is that scarce goods are distributed on property basis. That raises a constitutional point, but--

MR. WHITE: Of course that is true now.

MR. GASTON: The answer to that is this, that if we don't adopt some plan then the situation would be still worse, because this man with a higher income would have still a greater command over the supply of consumer goods. That is the answer to that. But I very strongly am in favor of recommending the general idea of this over-all limitation of consumer spending by some device or other.

H.M.JR: Well, what are you doing with those men I am supposed to see at ten o'clock?

MR. BELL: They are down here in the room.

H.M.JR: Are they all right?

MR. BELL: Yes, they are.

H.M.JR: Until I hear from Judge Rosenman, let me go into the next thing. It says, "In addition to the above proposal, there are two other comprehensive plans that we are studying. These are, first, a proposal for compulsory saving large enough to mop up the surplus purchasing power" - is this an alternative or is this a supplementary plan?

MR. WHITE: It could be alternative; and if modified, it could be supplementary. It was originally decided to be an alternative; with some modification it could be supplementary.

H.M.JR: Would you go ahead and explain it?

MR. WHITE: The particular plan that we were considering was an alternative in this very real sense, that it aims to accomplish the identical thing that expenditure rationing does except that in telling a man how much he can spend, you take away everything from the man except what he can spend and give him bonds instead. So he is left with only as much as presumably he would have under this system, or at least you could so arrange your schedule so he would have that much left. Then it has a couple of wrinkles additional to prevent him from using his capital assets. If you take away a given portion of his current income and don't touch his cash balance or capital assets, a rich man could dip into those in order to buy more goods, but the particular plan which we were considering tends to prohibit that by allowing certain credits and debits. It complicates the scheme, but you end up with a situation in which each individual will have only a certain amount of money to spend, approximately what he has here, if that is the way you want to work it out, so you get at the same objective. It is really the obverse of this, has less - I think it has less administrative difficulties.

H.M.JR: Well then, it isn't what normally would be considered compulsory savings.

MR. WHITE: It is - no, not what is normally considered compulsory savings, but what is normally considered compulsory savings is somewhat of a misnomer - it should be called compulsory lending. This forces the man to save everything except what you let him spend.

H.M.JR: I haven't had - I mean, I don't want to put it in here, because I don't understand it, and it hasn't been explained to me.

MR. PAUL: The purpose of putting it in was so you wouldn't be accused of not having thought of it.

H.M.JR: Well, I don't mind being - I mean, I can't take a thing like that blind.

MR. BLOUGH: General expenditure rationing is a scheme for compulsory saving. It just isn't a scheme for compulsory purchasing of Government bonds, but it is a scheme for compulsory saving - you can't spend, you have to save.

H.M.JR: As I say, I can't - I mean, I would have to have plenty of time to go into it, which I haven't got today, so I can't put it in. Now, what is this spending tax and the exemptions, what is that?

MR. WHITE: We will let Mr. Friedman describe that.

MR. BLOUGH: The spending tax is a tax, as it indicates - is a tax on spending. It differs from the sales tax in that it is the tax on the whole spending of the individual for a period, say a year, at progressive rates above certain exemptions so that it is very similar to an income tax, except that instead of the basis of the tax being the income, the basis of the tax is the amount that was spent during the year. It would be an alternative if the rates were very heavy, in that it would greatly discourage spending and would mop up a good deal of purchasing power. I think it is perhaps most useful as a supplement to expenditure rationing in that the administration would tie in very well. It would put a penalty on the spending, and therefore discourage expenditure and make the expenditure rationing more easy.

MR. GASTON: When Roy is through, I want to make a comment, see if I could simplify that idea, that is, the idea of how I envisaged it was something like this, you - a man would get an "A" book of coupons in which there would be more or less equality of rationing. Everybody with a family of four would get a certain book with so many coupons in it for all expenditures. Then if a man wanted to spend more than that in consumer goods, he would buy another book, say a "B" book. The "A" book, let us say, would be free. The "B" book would have a price on it, so that iw would increase the cost to him of everything he got, and it would come to the Government in the form of a tax. Then you might even have a "C" book for still larger expenditures which would sell at a still higher price, and it would be a progressive tax on his expenditures.

H.M.JR: What I can't understand is that if this rationing of money works and if you say to the man with three thousand dollars income, "You can spend two thousand dollars, what do you need," and it works, I don't understand why you need--

MR. VINER: I think it is like a price ceiling. The less the pressure and the less the force working on it from outside, the more likely the ceiling is to hold. The less the pressure to spend more than you ration, the more likely it is they will not press highly on that - you evade the black market transactions.

MR. WHITE: If they evade, you are going to catch them on the taxes.

H.M.JR: Could I say what I wanted to say? I mean, it is so hard. What I am trying to say is that if you immediately throw doubts in my mind on this rationing of money and you say in one breath that the rationing of money is going to work, and the next minute you say it isn't, that you have got to put a tax on it, you have got to supplement it - you have got to do something - you immediately throw a cloud on it.

MR. VINER: I think there ought to be a cloud on it as to how well it will work. It won't work perfectly.

H.M.JR: Why - if you say you have got three thousand dollars you can spend, what do you need a progressive spending tax for? I can see if you said to me - the little I know about it - that this progressive spending tax is the plan we are going to count on, but if in the one breath you say you can only spend two thousand out of the three, and the next minute you throw a tax on it, you throw a cloud over the whole thing.

MR. GASTON: I think they are proposed as alternatives. One is the absolute limitation on spending; the other is, don't put an absolute limitation on spending, but make the goods more expensive to the man when he gets over his ration limit, making it cost him a great deal more, and the money will come to the Government.

MR. PAUL: You get revenue out--

H.M.JR: Well, look, gentlemen, I mean, you haven't sold either of the things to me because you haven't had time enough, so what I would like to say is this: I am willing to leave in this sentence, "In addition to the above proposal, there are two other comprehensive plans that we are studying," period. Then if the President said, "Well, I am not satisfied with that. What other plan has the Treasury got," you can say it, but throwing this other stuff in immediately throws a doubt in his mind, then, that the Treasury isn't very sure of plan No. 1.

MR. WHITE: I don't get that interpretation unless you offer these as supplementary. If you offer as alternative - there are three good plans. They must have merit or we wouldn't even make them as suggestions. But the first one, in the opinion, I think, of most of us, is preferable to the other two, but the second very definitely has a good deal of merit. The third, in my opinion, may have a little less merit, but they are not offered as supplementary, you might use them in a modified form - one of them - to supplement; though I personally don't think it is necessary. They are offered primarily as alternatives. That doesn't mean we don't think that one of them is the best. I don't know if everyone--

H.M.JR: Would you mind listening to what I said a few minutes ago? I said that I haven't had time - you people haven't had time to explain it to me. There is nothing in writing on this inside the Treasury. Now the other day you people wanted me to rush over there and go right over and see the President and see Judge Rosenman on this labor thing, and I said, "Give him a day or two," and I was right. I gave him a day or two and the man has already changed.

Now, I do know this man, and I don't think it is conceited to say that I know him better than anybody in this room. Now, either you people are sufficiently satisfied with this plan - but if you go over to the man when this is entirely new and say to him, "Here is a plan that we are not sure enough of,here are two other things" - now, I cannot - the man heretofore has had such confidence in me, I can't even mention two plans that I don't know about, and if I saw him on Friday and Saturday he would say, "Well, that is very interesting. Come up to Hyde Park and see me and tell me about it." I can't explain it to him. Have you got anything in writing on either of the two?

MR. WHITE: There is, but I don't think you have seen it.

H.M.JR: Well--

MR. WHITE: The group has seen it.

MR. PAUL: We had a long discussion.

H.M.JR: I mean have you got a comprehensive explanation of these two plans?

MR. WHITE: There is an explanation which is sufficient to describe the plans. They haven't been studied, to my knowledge, as thoroughly as the others. There are memoranda which describe them.

H.M.JR: But the people here - well, I, myself, haven't seen it so I can't put it in. I think it is sufficient, anyway - I have got to decide the matter, and it is sufficient to say, "In addition to the above two proposals two other comprehensive plans are being studied."

MR. PAUL: I would take it all out if I were going to do it.

MR. GASTON: What I would do is eliminate any reference to any other plans in your one-page description of this plan. Then I would write a one-page or two-page description of these other plans, for you to use your discretion as to whether you wanted to submit in case he should ask for something else.

H.M.JR: What I want to get into my head is this. I mean the effect of these two other plans, in my own mind, immediately throws me in doubt - maybe I am going out on the end of the limb on this if there is so much doubt that, this plan isn't the answer and that we have got to, before the ink is dry on the rationing of money - we have got to immediately trot out two other plans.

MR. PAUL: I would leave all reference out to the others.

H.M.JR: Let me ask White - I mean I want to pin White down, be very obvious.

MR. WHITE: I am not trying to squirm out. I - in the first place, it wasn't either my suggestion or my desire to put that in. If I weren't convinced that the other plan weren't the better of them, I wouldn't mention it. I am a firm believer in making a decision and sticking your neck out. I have never been one to be cagey about it, to be ready to jump on either side, depending on how the matter turns out. I make up my mind what is the best and leave the rest of my doubts to myself.

My mind has been made up that the rationing plan is the best. That doesn't mean I have foreseen all the administrative difficulties. Of course I haven't. It would take twenty men working on this thing three months to iron out a lot of the knotholes. I have seen through it enough and went through it a long time before it was even mentioned to you. We had a long meeting on it that we had ourselves, and I was convinced that it was a workable plan.

The next thing we did was we presented it to you, and I would never have presented it to you if I didn't think it was workable. There are plenty of plans we think of that don't come to your desk because we don't, after discussion, feel they are workable. We don't bother you with plans so as to see how many ideas - only when we have an idea that will work. That doesn't mean we are right.

When we brought this proposal to you, you were sufficiently interested to say, "Try it out on the others." We had long conferences with the others. The others said they were not for it because it would take six months to get ready and because the public wouldn't like it. We had more discussions on it, and it kind of petered out, and you finally said - somebody said it was interfering with the bond program and you said, "Kill it." I said, "All right, we will put it on the shelf."

H.M.JR: No, no, that is not true.

MR. WHITE: That is as I remember it.

H.M.JR: I can tell you exactly what happened. You said, "We are not far enough along to recommend it, and therefore I withdraw the suggestion."

It isn't important. I mean I didn't say - I never said about the bond program or anything else. I remember very distinctly I got interested, and you came in here and you said, "We haven't gone along with this thing far enough so I withdraw it for the time being." We put it on the shelf, and I will tell you when it happened because the story got out in the newspapers, in the Wall Street Journal, and I sent for you and asked you about it. You said, "How should I answer it?" and we had a discussion as to the language we could use, and you can look up our press conference because we agreed on the language. We decided, as I remember - I forget the exact language, but the impression I have - you can look up what I said - is that, "We will put it on the shelf." Do you remember coming in and discussing it?

MR. WHITE: Far be it from me to stack my memory against yours because you have got a very good memory. I remember it occurred at staff meeting. I think the record will find it. I don't think the record is important, because what I was leading up--

H.M.JR: Well, the point was I never said, "Kill it on account of the bond program."

MR. WHITE: There were some people present at the staff meeting.

MR. SULLIVAN: I recall the conversation. I don't recall any reference to the bonds. I do recall your using the phrase, "Kill it" and Harry saying, "Put it on the shelf."

MR. WHITE: I said you can't kill a good idea.

MR. SULLIVAN: "Later on if we change our minds" - that was the idea at the time. I don't recall anything about the bonds.

MR. VINER: I think that is a good record, that an idea came up, you gave it consideration, you weren't ripe to commit yourself to it and postponed it.

H.M.JR: What I wanted to get from Harry wasn't the history. The history is six months old and not terribly important. What I was trying to get from Harry was this. The thing that you started to say, and then you went back six months--

MR. WHITE: Let me finish then.

H.M.JR: May I put my question to you? What I am trying to get is, in your own mind, you to me, is this a plan, in your own mind, that you are willing to put your professional reputation on and say, "Mr. Morgenthau, I am ready as a professional economist to say to you that within the realms of human error and the realms of the spirit in which it will be carried out - because it will be killed by somebody else being forced to do it - but as far as I can go I think I am ready to recommend this plan as a method of controlling inflation."

MR. WHITE: Yes, with the definite understanding that it will take a month or two months of very intensive work of several groups from inter-departmental committees to perfect a plan, the plan - to perfect it.

H.M.JR: That is perfectly - I don't mind that proviso.

MR. WHITE: With that proviso, which I presumed was explicit, because certainly you wouldn't let us spend two months with all the whole staff working on a plan unless you felt that the idea was good enough. With that implicit proviso, the answer is definitely yes.

The answer is further yes, that I don't think the last paragraph is important nor would I include it.

We included it in the first place merely because somebody suggested it - felt it was desirable. What I was pointing out to you is that there are other plans that others may prefer. I personally don't.

H.M.JR: That is what I am trying to find out. After all, I am asking you to tell me, is this the idea that you want to recommend, or am I juggling three balls in the air and I have got to consider three plans?

MR. WHITE: The answer is, so far as I am concerned--

H.M.JR: You--

MR. WHITE: I have considered the three, and I am categorically in favor of the plan of expenditure rationing.

H.M.JR: That is all I want to know. Well then, let me go, having found out - got a clean-cut answer from White - then what I want to know is who has sufficient doubts about this plan that they feel I should simultaneously bring to the President's attention two other plans?

MR. STEWART: I am partly responsible for this last paragraph because I felt that the majority of thinking in the group had not reached the stage where they had focused upon a single plan. I knew what Harry's feeling was, and I would still feel it ought to be there on the same argument that I had a little earlier as to the degree of your commitment. If it does cast a cloud of doubt, then I think the cloud of doubt there you won't dispel by omitting a paragraph. The alternative would be for you to cover it, if you feel free to cover it, by some reservation when you present it. There is, to my mind, a cloud of doubt on any plan with which we have had no experience. We have had experience with high income taxes in other countries. We have had experience with inflation, and other countries have, but no country in the world has ever had an experience with this kind of a rationing plan on this scale.

H.M.JR: Walter, again I know I am repeating myself, but what I am trying to get from this group is this - maybe the President or Judge Rosenman won't try to put me on the spot. If I were in their position, I would, because why I am going to the President, either directly or through his man, is to say, "Now look, you mustn't do this. Now, here is another plan, because the other plan has many bad features in it, social and otherwise, and even if you weren't going to consider the social aspects of it, it still leaves the twenty to thirty billion dollar gap." I mean, I have got to be prepared to say to him - try this paraphrasing, which you did, which has never been tried anywhere else in the world, with the necessary risk involved, and anything which is new may or may not be successful.

On the other hand, as you pointed out to me, no country has ever been faced with the expenditure of two hundred billion dollars, and the thing that bothers me so much and has bothered me since I got Harry's memorandum - which I read last Saturday and called him on Sunday and told him to go ahead full blast with this thing, to develop it - is the fact that we sit here arguing about interest rates, whether we - I spent one hour yesterday for about the fifth time arguing whether the bill rate should be three-eighths or a half, but nobody - and I don't know whether it was you - pointed out, if this war is a five-year war and we get so we are spending a hundred or a hundred and fifty billion dollars a year and we use up all the reserves, and so forth, and so on, what happens to the whole banking structure.

They said that some of the banks have thought the thing out - if they have, it hasn't been brought to my attention - that on the basis of a hundred billion dollars or a hundred and fifty billion dollars - war expenditure for five years - what would happen to the banks during the war and after the war. So therefore what I was awfully tempted yesterday - I didn't do it, I bit my tongue and didn't do it - was to say to them, "You people are pressing me to make up my mind for three months, and what I am really working on is five years, and the three months or one month is terribly unimportant." But if this is a five-year war - and every day I am beginning to think that is the minimum, and Nelson has plans through '45 and he could very easily tell me. Maybe you know what the expenditures will be for the next five years.

MR. BELL: No, I don't.

H.M.JR: What is going to happen, and that is why I can't sit here complacently and simply burn up my time and energy to resist the New York banker group over one-eighth. I didn't want to say it, but it is just plain stupid. I mean, now I come back again, and I give Harry and his associates full credit for bringing this thing to my attention now and six months or eight months ago. Therefore, it is silly for Harry and I to get into an argument about why the thing was put on the shelf. I mean, he gets full credit for his memorandum and bringing it to my attention. Therefore, why should he and I fight about on what basis was the thing put on the shelf.

MR. WHITE: Mr. Secretary, I wasn't for a moment - not, particularly, as you know, interested in credit. I agree with you wholly; I was merely trying to answer in a rather crude way the implication which seemed to be present that I was trying to squirm out from under a categorical or a definite recommendation. I wanted to indicate that we had given the matter a good deal of study in the past and that I did feel it was a good plan and that we did drop it, and we dropped it from no desire on my part.

But I agree with everything you have said now, and I think the important thing is where we go from here, not where we have gone.

H.M.JR: What I would like you gentlemen to do - I have got this call in for Judge Rosenman. I would like Mr. Bell and Mr. White and Mr. Paul and Mr. Gaston to go into a room together; if they need anybody else, they can call on them; and give me this thing. It has got to be - I mean, one page. You can use this side of the page, and you can put the lines as close together as possible. I don't care how long the supporting memorandum is, but it has got to be on one page, and it can be on one page.

(The Secretary held a telephone conversation with Judge Rosenman.)

H.M.JR: Well now, will you get together?

DRAFT

We have been discussing in recent conferences, the wisdom and mechanics of directly controlling wages and farm prices. Irrespective of the merits and details of the various proposals that have been considered in this connection, these measures reach neither the fundamentals nor the magnitude of the inflation problem we are facing. Wage and price ceilings cannot prevent inflation. In this memorandum we would like, therefore, to submit for your consideration a tentative program which should deal effectively with the surplus purchasing power problem and which, if well executed, would make comprehensive wage and price ceilings unnecessary."

Even if wage rates and farm prices were frozen at present levels, next year would see a surplus of spending power of $20 to $30 billion. This excess purchasing power will break the price ceilings on a broad front. It will result in empty shelves, in large scale black market transactions, and in widespread evasion and dealer favoritism.

It will give rise to queues and to inequitable and wasteful distribution. It will make the acquisition of the necessities of life a battle of wits.

We have no choice but the adoption of some proposal, no matter how drastic, that is capable of preventing the spending of the $20 to $30 billion of excess purchasing power.

For many months the Treasury has been considering and discussing with other agencies of the Government, a plan for EXPENDITURE RATIONING. We believe that this program can be put into effect without additional legislation. Expenditure rationing consists of a limitation of the aggregate spending power so that it is roughly equal to the aggregate of available consumers' goods at present prices. This is accomplished by limiting the amount that any individual or family can spend.

Although variations of income and size of family will be factors in determining the permissible amount of spending allowed each family, the Expenditure Rationing system would greatly reduce the inequality in spending that prevails now. For example a family of four with an income of $1,500 might be allowed to spend it all; a family with an income of $2,500 would be permitted to spend (say) $1,800 on consumer goods; a family with an income of $10,000 would be permitted to spend (say) $5,000; a family with an income of $50,000 would be permitted to spend (say $10,000.

By explicitly determining the amount that each individual is to be permitted to spend, expenditure rationing provides a system for equitably distributing a limited supply of goods and services among the great mass of our population. Although their expenditures are limited, individuals will be substantially assured that goods and services will be available for purchase with their expenditure allowance. All persons will receive a ration allowance. The right to spend this allowance will be represented either by coupons or some other device. The ration allowances might be distributed to consumers principally through their employers and also through other agencies.

All retailers of consumers' goods or services would be permitted to sell goods only when the surrender of the ration permit accompanies the purchase payment. An appropriate system of enforcement will be set up to check up on retailers as well as consumers. This system will enormously lessen the need for specific rationing, but there still will have to be some specific rationing for those necessary commodities which are disproportionately scarce.

It would take several months to perfect the plan and prepare the machinery for its administration. Therefore, if it be desired to put the plan into effect by December 1, it is necessary to begin the preparatory work soon. The OPA could administer the program probably with little additional personnel because with Expenditure Rationing the administration of price ceilings and specific rationing will diminish in difficulty and importance.

In addition to the above proposal, there are two other comprehensive plans that we are studying. These are, first, a proposal for compulsory saving large enough to mop up the surplus purchasing power; second, a spendings tax with exemptions which imposes a tax penalty on additional spending, a penalty that becomes more and more severe as spendings increase, eventually reaching prohibitive levels. Both those latter plans would require legislation.

July 30, 1942.
10:34 a.m.

Operator: There you are.

HMJr: Hello.

Samuel Rosenman: Hello.

HMJr: Sam?

R: Yes.

HMJr: Good morning.

R: Good morning, sir.

HMJr: How's DuBarry?

R: (Laughs) I just left Du.

HMJr: Sam, could you see me and the same group some time after lunch today, and we'll have that memo for you.

R: Well, I think I can make it. I don't know yet what time I've got to go up and see Wallace on this farm - on farm prices.

HMJr: Well....

R: He's - but I think....

HMJr: Couldn't you do him this morning or.....

R: Now, I - I....

HMJr: Well, I - I - any time this afternoon that you've got....

R: Let's make it tentatively for three, huh?

HMJr: Well, I got - you couldn't make it a little later, could you?

R: Yeah, well, I - yes, I - I could.

HMJr: Or earlier.

R: Well, earlier is a little difficult.

HMJr: Oh.

R: (Talks aside) Have you got my book over there, Mary?
Just a second, will you?

HMJr: I'm waiting. I - I'll....

R: What - what - a little later?

HMJr: Well, I mean if - I - I - this is so important, I mean I - I mean I want to see you, so I can shift my people. I've got out-of-town people, but I'll shift them, that's all.

R: Uh huh. Well, I - I talked with - with the President about it this morning in - ....

HMJr: Yes.

R: ....in the room, and, of course, he's very much interested. The first thing he said was about administration....

HMJr: Yes.

R: ....and the second thing was that he - he - he didn't think that he could do it without the Congress. Those - those that, you know....

HMJr: Yeah, well, I'll....

R: ....criticize - what do you call it, instead of a horseback judgment - curbstone - bedside judgment.

HMJr: Well, our boys now are willing to say that he has the legal authority.

R: Well, I think he has too....

HMJr: Yeah.

R: ....but he - he says that even if he has legal authority, he thinks that's quite a step to take without Congress, but that, as I say, that's bedside judgment.

HMJr: Yeah. Well, now I know he's leaving, you see, and I - I want him to take this thing with him....

R: Uh huh.

HMJr: ....you see? So that he can read it....

R: All right.

HMJr: .... I mean I'm very anxious that he take this with him.

R: All right.

HMJr: Well, now....

R: If he's leaving tonight.

HMJr: Yeah, what time would....

R: Well....

HMJr: You mean you've got the Wallace thing, is that it?

R: Yeah, that's what bothers me, and you see - and in the Wallace meeting Jimmy Byrnes is going to be there....

HMJr: Oh.

R: ....and they have to wait until the court's adjourned, and so....

HMJr: Oh.

R: ....I - I don't know what time it is....

HMJr: Well, let - let's - let's put it at three, and I'll adjust the other - these others - I'll shift it if you say three.

R: Three. Now if I find it may be - suppose they phone me that they've got the meeting arranged with four or five people at three-thirty....

HMJr: Well....

R: ....then I'll have to shift this.

HMJr: Well, I could come earlier, or is there something else over there?

R: Yeah, there's - there's something else, and....

HMJr: Yeah. Well, I - I - I'll - if - if that happens, you call me and I'll adjust myself.

R: Now wait a minute, do you think two-thirty.... (talks aside) Is - would two - two - two-fifteen be better?

HMJr: That would be perfect.

R: All right. Two-fifteen, I'll put it on, huh?

HMJr: Two-fifteen in - in the Cabinet Room.

R: That's the best place.

July 30, 1942
11:15 a.m.

INFLATION

Present: Mr. Bell
Mr. Gaston
Mr. White
Mr. Paul
Mrs. Klotz

H.M.JR: There is one thing which on second thought I think is a gap here, and that is I think there should be something in there to explain that this should be a supplemental plan to what the President is going to say about ceilings in general. In other words, I take it that we don't want this just to go out by itself and that the President - I don't think that that is clear. I take it that we want the President to do something - say something about agricultural prices and something about wages.

MR. WHITE: There was no agreement on that, Mr. Secretary.

MR. PAUL: That is what we put in there, that sentence in there that if this plan is well executed it may render unnecessary these other things. We thought that strengthened your hand on the other fight.

H.M.JR: You mean you want--

MR. PAUL: This sentence here, which is one of Viner's suggestions - the thought is still in line with what the Secretary suggested.

H.M.JR: I am just raising it.

MR. PAUL: "In this memorandum we would like, therefore, to submit for your consideration a tentative program which should deal effectively with the surplus purchasing power problem and which, if well executed, would make comprehensive wage and price ceilings unnecessary."

MR. WHITE: I don't think there is agreement in the group on that. I would completely subscribe to that, but I don't think they all would.

H.M.JR: What I am thinking - of course there are two things that bother me, but maybe we will have to leave both of them out. Rosenman told me he couldn't - he is interested very much, but he thinks he has to go to Congress on it, that he couldn't do it without going to Congress. He said that was his first shot. But the President is very much interested, very much intrigued. It is just the two things in this thing, the question of wages and agricultural prices.

(Mr. Bell entered the conference.)

H.M.JR: I am sorry, Dan, just one minute and I will leave you alone. I was just saying there are two gaps - whether we can put them in. One is agricultural prices; the other is wages.

Then the other thing, the other after-thought, do you people feel that I am safe in saying that if there is this rationing of money that then I can rely on the volunteer method to soak up this additional money?

MR. WHITE: I don't think it matters at this point.

H.M.JR: You don't think it matters?

MR. WHITE: I mean I don't think you can get your money - it matters somewhat, but you can continue with your volunteer savings and I think you would get more. I don't think you would get as much as you would on a compulsory savings basis, but more than you are getting now; and it wouldn't matter much if you didn't.

MR. BELL: This really ought to help voluntary savings. There is no place else for the money to go, and as long as--

H.M.JR: Yes.

MR. BELL: As long as you keep it there, it doesn't make any difference whether you borrow from the banks or not, as long as you hold it there.

MR. PAUL: But there is nothing inconsistent, anyway. If we have to yield a little bit and settle with the Senate Finance Committee on compulsory savings, we can do a small bit of it of some sort and not hurt your voluntary campaign and not interfere with this.

H.M.JR: Again, don't take offense at what I am going to say. I mean each person is thinking of his particular segment. Yours (Paul) is the tax bill, you see. I mean I apologized first and then said it. You don't mind, do you?

MR. PAUL: O.K., sure, shoot.

H.M.JR: I mean I appreciate on the debt thing that if we do the debt we have also got to give a credit to the man who buys the bond. But that, I think, would be a great help to the bond sale. I mean I think it would be something which Harold Graves would grab at.

But the thing I don't quite follow, Bell, and maybe as a result I will just leave it alone - you would be satisfied, do you think - let's say that the President took it just the way - for a better name let's call it the White plan - I mean, if he took it just this way, do you think that it wouldn't - and let's say that we got no more than twelve billion dollars a year under volunteer savings - do you think we could safely go to the banks for the balance?

MR. BELL: I don't think that it is inflationary to go to the banks for the balance as long as you keep that purchasing power locked up. I am not an economist - Harry can check me.

MR. WHITE: You know enough about that, I am sure.

MR. BELL: It seems to me as long as you keep that money locked up it isn't doing any harm. The trouble is going to come when you start unlocking it.

H.M.JR: The post-war.

MR. WHITE: That is why you need other measures. If you go to the banks and they are piling up large reserves, sometime within the next year or two it is imperative you have increased power for reserve requirements.

H.M.JR: Well, if it is a year or two, this thing - I think I am correct - plus something which will undoubtedly happen in Committee, would bring in the money to the Treasury.

MR. PAUL: That takes the curse off sales to commercial banks.

H.M.JR: Temporarily.

MR. PAUL: As long as you have it in effect. But I think, Dan, as you and I were talking, it is true you have to keep it on after the war, but it is also true that you can take it off at a time when you are getting a depression.

MR. BELL: That is right.

H.M.JR: Well, I try terribly hard, in other words, to be fair, to be judicial on this thing. It worries me a little bit. I think we will let it go as it is. I think the thing to do is to do the very thing that Stewart criticizes us for doing, that is, to make a sales document out of it.

Now, if we raise compulsory savings or if we raise the other thing, it immediately gets away - the better kind of salesmanship is to give anybody one idea, and that is what we are going to do.

MR. PAUL: That is right.

MR. WHITE: I think Herbert has an excellent way out of that, which makes it possible for you to give him one idea, and one only idea, and yet if either he or somebody else succeeds in being convinced later that that is not what he wants to accept, there is something else that you can go on to. You might want to repeat that one sentence that you had.

MR. GASTON: In substance it was this, first, that we make an outright recommendation for some method of controlling over-all individual expenditures. We have considered several ways in which this could be done and have concluded that the most satisfactory is a plan of expenditure rationing.

H.M.JR: That is the introductory sentence?

MR. GASTON: No, it isn't. My introductory sentence was this: "We have been considering in recent conferences in the Treasury Department the steps necessary to prevent a calamitous rise in the cost of living. We have come to the conclusion that more fundamental measures than any heretofore publicly proposed are essential. Wage and price ceilings alone cannot control inflation. Even if wage rates and farm prices were frozen at the present levels, next year would see a surplus" and go on with the rest of that paragraph; and then what I just said, that we are convinced that some method of control of over-all expenditures is essential, and the most promising method seems to us the plan of expenditure rationing. Then tell what expenditure rationing is and contrast it with specific rationing of commodities.

H.M.JR: You use a page like this - what do you call it when you don't have that wide space between - I mean if you wrote - what is the tightest way to write it?

MRS. KLOTZ: Single space.

H.M.JR: Single-space it. What I am going to do is this: I am shot so I am going to go down and rest from now until twelve-thirty. I am burned out, and you will just have to--

MR. BELL: I told them you were tied up. I think they would like to go back tonight because I told them I thought we would be through with this. I think they can give you all they have got - they have got the story, and they can give it to you in a half an hour.

H.M.JR: You can spend the next hour with them, can't you?

MR. BELL: I can, yes.

H.M.JR: Then when I come back I have only got one appointment at three and then I am free the rest of the afternoon.

MR. BELL: They can give you the story.

H.M.JR: I have got one appointment, and with the exception of that I have nothing.

All right, Herbert, do your work.

MR. PAUL: I wish you would feel comfortable about it because there are times in life when you have to decide questions on the basis of inadequate information. You have to act on the basis of insufficient information.

H.M.JR: What is that?

MR. PAUL: Oh-- .

H.M.JR: No, wait, that part - nobody, after all - in the first place, I wouldn't expect the people in the Treasury to be able to work out this machinery - I mean I wouldn't expect anybody in this room - I wouldn't ask them to do that unless they wanted to drop everything they are doing. I happen to have gone through the hatching days, incubation days, on food stamps, and I had a little something to do with it, and I know how they worked on that thing. They tried it out in Rochester and they got all the bugs out of it, and they wouldn't move on for the longest time; and it took them God knows how long even before they would open in Rochester.

I wouldn't condemn rationing of gasoline because the first time it was done that cock-eyed way. This time it seems to be done in the correct way, but I would - being very frank, I lean even extra towards this plan because the other thing which I think the President is doing is so bad.

MR. PAUL: That is right.

H.M.JR: See? Now, I don't say this is the lesser of two evils, because I don't think this is the lesser of two evils. I think this has got great possibilities, but the trouble is that everybody around Washington - I mean, they sit here and they think if they are talking about three months that that is a long time.

I begged the President of the United States time after time - Bell and Mrs. Klotz can bear me out - would he take myself and Harry Hopkins on a boat and give us two hours a day for four days until we could find a solution to unemployment. I never got anywhere with the President or Harry Hopkins. He never would do anything more. When Harry Hopkins began to call me up when he was in the hospital, or wherever he was, it always was when he was about to run out of money.

I will never forget Aubrey Williams coming in here with tears in his eyes begging me to do something before Harry Hopkins went on the operating table at the Mayo Hospital. He called him up and said, "Henry Morgenthau says he will see you through on this appropriation and he will see you through. Go ahead and be operated on." He said Harry went on the operating table with a smile on his face because I had said I would take care of him. And it is always the same thing.

Now, this time I am not bothered, but I just wanted to find out where the people in the room stood, and I did. I don't know what I did to the people in the room, but it has left me as though I have been dragged through a keyhole; but it was worth the effort.

MR. BELL: You never know how a thing is going to work that is as complicated as this.

H.M.JR: All right.

July 30, 1942
12:30 p.m.

INFLATION

Present: Mr. Bell
Mr. White
Mr. Gaston
Mr. Paul

H.M.JR: (Reading) "We have been considering in recent conferences in the Treasury Department further steps necessary to prevent a calamitous rise in the cost of living, and we have come to the conclusion that more fundamental measures than any heretofore publicly proposed are essential.

"Wage and price ceilings alone cannot control inflation." That word "alone"--

MR. WHITE: I suggested I thought it ought to be out because I thought if you put it in he might say, "All right, I don't think wage and price ceilings are alone enough, but we will get this out and then we will do the other later." It looks as though what you are suggesting is a supplement to your measure and won't stop him from the Executive Order.

H.M.JR: "Even if wage rates and farm prices were frozen at present levels, next year" - when you say "next year" you mean next calendar year?

MR. WHITE: We thought we would be indefinite about that. It was the next twelve months, really.

H.M.JR: "Even if wage rates and farm prices were frozen at present levels, next year would see a surplus of spending power of $20 to $30 billion. This excess purchasing power would inevitably break the price ceilings on a broad front." Is that clear?

MR. WHITE: That is difficult to understand. We could say, "The pressure of this excess purchasing power would inevitably break...."

H.M.JR: Something, Herbert.

MR. GASTON: All right.

H.M.JR: Yes, I think, "The pressure of this excess purchasing power would inevitably break through the price ceilings on a broad front." Do you think "on a broad front" is necessary?

MR. PAUL: Yes, I think it adds - not just here and there but all along the line.

H.M.JR: "It would result in empty shelves, in large scale black market transactions, and in widespread evasion and dealer favoritism. It would give rise to queues and to inequitable and wasteful distribution. It would make the acquisition of the necessities of life a battle of wits.

"Obviously we have no choice but the adoption of some proposal" - that would rub him the wrong way.

MR. GASTON: I can change that to make it, "There seems no choice but the adoption" and so on.

MR. BELL: That is strong the way you have got it.

H.M.JR: What?

MR. BELL: That is strong the way it is.

H.M.JR: Which way, "obviously"?

MR. BELL: Yes.

H.M.JR: But I mean that is obvious to us but not to the President.

MR. PAUL: Why not cut out the word "obviously"? Just say, "There is no choice...."

MR. BELL: "We feel...."

MR. WHITE: "We feel there is no choice...."

H.M.JR: I think I would just cut out the word "obviously."

MR. GASTON: "There is no choice", yes.

H.M.JR: "There is no choice but the adoption of some proposal, no matter how drastic, that is capable of preventing the spending for consumer goods of the $20 to $30 billion of excess purchasing power." That doesn't make sense. Isn't it just "excess purchasing"?

MR. GASTON: No, purchasing power.

MR. BELL: Would that read better to put down at the end "for consumer goods"?

MR. PAUL: No - definitely not.

MR. WHITE: Cut out "purchasing power" and say "of the $20 to $30 billion excess." If you like, cut out "of excess purchasing purchasing power" and just put "excess."

H.M.JR: It isn't power; it is money, isn't it?

MR. WHITE: It is the spending of the money.

MR. PAUL: You could just use "excess" because you have just referred to the power of spending twenty or thirty billion.

H.M.JR: You have just referred to it.

MR. WHITE: You could cut out "purchasing power."

MR. BELL: "Capable of spending this...."

MR. WHITE: Or "of this excess of $20 to $30 billions."

MR. GASTON: That would be all right.

H.M.JR: I don't mind repeating, that is all right.

MR. GASTON: "... of this excess of $20 to $30 billions."

H.M.JR: All right.

"We have considered several methods for accomplishing this result and have reached the decision that the most feasible plan is EXPENDITURE RATIONING. Of the plans considered it is also the only one which can be put into effect without additional legislation."

Instead of saying "reached the decision" say "have come to the conclusion."

MR. GASTON: All right.

MR. PAUL: Just say "have concluded."

H.M.JR: To say "come to the decision" again the President will say, "Well, the Treasury has come to the decision."

"Of the plans considered" - the plans considered by whom?

MR. PAUL: By us or the plans publiclyproposed.

MR. GASTON: "Of the plans we have considered...."

H.M.JR: I would put it this way: "This plan has the additional merit that it can be put into effect without additional legislation."

MR. PAUL: That is all right.

MR. BELL: You mean strike out "of the plans considered"?

MR. GASTON: Yes.

H.M.JR: Of course Rosenman said this morning the President didn't want to do it without going to Congress; but originally he said, "Give me a plan that we don't have to go to Congress for." Did I tell you the President said he liked this? Rosenman had already talked to him. He liked it very much.

"Expenditure Rationing consists of a limitation of the aggregate spending power so that it is roughly equal to the aggregate of available consumers' goods at present prices." Now, that is new. That is a good sentence.

MR. PAUL: It is very compact.

MR. WHITE: I think you can get your idea of flexibility in there by--

MR. PAUL: It is in there now.

H.M.JR: "This is accomplished by limiting the amount that any individual or family can spend. Adequately administered it would insure that effective demand for all consumer goods would not exceed, but would be measured by, the supply of goods available. It would not completely replace specific rationing, which will still be necessary to supplement in the case of some scarce commodities, Expenditure rationing applying to all commodities."

MR. WHITE: I would be inclined to say "in the case of certain commodities."

MR. PAUL: We could simply say, "which will still be necessary in the case of certain scarce commodities."

MR. GASTON: "Which would still be necessary in the case of certain scarce commodities"?

MR. PAUL: Yes, then go on to the next sentence.

H.M.JR: "Specific rationing limits individual purchases of certain scarce goods." Can't you fill that in?

MR. PAUL: We were just trying to contrast the two. Read the next sentence now.

H.M.JR: "Expenditure rationing would limit the amount of money which any individual could spend for all consumer goods."

MR. WHITE: That needs to be one sentence, and underline "specific" and underline "expenditure" and I think you will get the contrast that you are seeking.

H.M.JR: Wait a minute, I am going back. "It will not completely replace specific rationing, which will still be necessary to supplement in the case of scarce commodities." I think you could put in something like this, "specific rationing, on the one hand".

MR. PAUL: Yes, that might do it, except we have space limitations here.

MR. GASTON: I think we could cut out that sentence.

MR. PAUL: That is the way we always think of rationing, and we are trying to get the idea of expenditure through by contrast.

MR. WHITE: I think it should be cut out. If Judge Rosenman has talked to him and explained it to him, and then this further explanation - he may not understand why it is in there.

H.M.JR: I think the previous sentence, "It would not completely replace specific rationing, which will still be necessary to supplement in the case of some scarce commodities."

MR. WHITE: Period there.

H.M.JR: I think it is enough.

MR. GASTON: I think so, too.

H.M.JR: "Although variations of income as well as subsistence needs would be factors in determining the permissible amount of spending allowed each individual, the Expenditure Rationing system would greatly reduce the inequality in spending that prevails now. For example, a family of four with an income of $1,500 might be allowed to spend it all, while a family with an income of $50,000 would not be permitted to spend more than (say) $10,000."

Now, something in there - not "subsistence needs" - I would say something in relation to good health.

MR. WHITE: "... as well as the requirements of... "

MR. GASTON: "... as well as individual and family requirements... "

MR. PAUL: "... as well as health requirements and subsistence needs... "

H.M.JR: I am trying to get over - after all, if a child needs a quart of milk a day you are going to see that the child gets it.

MR. PAUL: We can do it that way, "as well as health requirements and subsistence needs."

H.M.JR: "Minimum health requirements."

MR. BELL: "Family needs" covers it; that covers both.

H.M.JR: No, I am thinking of Harriman with his minimum health requirements - of good health - a minimum of good health requirements.

MR. GASTON: The only thing I don't like about it is it sort of connotes you get them down to the bare basis of what is going to keep them alive.

H.M.JR: I don't like the word "subsistence."

MR. WHITE: "Although variations of income as well as size of family."

MR. PAUL: We could say "decent living requirements" instead of "subsistence needs."

MR. GASTON: "Living and health requirements."

H.M.JR: Look, if you don't mention "subsistence needs" you don't draw the attention to it.

MR. WHITE: It seems to me all you are trying to get in is that a family of nine will need more than a family of two. You have already taken care of variations in income.

H.M.JR: It doesn't necessarily mean that. It might mean the bare subsistence.

MR. WHITE: I mean the thought is there are only two variations. One is income and the other is size of family; that is the basis for it, so you would not introduce the idea of subsistence needs. It should be "Although variations of income as well as size of family."

H.M.JR: That would be all right.

MR. WHITE: Your other thought is implicit in the thought that you are letting a family with fifteen hundred spend--

MR. PAUL: That is correct.

H.M.JR: That is all right. You get what I mean about "subsistence needs" - bare subsistence?

MR. GASTON: Yes, "as well as individual and family needs."

MR. WHITE: Just "as well as size of family."

H.M.JR: That is all right. Where do you get this thing that you are going to vary it up and down depending upon--

MR. WHITE: It is in the next paragraph.

H.M.JR: "All persons would receive ration allowances. The right to spend these allowances would be represented either by coupons or some other device." You are throwing that in - that is all right. "The plan would be made flexible so that total purchases permitted would be increased or diminished to correspond with the supply of goods available. The plan will of course raise serious administrative problems, but this would be true of any plan adequate to meet the situation."

MR. WHITE: I think that sentence definitely belongs up in the fifth paragraph, this one, "The plan would be made flexible so that total purchases permitted would be increased or diminished to correspond with the supply of goods available." It should go where you say, "Adequately administered it would insure that effective demand for all consumer goods would not exceed, but would be measured by, the supply of goods available."

MR. GASTON: I think you are right.

H.M.JR: "The O.P.A. could administer" - you wouldn't put, "The O.P.A. should"?

MR. WHITE: The "could" is justified by the next phrase.

H.M.JR: "The O.P.A. could administer the program, probably with little additional personnel because with Expenditure Rationing the administration of price ceilings and specific rationing will diminish in difficulty and importance."

Now, Herbert, what I would like you to do without interruption from anybody, including myself, is to read it out loud.

MR. BELL: I wonder if the two sentences beginning the last paragraph couldn't be eliminated?

MR. PAUL: I don't see how you could.

MR. BELL: He knows you have got to work out the administrative end.

H.M.JR: No, no, I disagree with you.

MR. PAUL: I do, too.

(Memorandum read aloud by Mr. Gaston.)

H.M.JR: Now, there is just one thought that I have. I am not interested in the wording. I don't care for a word here or there. The thing is good. It is a good job, Herbert - very good. I want to have it by two o'clock.

This is the thing I was thinking about. In the introductory sentence I was wondering if you wanted to get into this: "In view of the fact that we in the Treasury are making our plans based on a long war, see, we feel that some such step must be taken." I don't know whether it is a good thing or not to put that in there - I mean right at the beginning.

MR. PAUL: That could go down here where it says, "We have no choice" - it would fit in there. That is what makes us have no choice, the fact that we are in for a long war.

MR. WHITE: You could put it in, that "We have come to the conclusion, in view of the necessity for planning for a long war, that more fundamental measures" and so on.

MR. PAUL: We can fit that in.

H.M.JR: Would you say "long war" or "five-year war"?

MR. WHITE: I wouldn't say a five-year war.

H.M.JR: Herbert?

MR. GASTON: I would put it right in the first sentence.

H.M.JR: What is back of it is this thing is drastic, it is unusual, it is going to upset everything. Well, it is the kind of thing you have got to do if you are planning a long war. If you think the war is going to be over in a year, maybe we can get along as we are.

MR. WHITE: It has validity only if the war is going to be long. If the war isn't going to last beyond next spring it doesn't matter what you are going to do. I think it will also give a little more justification for barging in with something drastic. Therefore, I think it ought to go in the first paragraph.

H.M.JR: You like my suggestion?

MR. WHITE: I think so. I think it will make the subsequent perusal of it by the President less antagonistic.

H.M.JR: The way I feel, "This is a suggestion, Mr. President, which you have got to consider, because we here in the Treasury think this is a long war."

MR. WHITE: Not that we think it is a long war but we think that we have to prepare for it, that it has got to be considered.

H.M.JR: Well, if I could have it back at two o'clock I could glance at it and the five of us can walk over to Mr. Rosenman.

MR. BELL: How do you want this, Mr. Secretary, just as a plain memorandum?

H.M.JR: Memorandum to the President.

MR. BELL: To be signed by you?

MR. PAUL: Could you have an accompanying letter sending it?

MR. BELL: It will be difficult to get it on one page. I think it would look a little better if you went over to the second page and used the larger type, or leave it as a memorandum and accompany it by a short note.

H.M.JR: Just the words up on top, "Memorandum to the President."

MR. BELL: And then your signature; it is going to crowd it.

H.M.JR: He will laugh. He will like it. He will say, "Henry stretched it but he made it in one page." I would rather just squeeze it up to the top.

MR. WHITE: I think that suggests that if you had more room you could do much more justice to the problem. It shows you tried to get it on one page but there is a lot more to be said.

H.M.JR: He will start with a smile. I know the man. It will put him in a good humor. He is peculiar - he isn't like me. (Laughter)

MR. GASTON: You mean peculiar in a different way. (Laughter)

We have been considering in recent conferences in the Treasury Department further steps necessary to prevent a calamitous rise in the cost of living, and we have come to the conclusion that more fundamental measures than any heretofore publicly proposed are essential.

Wage and price ceilings cannot control inflation. Even if wage rates and farm prices were frozen at present levels, next year would see a surplus of spending power of $20 to $30 billion. This excess purchasing power would inevitably break the price ceilings on a broad front. It would result in empty shelves, in large scale black market transactions, and in widespread evasion and dealer favoritism. It would give rise to queues and to inequitable and wasteful distribution. It would make the acquisition of the necessities of life a battle of wits.

Obviously we have no choice but the adoption of some proposal, no matter how drastic, that is capable of preventing the spending for consumer goods of the $20 to $30 billion of excess purchasing power.

We have considered several methods for accomplishing this result and have reached the decision that the most feasible plan is EXPENDITURE RATIONING. Of the plans considered it is also the only one which can be put into effect without additional legislation.

Expenditure Rationing consists of a limitation of the aggregate spending power so that it is roughly equal to the aggregate of available consumers' goods at present prices. This is accomplished by limiting the amount that any individual or family can spend. Adequately administered it would insure that effective demand for all consumer goods would not exceed, but would be measured by, the supply of goods available. It would not completely replace specific rationing, which will still be necessary to supplement in the case of scarce commodities Expenditure Rationing applying to all commodities. Specific rationing limits individual purchases of certain scarce goods. Expenditure rationing would limit the amount of money which any individual could spend for all consumer goods.

Although variations of income as well as subsistence needs would be factors in determining the permissible amount of spending allowed each family, the Expenditure Rationing system would greatly reduce the inequality in spending that prevails now. For example, a family of four with an income of $1,500 might be allowed to spend it all, while a family with an income of $50,000 would not be permitted to spend morethan (say) $10,000.

All persons would receive ration allowances. The right to spend these allowances would be represented either by coupons or some other device. The plan would be made flexible so that total purchases permitted would be increased or diminished to correspond with the supply of goods available.) The O.P.A. could administer the program, probably with little additional personnel, because with Expenditure Rationing the administration of price ceilings and specific rationing will diminish in difficulty and importance. Legally, the program would be based upon the powers vested in the President by section 301 of the Second War Powers Act, 1942. ((The plan will, of course, raise serious administrative problems, but this would be true of any plan adequate to meet the situation.)

In the light of the probability of a long war and its effect on Government financing, we have been considering in recent conferences in the Treasury Department further steps necessary to prevent a calamitous rise in the cost of living. We have come to the conclusion that more fundamental measures than any heretofore publicly proposed are essential.

Wage and price ceilings cannot control inflation. Even if wage rates and farm prices were frozen at present levels, next year would see a surplus of spending power of $20 to $30 billions. The pressure of this excess purchasing power would inevitably break through the price ceilings on a broad front. It would result in empty shelves, in large scale black market transactions, and in widespread evasion and dealer favoritism. It would give rise to queues and to inequitable and wasteful distribution. It would make the acquisition of the necessities of life a battle of wits.

There is no choice but the adoption of some proposal, no matter how drastic, that is capable of preventing the spending for consumer goods of this excess of $20 to $30 billions. We have considered several methods for accomplishing this result and have concluded that the most feasible plan is EXPENDITURE RATIONING. The plan has the additional merit that it can be put into effect without additional legislation. (Sec. 301, Second War Powers Act, 1942.)

Expenditure Rationing would consist of a limitation of the aggregate spending power so that it would be roughly equal to the aggregate of available consumers' goods at present prices. This would be accomplished by limiting, through a coupon system or some equivalent device, the amount that any individual or family could spend on consumer goods. Adequately administered it would insure that effective demand for all consumer goods would not exceed, but would be measured by, the supply of goods available. The plan would be made flexible so that purchases permitted would be increased or diminished as the supply of goods warranted. It would not completely replace specific rationing, which would still be necessary in the case of some scarce commodities.

Although variations of income as well as size of family would be factors in determining the permissible amount of spending allowed each individual, the Expenditure Rationing system would greatly reduce the inequality in spending that prevails now. For example, a family of four with an income of $1,500 might be allowed to spend it all, while a family with an income of $50,000 would not be permitted to spend more than (say) $10,000.

The plan will of course raise serious administrative problems, but this would be true of any plan adequate to meet the situation. The O.P.A. could administer the program, probably with not much greater personnel than now contemplated, because with Expenditure Rationing the administration of price ceilings and specific rationing would diminish in difficulty and importance.

Secretary of the Treasury

July 30, 1942

This is a complete set of what we gave Judge Rosenman today.

Judge Rosenman said, "I do not think the President will use it as I do not think he is prepared to go that far." He said, "I promise to see that the President gets it before he leaves, and it is up to you and to me to keep reminding him of it in case he does not use it now."

65 ... -/-

July 30, 1942

MEMORANDUM TO THE PRESIDENT

In the light of the probability of a long war and its effect on Government financing, we have been considering in recent conferences in the Treasury Department further steps necessary to prevent a calamitous rise in the cost of living. We have come to the conclusion that more fundamental measures than any heretofore publicly proposed are essential.

Wage and price ceilings cannot control inflation. Even if wage rates and farm prices were frozen at present levels, next year would see a surplus of spending power of $20 to $30 billions. The pressure of this excess purchasing power would inevitably break through the price ceilings on a broad front. It would result in empty shelves, in large scale black market transactions, and in widespread evasion and dealer favoritism. It would give rise to queues and to inequitable and wasteful distribution. It would make the acquisition of the necessities of life a battle of wits.

There is no choice but the adoption of some proposal, no matter how drastic, that is capable of preventing the spending for consumer goods of this excess of $20 to $30 billions. We have considered several methods for accomplishing this result and have concluded that the most feasible plan is EXPENDITURE RATIONING. The plan has the additional merit that it can be put into effect without additional legislation. (Sec. 301, Second War Powers Act, 1942.)

Expenditure Rationing would consist of a limitation of the aggregate spending power so that it would be roughly equal to the aggregate of available consumers' goods at present prices. This would be accomplished by limiting, through a coupon system or some equivalent device, the amount that any individual or family could spend on consumer goods. Adequately administered it would insure that effective demand for all consumer goods would not exceed, but would be measured by, the supply of goods available. The plan would be made flexible so that purchases permitted would be increased or diminished as the supply of goods warranted. It would not completely replace specific rationing, which would still be necessary in the case of some scarce commodities.

Although variations of income as well as size of family would be factors in determining the permissible amount of spending allowed each individual, the Expenditure Rationing system would greatly reduce the inequality in spending that prevails now. For example, a family of four with an income of $1,500 might be allowed to spend it all, while a family with an income of $50,000 would not be permitted to spend more than (say) $10,000.

The plan will of course raise serious administrative problems, but this would be true of any plan adequate to meet the situation. The O.P.A. could administer the program, probably with not much greater personnel than now contemplated, because with Expenditure Rationing the administration of price ceilings and specific rationing would diminish in difficulty and importance.

Secretary of the Treasury

Extract From
Section 301 of the Second War Powers Act, 1942:

"* * * Whenever the President is satisfied that the fulfillment of requirements for the defense of the United States will result in a shortage in the supply of any material or of any facilities for defense or for private account or for export, the President may allocate such material or facilities in such manner, upon such conditions and to such extent as he shall deem necessary or appropriate in the public interest and to promote the national defense."

My dear Mr. Secretary:

You have requested my opinion concerning the legality of the plan of so-called Expenditure Rationing proposed by Dr. White, Director of Monetary Research. There is attached a copy of a memorandum setting forth the proposal in broad outline. Under that proposal, the amount of money which may be expended by any natural person or family unit for consumers' goods (with some reasonable exceptions) is limited to a portion of income[1/] determined in accordance with a classification schedule[2/] based on income and dependency status. Enforcement of the plan is to be accomplished

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1/ Where a person or family lives by capital depletion, the amount will be determined by a local board on the basis of usual capital depletion.

2/ The schedule and other details of the plan are not stated in the memorandum. It is possible that the classifications, differentiations, and other details made in the final plan may raise some constitutional or other legal question, but, obviously, I cannot pass on their legal validity until they are called to my attention.

by issuing coupons (or by a similar device) which will permit the purchase of consumers' goods only to the extent of the limited amount of money.

It is my opinion that the institution of such a plan is authorized by the Act of May 31, 1941, c. 157, 55 Stat. 236, as amended by section 301 of the Second War Powers Act, 1942, Act of March 27, 1942, c. 199, 56 Stat. ___.

That Act provides, in pertinent part, as follows:

> "* * * Whenever the President is satisfied that the fulfillment of requirements for the defense of the United States will result in a shortage in the supply of any material or of any facilities for defense or for private account or for export, the President may allocate such material or facilities in such manner, upon such conditions and to such extent as he shall deem necessary or appropriate in the public interest and to promote the national defense.
>
> * * *
>
> "The President may exercise any power, authority, or discretion conferred on him by this subsection (a), through such department, agency,

or officer of the Government as he may direct and in conformity with any rules or regulations which he may prescribe."3/

Under that provision, the President, before he may exercise the authority there granted, must be satisfied "that the fulfillment of requirements for the defense of the United States will result in a shortage of the supply of any material or of any facilities for defense

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3/ The President's authority to ration under that statutory provision has been delegated through the War Production Board to the Office of Price Administration. Executive Order No. 8875, dated August 28, 1941, 6 Fed. Reg. 4483; Executive Order No. 9040, dated January 24, 1942, 7 Fed. Reg. 527; Executive Order No. 9125, dated April 7, 1942, 7 Fed. Reg. 2719; War Production Board Directives No. 1 (7 Fed. Reg. 562), No. 1A (7 Fed. Reg. 698), as amended, No. 1B (7 Fed. Reg. 925), as amended, No. 1C (7 Fed. Reg. 1669), No. 1D (7 Fed. Reg. 1792), No. 1E (7 Fed. Reg. 2965), No. 1F (7 Fed. Reg. 3362), No. 1G (7 Fed. Reg. 3546), No. 1H (7 Fed. Reg. 3478), as amended. Under that authority the Office of Price Administration has rationed tires (Rationing Order No. 1, 7 Fed. Reg. 72), automobiles (Rationing Order No. 2, 7 Fed. Reg. 667, Rationing Order No. 2A, 7 Fed. Reg. 1524), sugar (Rationing Order No. 3, 7 Fed. Reg. 2966), typewriters (Rationing Order No. 4, 7 Fed. Reg. 2817), gasoline (Rationing Order No. 5, 7 Fed. Reg. 3482, Rationing Order No. 5A, 7 Fed. Reg. 5225), and bicycles (Rationing Order No. 7, 7 Fed. Reg. 3666).

or for private account or for export". Thus, to exercise the authority in the instant case, the President must be satisfied that the materials to be designated "consumers' goods" fall within the requirements of that condition precedent. I have assumed in this opinion that there is economic justification for a finding by the President that the condition precedent is satisfied.

It will be noted that the President's authority is to "allocate". In Webster's New International Dictionary (2d ed.) the word "allocate" is defined as follows: "To distribute or assign; allot; apportion". It appears that it was in that sense that the Congress used the word, for, with reference to the quoted statutory provision (as it existed in the bill which became the Act of May 31, 1941), the House of Representatives Committee report states that the language has as its purpose:

> "To permit control of the distribution of those products and materials in which shortages appear by reason of the impact of the defense program and

> to permit the allocation of such products and materials to defense and to the most important civilian needs in preference to less important uses." (1941) H.R. Rep. No. 460, 77th Cong., 1st Sess. 6.

The identical statement appears in the Senate Committee report. (1941) Sen. Rep. No. 309, 77th Cong., 1st Sess. 6.

Further indication of the intention of the Congress can be found in the following statement by Representative Vinson:

> "Furthermore, the mere mention of an acute shortage implies that during a national emergency civilian needs must suffer at the expense of defense needs. But this does not mean that civilian needs are to be disregarded. It is very important, therefore, that authority exist for allocating from available supplies, first, to fill vital defense requirements, and secondly, to civilian needs in the order of their importance.
>
> "As I have said before, we must assure that the defense program is geared into civilian economy, so that their various needs receive the consideration which is due them, and so that items of private luxury are not allowed to get out of hand to the detriment of our national security and well-being." (1941) 87 Cong. Rec. 3829 D.I.

Representative Vinson reported the bill to the House of Representatives and was in charge of the bill on the floor of the House. It is well settled that statements by the Representative in charge are relevant in interpreting a statute if there is any doubt concerning its meaning. See, for example, Wright v. Vinton Branch, (1937) 300 U.S. 440, 463-464.

The extent of the President's control of methods or manner of allocation is evidenced by the fact that he may allocate under such conditions and to such extent and in such manner as he shall deem "necessary or appropriate in the public interest or to promote the national defense". The words "necessary or appropriate" are similar to the words "necessary and proper" which appear in Art. I, sec. 8, cl. 18, of the Constitution. The words are there used with reference to the powers of the Congress. In Juilliard v. Greenman, (1884) 110 U.S. 421, 440, the Court said, with reference to the words as they appear in the constitutional clause:

> "By the settled construction and the only reasonable interpretation of this clause, the words 'necessary and proper' are not limited to such measures as are absolutely and indispensably necessary, without which the powers granted must fail of execution; but they include all appropriate means which are conducive or adapted to the end to be accomplished, and which in the judgment of Congress will most advantageously effect it."

It would seem fair to apply the same construction to the words "necessary or appropriate" as they appear in the above-quoted statutory provision.

With the foregoing background of interpretation, we can apply the statute to the proposed program to determine whether that program falls within the purview of that law.

If the President were to find that in order to meet the requirements for defense there would result a shortage of, for example, shoes, he could, without question, direct that no person without dependents could use more than 1/2 of 1 percent of his income to purchase shoes. It is surely not legally unreasonable or arbitrary to distribute shoes with respect to the needs of dependency and standard of living as evidenced by income, and so to distribute may certainly be conducive to the public interest and the national defense.

Obviously, the President could make a similar direction with respect to each of the various commodities or articles that will be designated "consumers' goods". The only difference between such a series of directions and the proposed program is that the program does not make an income limitation for each particular commodity. That is not a material difference. It would be reasonable for the President to take the position that flexibility in consumer purchase of the various commodities is desirable and that, while one person may expend his entire income on one particular commodity, the expenditures, viewed as a whole, will be substantially the same as though he had limited income expenditure for each commodity.[4/] Flexibility might be

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4/ It is understood that, under the program, it is intended to use specific rationing if it should develop that too much income is being used for one particular commodity. Furthermore, the present specific rationing of particular commodities will be retained.

considered to be in the public interest and to promote the national defense by making the program more likely to secure the public approval and conformance necessary to successful distribution.

So far as enforcement is concerned, there can be no question but that the broad authority given to the President is sufficient to authorize him to provide for the use of a coupon or a similar system as a means of making sure that his directions with respect to distribution are followed.

In view of the foregoing, it is my opinion that the proposed plan, as broadly outlined in the attached memorandum, is authorized under the Act of May 31, 1941, as amended by section 301 of the Second War Powers Act, 1942.

Very truly yours,

Acting General Counsel.

The Honorable

The Secretary of the Treasury.

Attachment

ERF:rgs
7/30/42

7/30/42 167

Draft of material given to HM,Jr.

Revised material was given to Judge Rosenman also on 7/30.

We have been discussing in recent conferences, the wisdom and mechanics of directly controlling wages and farm prices. Irrespective of the merits and details of the various proposals that have been considered in this connection, these measures reach neither the fundamentals nor the magnitude of the inflation problem we are facing. Wage and price ceilings cannot prevent inflation. In this memorandum we would like, therefore, to submit for your consideration a tentative program which should deal effectively with the surplus purchasing power problem and which, if well executed, would make comprehensive wage and price ceilings unnecessary.

Even if wage rates and farm prices were frozen at present levels, next year would see a surplus of spending power of $20 to $30 billion. This excess purchasing power will break the price ceilings on a broad front. It will result in empty shelves, in large scale black market transactions, and in wide-spread evasion and dealer favoritism. It will give rise to queues and to inequitable and wasteful distribution. It will make the acquisition of the necessities of life a battle of wits.

We have no choice but the adoption of some proposal, no matter how drastic, that is capable of preventing the spending of the $20 to $30 billion of excess purchasing power.

For many months the Treasury has been considering and discussing with other agencies of the Government, a plan for EXPENDITURE RATIONING. We believe that this program can be put into effect without additional legislation.

Expenditure Rationing consists of a limitation of the aggregate spending power so that it is roughly equal to the aggregate of available consumers' goods at present prices. This is accomplished by limiting the amount that any individual or family can spend.

Although variations of income and size of family will be factors in determining the permissible amount of spending allowed each family, the Expenditure Rationing system would greatly reduce the inequality in spending that prevails now. For example, a family of four with an income of $1,500 might be allowed to spend it all; a family with an income of $2,500 would be permitted to spend (say) $1,800 on consumer goods; a family with an income of $10,000 would be permitted to spend (say) $5,000; a family with an income of $50,000 would be permitted to spend (say) $10,000.

By explicitly determining the amount that each individual is to be permitted to spend, expenditure rationing provides a system for equitably distributing a limited supply of goods and services among the great mass of our population. Although their expenditures are limited, individuals will be substantially assured that goods and services will be available for purchase with their expenditure allowance.

All persons will receive a ration allowance. The right to spend this allowance will be represented either by coupons or some other device. The ration allowances might be distributed to consumers principally through their employers and also through other agencies.

All retailers of consumers' goods or services would be permitted to sell goods only when the surrender of the ration permit accompanies the purchase payment. An appropriate system of enforcement will be set up on check up on retailers as well as consumers.

This system will enormously lessen the need for specific rationing, but there still will have to be some specific rationing for these necessary commodities which are disproportionately scarce.

It would take several months to perfect the plan and prepare the machinery for its administration. Therefore, if it be desired to put the plan into effect by December 1, it is necessary to begin the preparatory work soon. The O.P.A. could administer the program probably with little additional personnel because with Expenditure Rationing the administration of price ceilings and specific rationing will diminish in difficulty and importance.

In addition to the above proposal, there are two other comprehensive plans that we are studying. These are, first, ~~a proposal for compulsory saving large enough to mop up the surplus purchasing power; second, a spendings tax with exemptions which imposes a tax penalty on additional spending, a penalty that becomes more and more severe as spendings increase, eventually reaching prohibitive levels. Both these latter plans would require legislation.~~

July 30, 1942
3:40 p. m.

FINANCING

Present:
Mr. Bell
Mr. Viner
Mr. Smith
Mr. Stewart
Mr. Burgess
Mr. Harrison
Mr. Edwards

H.M.JR: May I apologize, but I have been unexpectedly busy today, so I had to concentrate.

MR. BURGESS: We heard you had some other things to do besides this.

H.M.JR: Well, it was something - we had a timetable on the thing, and it was just that I couldn't leave it.

How much has Bell told you people about the various--

MR. BURGESS: He came in and gave us the agenda which the Executive Committee considered. We talked with him for a while, and then we sat down by ourselves and talked about those points at some length. However, Stewart and Viner weren't with us so we haven't had a chance to interchange views with them.

H.M.JR: Anyone have a train to meet - the St. Louis Flyer?

MR. SMITH: No, it leaves Tuesday mornings only. (Laughter)

H.M.JR: I see - it leaves Tuesday mornings. I can get a lot of advice.

Well, do you gentlemen want to tell me what you think, or do you want to ask me questions, or how would you like to proceed?

MR. HARRISON: Go ahead, Randy.

MR. BURGESS: We might tell you what our tentative thoughts were on these points without having heard your point of view on the thing. I understand that the proper order is to leave the change in reserve requirements to the last.

MR. BELL: I told him they could if they wanted to do that.

MR. BURGESS: On the August financing we, of course, agree that the thing to do is to reopen the registered two and a half percent bond, '62-'67, and there was the suggestion of opening on Monday, which is all right. That is the thing to do. We think you will get at least six hundred million dollars of subscriptions on it.

As far as change in the form goes, the only change we talked about seriously was leaving out this sixty-day clause about trading in. We think you could leave that off without incurring any risk.

With respect to B, the cash offering of one and a half billion of certificates, we think that is a good thing to do in August. We think it would be wise to wait a few days after you open the tap issue before you offer the certificate because there will be some turning in the open market.

H.M.JR: Say that again.

MR. BURGESS: If you open the tap issue on Monday it might be well to wait until the end of the week, if not until the following Monday.

H.M.JR: Before--

MR. BURGESS: Before offering a certificate issue, but we think if you open the certificate issue on

Thursday or Friday, that would be all right.

On the maturity of the certificate, you could do either a nine months or a year. We lean toward the year, at seven-eighths, on the ground that out-of-town people, country banks, and so forth, who have the larger excess reserves, would be a little more apt to take that, so that you get a better distribution of buyers. Your other two issues have been pretty short, too.

We sort of think the thing to work toward is quarterly issues of certificates with nine months for maturity - somewhere around there, leaving the short market for the bills.

I think that covers the points on that item.

With respect to C, the Treasury bill program, which is now three hundred and fifty million a week, we would be inclined to leave that where it is for the time being. You have stepped it up pretty rapidly. It is a good thing to have a few extra shots in the locker whenever you need more money, and while you can sell more bills, we didn't feel terribly strongly about it. We think it might be just as well, if you don't have to have the money, to leave the bills at that present amount for the time being.

MR. HARRISON: That is particularly true in view of the fact that you are now issuing certificates which helps fill up the short market for you.

MR. BURGESS: On the long-term program, we favor an increase in the Series A tax note from twelve hundred to five thousand or ten thousand. I think - we certainly think it ought to be increased to five. There is a little difference of view as to whether it should be increased to ten. I think we lean a little towards ten, with the idea that you get in more money in that way, and that the people who went up to ten will be paying back a large part of it in taxes, so it wouldn't really cost you anything. I think there is some substantial block of tax reserves that is not now being pulled in that could be drawn in - but only if there is a real incentive. The present rates and arrangement don't offer an incentive for individual tax reserves, to draw them in.

On 3-B, it is the old short-term tap issue in a new dress.

H.M.JR: I know 5-B, but not 3-B.

MR. BELL: Three-B is the tax note.

MR. HARRISON: The Series B note.

MR. BURGESS: It is another fancy scheme for a stepped-up rate. We can't get enthusiastic about it. We don't really think that that fancy rigging gets anywhere at all. We don't think it would get you in any substantial amount of new money. We think the thing to do is to take the B tax note and raise the rate on that in conformity with the increase in short money rates since that was put out.

H.M.JR: You mean you don't like the stepping-up?

MR. BURGESS: No. It is a lot of fancy rigging that is going to scare off buyers just as much as it gets them, and it, again, is one of these redeemable issues that gives you a demand obligation that you cannot anticipate. It isn't definite maturity. I think the Treasury is much better off with maturities that it knows about. It already has a very heavy demand obligation in the savings bonds. I don't think it is sound financing. I don't think it gets you anywhere to increase the demand obligation in this form. I think we are all agreed on that. We do think that the tax note, tax anticipation note, that was designed for corporations ought to be reconsidered at the time you establish that, and it has been a very successful instrument, money rates were substantially lower and tax rates were substantially lower, corporate tax rates; so that the present instrument which pays just under half of one percent has, at present, much less attraction for a corporate tax payer than it had when it was established, both by reason of the change in money rates, and the change in tax rates, so what a corporation gets out of it now is very small. We think it would be a proper adjustment to the market to raise that rate to, say, seventy-two, which would be six cents a month instead of forty-eight. I think it would attract some more money if you did that.

MR. BELL: Don't you think there is money there that could be pulled out with a little persuasion on the part of the Victory Fund Committee from corporations and other short-term investors that will not now go into Treasury bills or Treasury certificates?

MR. BURGESS: You mean by this fancy--

MR. BELL: By this device, yes.

MR. BURGESS: I think there is very little.

MR. SMITH: Dan, I made a study of the Middle West and the Rocky Mountain district in the past month. We couldn't find any money of any consequence except the funds of railroads that are in the Federal Court. Now, many of these people say they will buy it if you offer it, but they are already increasing their money, and it wouldn't attract their money as new money, but you might get some railroad funds.

MR. BELL: It would take that investment away from Treasury bills and certificates.

MR. SMITH: Which they are buying in the market, if necessary. I have asked everybody I met connected with a large corporation or the western banks, as far west as Salt Lake, and that is what they all say. You ask them, "Would there be a market for this security?" and they would say, "Yes". "Would it provide new money?" "I don't think so."

MR. HARRISON: I think you are right to the extent that money went into this tax B note as an investment. It would probably be money that would otherwise go into, say, the one year certificate of seven-eighths. I can't see the competitive advantage of this on the certificate at seven-eighths, which in all likelihood will have very little fluctuation, and which a man can always get out of sometime in the short money market at a seven-eighths. Now, that takes care of the period for one year; query, whether a corporation would rather go into this kind of an obligation which would earn him only three-quarters of one percent for three years. I don't think that has got it. Furthermore, I suspect that it would just confuse what has now become to be understood as a pretty good tax anticipation note which everybody understands, and it is available only for the payment of taxes; and I wouldn't scatter your goods so that you would open this up as an investment security when you have got much better investment securities, really, for the type of funds that you are trying to attract.

H.M.JR: That doesn't take care of Mr. Eccles.

MR. SMITH: I think Mr. Eccles is wrong.

H.M.JR: He has been after us to do something on this two to three-year field.

MR. SMITH: All the Federal Reserve banks are pushing it out. They did in our district, and I asked them, "What did you find, aside from the railroad funds?" and they said they didn't find anything.

H.M.JR: You can't convince Eccles of that.

MR. SMITH: I suspect that is true.

MR. HARRISON: I think that sometime later on in the year, especially if you indulge in a big program, that you will have to offer a variety of goods, and I have been hopeful all along that, in addition to a one-year certificate, at some point you will put out a two or three-year note, which I think is going to be a real test of the corporate funds of the type that Mr. Eccles wants to get. You have a chance to get those funds if they are not already out, for the certificate does not attract them. I think you will have a chance to get them later.

H.M.JR: This has nothing to do with this discussion, but why was Eccles called as a witness by Pelley?

MR. BELL: He wanted to find out the financial condition of the country, as to whether or not it is bankrupt.

H.M.JR: Is that what he wants to do?

MR. BELL: Whether the Treasury is bankrupt.

MR. VINER: The Federal Government is bankrupt.

H.M.JR: That is what he is calling Eccles for?

MR. HARRISON: That is what the noon paper said.

H.M.JR: I wonder why he didn't call me.

MR. BURGESS: You might be prejudiced. (Laughter)

MR. VINER: I think he thinks he has a speech of Eccles to build on.

H.M.JR: I guess the difficulty is he can't subpoena me, and he can subpoena Eccles. I mean, I don't have to accept his subpoena as Secretary of the Treasury.

MR. BELL: In a civil suit of that kind, I guess you don't.

H.M.JR: I don't have to accept it under any--

MR. HARRISON: That is one real help to your job.

MR. BELL: Except on United States cases.

H.M.JR: Personally, no.

MR. BELL: No, but somebody representing you - your General Counsel.

H.M.JR: I don't have to accept it, as I understand it. I don't think so.

Well, anyway, I was just curious.

MR. HARRISON: I don't believe you do except in a criminal case.

H.M.JR: You are former counsel for Federal Reserve.

MR. HARRISON: In criminal cases you might have to. Supposing you witnessed the murder and you were supposed to appear as a witness.

H.M.JR: Isn't this suit against Pelley a Federal suit?

MR. BURGESS: I think it is. It is being tried by the--

H.M.JR: You think in a criminal suit I would have to accept?

MR. HARRISON: It has been a long time since I familiarized myself with it so I withdraw my statement, but I think that is a fact.

H.M.JR: On the tax anticipation you would leave them alone or raise the rate?

MR. SMITH: Raise the rate.

MR. HARRISON: No trimmings.

H.M.JR: I thought you fellows liked things sugar-coated.

MR. BURGESS: We like them simple, Mr. Secretary.

H.M.JR: Since when?

MR. BURGESS: For a long time.

MR. HARRISON: I can't claim that the tax notes are so simple in themselves, but we have finally understood them. They are an attractive investment, and are bringing in two or three hundred million dollars a month.

H.M.JR: You wouldn't open them up for other than--

MR. HARRISON: Payment of taxes, because otherwise all you have done is to put on a three-year obligation that yields three-quarters of one percent on a sliding scale down, and have obligated yourself to redeem them at any time within the three-year period.

MR. SMITH: Thereby increasing the demand obligation of the Government for the purpose of attracting something that we don't think exists, to the extent that would justify it.

MR. HARRISON: And your own investigation which you told us about at your last meeting indicated that you agreed with our impression that there isn't much of that money lying around.

H.M.JR: There is nothing that has been brought to my attention to make me change my opinion other than Mr. Eccles' desire. Is that right?

MR. BELL: Yes.

H.M.JR: I mean, Dan - has anything come to you to show--

MR. BELL: No. A few people have come in - a small utility company said they had funds to invest in this short tap, but volume--

H.M.JR: Doesn't amount to anything.

MR. BELL: We haven't heard of it. We would like to test that market and see if there are funds there.

MR. SMITH: When you put out a security of that kind of demand obligation, you will draw from the other field.

H.M.JR: What field?

MR. SMITH: From people who are buying certificates.

H.M.JR: Perfectly frankly, we thought of an innocuous way of testing the position Eccles holds, and if he is wrong, then he is wrong. We just thought of an easy way to do it, and maybe it is too easy.

MR. HARRISON: But you won't be able to prove it for three years, because you won't know whether a man is buying for investment or paying taxes.

MR. BURGESS: I really do think it is innocuous when you pile up the demand liabilities on the Treasury.

MR. HARRISON: I suppose Mr. Sproul may have told you, but at the meeting of the Victory Loan Committee in New York when we considered the various possible things that you might do, with the exception of Mr. Sproul, who didn't reiterate his own view which we know, there was unanimous objection to the three year or two and a half year so-called tap issue - redeemable issue. There was only one man who said it was a good idea. He said, "I think a two year issue - two and a half year issue - would be fine." He said there are certain funds - he is from Buffalo - that would go into that, but I don't see there is any point in making it redeemable.

In other words, what he was arguing for was just a straight note for two or two and a half years, without subjecting yourself to the redeemable liability.

MR. BELL: It wasn't mentioned in the Victory Fund Committee report that came from New York.

MR. HARRISON: It was purely negative.

MR. BELL: I presume so - nothing to report on it.

H.M.JR: Were there any other arguments for this streamlining this note other than what I have said?

MR. HAAS: There was one that Broughton brought up that hadn't occurred to me. He thought that having it redeemable for cash would make a better tax note for certain people, that the corporations would cash them and pay their taxes by check and that would be more convenient.

MR. BELL: Rather than bothering the collectors with them, the mechanical--

MR. HAAS: Yes.

MR. BELL: That is what happened during the last war. We had tax notes during the last war, but they were regular issues. The banks and everybody bought them, and instead of a corporation turning them in to the collector they just turned them in to the Federal and got their check and turned in the proceeds to the collector.

MR. BURGESS: I think some corporations will use the regular certificate of indebtedness that way.

MR. VINER: Of course, you could compromise there. You could have them turn them in to the Federal Reserve and get a special check payable for taxes.

MR. SMITH: That would be just as much trouble as turning them in to the collector.

MR. VINER: No, the point is the collectors aren't familiar with handling these.

MR. SMITH: It is just the trouble. It probably requires an adjustment.

H.M.JR: I think that that isn't a very heavy argument.

MR. BELL: No, we have it pretty well simplified for the collectors.

H.M.JR: Let's get on to the next thing.

MR. BURGESS: The next is the possibility of an offering later in September of four to six billion in Treasury securities to consist of two or three different maturities. We think there is a good deal to be said for a large offering, larger than up to this time, with a variety, with at least two issues, where you can generate enthusiasm and get your sales force busy and try to interest the people who haven't heretofore been interested. That is the outstanding problem of the Treasury - still is - to sell bonds to people outside of banks and we think a large issue, open two weeks, perhaps, where you really make a drive on selling it, may be a means of selling additional amounts outside the banks. Some people perhaps haven't been buying war bonds, perhaps don't like some feature of them, or others just haven't been sold enough - some that want larger amounts than the savings bonds, and I think there is still a considerably unexploited field for this larger issue than heretofore might reach.

Now, as to the date, the end of September or the first of October is a little unfortunate because that is the date of most of the community drives, the Community Chests, and this Joint War Agency drive I think is scheduled. So the time needs to be explored a little with a view to expiration of other drives, but we think there is a good deal, whether it should be four to six billion - six is a lot of money, and it might be better to start with four and go up to the bigger one as you perfect your methods and get your staff organized.

MR. SMITH: Henry, I think there is a little more on the matter of dating of the drive. The setup in the country now - these Community Chests and War Chests are allocated to September and October, and the Red Cross refused to go in with the War Chests and announced a campaign for next March.

H.M.JR: Joseph Davies has something to say about this, now, hasn't he, on this executive order?

MR. BELL: On coordinating all of it.

H.M.JR: I am going to have something to say about it, too.

MR. SMITH: Well, his campaigns will--

H.M.JR: I mean I just had his executive order on my desk somewhere waiting to call him up. I expect to have something to say on this thing. I am not going to have these people going at this thing continuously. It is perfectly ridiculous. I mean, some of these drives, I mean they are at it, and at it in the amount of a couple of million dollars, and they take up the people's time and everything else, and they get in my way.

MR. SMITH: They are going to get in your way more, too.

H.M.JR: No, they are not.

MR. SMITH: Unless you do what you say.

H.M.JR: No they are not. I have been just waiting to call up Mr. Davies and have him come over here because they are not going to, and he brought it to my attention because he asked me would I please say something to him when I felt they were getting in my way.

MR. SMITH: Let me give you this story, then. The setup in the country, now, since the President came out and said he didn't want--

H.M.JR: It is Joseph Davies - Joseph E.?

MR. SMITH: D-a-v-i-e-s.

MR. HARRISON: Just so you get the record straight. I don't know whether you know about it or whether Randy and I both voted for the separate drive or not, but the President wrote Norman Davis a letter saying he hoped the Red Cross would not commit itself with the other funds and that it should have a separate drive, being an entirely different type of organization and depending for individual membership on the whole background of the--

H.M.JR: USSO.

MR. SMITH: USO.

MR. VINER: It is campaigning now - just finishing.

MR. SMITH: The setup is this, and this is what will eventually happen. In most of the communities the local charities and the funds which Mr. Davis will corral will join up in a War Chest, and that campaign will take place in the fall unless you change it, and of course they will be out of funds unless it takes place in the fall because it has been done for a great many years.

Now then, the Red Cross has declined to go in, and that forces another campaign which they have announced for March, and the people who run these campaigns - take St. Louis, for instance, we have organized a War Chest, and everything except the Red Cross will be in the War Chest - I mean our local charities and the ones that Mr. Davis approves.

H.M.JR: And the President wrote a letter to Norman Davis?

MR. SMITH: Norman Davis persuaded him to write a letter saying the Red Cross should not go into these campaigns.

H.M.JR: Maybe he is wrong.

MR. SMITH: Well, he did it.

H.M.JR: Well, it could still be changed.

MR. SMITH: And that means instead at St. Louis we could put the whole thing over and get it out of the way in October. We have to have another campaign in March for the Red Cross and the same men do the whole - do your campaign. It is all the same fellows.

H.M.JR: Don't you think there should be one War Chest? The drive--

MR. SMITH: I have been yelling about it for two years.

MR. BURGESS: A lot of fellows feel the same way.

MR. SMITH: Most of the fellows feel the same way except the fellows over at the Red Cross office. I talked to you--

MR. BELL: I understand the chapters, and there are three thousand of them throughout the country, are definitely against it.

MR. SMITH: Against what? The chapters are not - the instructions came from the office here.

MR. BELL: They took a vote on it. The governors and the chapters are definitely against it.

MR. SMITH: They didn't take any vote in St. Louis.

MR. BELL: I think there are two sides to it, and I would get both sides because I think Davies has given quite a lot of thought to it.

MR. SMITH: He started with a preconceived idea. For instance, in Boston--

H.M.JR: Listen, now - look, your community drive - St. Louis made a great success. Don't let's get off on this. You are here until Tuesday, aren't you?

MR. HARRISON: If he is going to stay around until Tuesday, I will have to.

H.M.JR: On the Red Cross?

MR. HARRISON: I have great sympathy with that point of view.

H.M.JR: Of whom - Smith?

MR. HARRISON: Smith, yes, but I do think that, very definitely, there are two sides, and I don't think you are getting the other side from Tom Smith.

MR. SMITH: You are not going to get it either.

H.M.JR: The only one who has preconceived notions is Norman Davis. (Laughter)

MR. SMITH: We out in the country have to do the work.

H.M.JR: Let's stick to my little problem. I read of a meeting - going to raise eighty-five million dollars in New York. I am going to get in on it. Joe Davies invited me in on it; I didn't inject myself. He couldn't understand why I hadn't got in on it a long while ago.

MR. BELL: I have a question whether there doesn't come under your capital control--

H.M.JR: You have got an executive order. "Joseph E. Davies, Chairman of the President's Committee on War Relief -" so forth and so on. I have had it here. I have been waiting for somebody to needle me to go after it.

MR. HARRISON: Which way did he decide?

H.M.JR: This is the new executive order setting the thing up.

MR. SMITH: That is a fine thing he is doing. I haven't read the order but the intention of that is to limit the number of campaigns and combine them, which is a good thing.

MR. BELL: Eliminate some?

MR. SMITH: Eliminate some, combine them.

H.M.JR: I don't want to mention any names, but some of them - I mean the amount of money that they get in terms of the Treasury financing is totally insignificant, and they turn a town like New York upside down to get the money.

MR. HARRISON: Here, here--

MR. SMITH: They do it in the entire country.

H.M.JR: They turn the place just inside out, take up the papers, and the radio, and the theaters, and Madison Square Garden, and anything else, and if some of these foreign countries which are overrun by Hitler need a couple of million dollars - God, we have got this money for Lend-Lease, why not take care of them?

MR. BELL: They get it both ways.

H.M.JR: Why not take care of them, but this constant drive for these overrun countries, I just - I mean it amounts, at the most, to a couple of million dollars, any one of these drives.

MR. BURGESS: The combining of all of those in one shot is a very great forward step. I think there is an advantage in having a private appeal, but they ought to be combined.

MR. SMITH: As far as the argument here is concerned, it will interfere with war bond campaigns.

H.M.JR: No question of it. All right, we all seem to be in accord - one War Chest. The drive--

MR. SMITH: And I mustn't say anything more. (Laughter)

MR. HARRISON: I just file a caveat because I am not so certain that the Red Cross can't make a very good case for a separate drive, but I agree with you that this is not the time to go into it.

H.M.JR: I think the fellow to hear both sides is Joe Davies - I mean that is his job, isn't it?

MR. SMITH: No, no, because the Red Cross is exempt from that order.

H.M.JR: Are they?

MR. SMITH: Yes, he makes a specific exemption from that.

H.M.JR: Well, we have had executive orders amended. We had one amended on Foreign Funds after four months.

Now, we got as far as tax notes; then we got onto St. Louis.

MR. SMITH: This has broadened out in the country at large. I was going to tell you about Boston - you didn't let me. (Laughter)

H.M.JR: What comes next?

MR. BURGESS: We mentioned this having a big bond issue with the help of a couple of issues, trying to get up enthusiasm and trying to sell people regular coupon bonds as well as savings bonds. We think there is a good deal of merit in that. Whether it ought to be four or six, that is another question, and just what the time ought to be, that has to be worked out. It is a thing that can't just be left until thirty days ahead of time, because it takes a long time to work up and get set for.

H.M.JR: Well, I just told them to push that off. I am not making any commitments of any kind.

MR. BURGESS: You don't have to until you get done with this financing, anyway.

MR. SMITH: Except that the commitment you must carry in mind - it would take three months to get ready for such a campaign - in any event, it would take three months.

MR. BELL: That long?

MR. SMITH: Yes, to make it successful. You have got to organize down to counties, Dan, and these committees are getting organized, but a lot more organization is necessary.

MR. HARRISON: Mr. Secretary, may I interpolate a word about the matter I spoke to you about, seeking the voluntary services of the insurance agents throughout the country? I have had three meetings, now, with representatives of all the outstanding groups in the life insurance industry - in fact, they are probably voting on it right now in New York, and I couldn't attend that meeting - to consider whether we couldn't skim the cream off of the insurance agents force throughout the country. There are some hundred and thirty-five thousand full-time insurance agents; get them to volunteer a certain number of hours a week, and to set up a regular staff within the insurance force itself, who would be available to, and report to, and work only under the War Savings Staff in each community.

I have talked with the one in New York, for instance, and they said they could use a thousand agents tomorrow to cover ten thousand families they have got if we have them available. The insurance people are enthusiastic about it. It is just a question of organization, how best to pick the best man, and we will have something concrete to give you, perhaps, early next week on that.

H.M.JR: Good.

MR. HARRISON: I think you will find that there will be a great influence in the over-all coverage because, unlike the bond end, the bond salesmen, they cover all areas down to the county lines, farmers, everybody, and in every county in the country. So I think that is the mechanism which will be very helpful when you come to consider the possibility of a big drive, whether it is in October or November, or some other time.

H.M.JR: Good. It sounds good.

MR. HARRISON: And for the time being, I just wanted to be sure it is agreeable to you that the only people that I am consulting - because they happen to be there - are the Victory Loan Committee and the New York State Administrator and his staff, and the War Savings Staff.

H.M.JR: On a national basis?

MR. HARRISON: No, I am not discussing it with them at all, except the mechanism of how we would make the men available; and then having done that, when we get a plan on paper I would like to bring it down and go over it with you or Mr. Graves or whoever you say.

H.M.JR: I wish you would.

MR. HARRISON: That would be the next step. We just wanted to make sure we weren't making some stupid mistakes in the drive before we came down here.

H.M.JR: You couldn't.

Now, having raised four billion dollars, what is the next step?

MR. BURGESS: Now we turn the memorandum about and go up to point number one.

MR. HARRISON: You failed to cover one point in the question of the two and a half percent tap issue as to how long you are going to leave it open. We heard the recommendation was perhaps three or four weeks. Some of us felt perhaps two weeks would be enough.

MR. BURGESS: We think if these things have impetus and you do it in a rush, you get people to work at it; but if you try to drag it along it is a dead weight on the market and it gets sour, and that the two-week job is probably better than the four.

H.M.JR: Two weeks?

MR. BURGESS: Plus or minus.

MR. BELL: Before you go to that other point, this morning something was said about changing the maturity date of the certificates. In other words, to get them closer to a tax date. Did you discuss that any more?

MR. BURGESS: Yes, I think our feeling was that there would be some advantage in having the maturity date of the certificate nearer to a tax date than six weeks. You see, the present certificates are November first and February first, which are six weeks before the tax date.

Now, there are some corporations and others that would prefer buying certificates for tax purposes rather than tax anticipation notes, or other things. For various reasons, some of them like to have something they can melt down in the market instantly, at any time, and some of them like to pay their taxes with their own check. We think, therefore, it would be an advantage to place the certificate maturity nearer to the tax date, either September first, August 15 - something rather nearer.

There is nothing to be lost by it and something to be gained.

H.M.JR: It sounds all right to me.

MR. BELL: We did it on the other dates because it was right between. It was removed from the time when the market would be disturbed by financing, plus big tax payments. Of course, next March the tax payments will be really large. We will have a disturbed market around that time, but I don't know as it makes much difference.

We probably will be refinancing those a week before the first, say the August 1 would be done the 25th of July, or the first of September be done the 25th of August, and be out of the way by the time your tax business came in, so I guess it is not important.

H.M.JR: What else?

MR. BURGESS: Now we come back to the question of change in reserve requirements, with which might be bracketed the subjects discussed with the question of the rate on Treasury bills. I think we all feel that a change in reserve requirements will be desirable some time within the next two to three months. Now when it comes down to the more specifically suggesting it, I think we had different shades of view.

The New York situation is getting a little close. On the other hand, I think it is quite extraordinary that we have gone as far as we have with using up reserves as easily as we have with as little difficulty, and I think you can certainly go through the tap issue without more reserves, although that will make some drain on New York.

About the certificate issue, it is a little hard to say. Some feel that it would be wise to have a change in reserves, at least announced before the certificate issue. I think our views weren't quite congealed or unanimous on that. Some felt if you get through the certificate all right, you wouldn't have to change the reserves until you put out a bond issue. It is one of those things that nobody can predict very well, but we are sailing a little close.

H.M.JR: Have you expressed that to the Fed in New York?

MR. BURGESS: Yes.

H.M.JR: What do they say?

MR. BURGESS: Well, I think - I talked with Allan Tuesday and I think his feeling was also that we were pretty close on it, and the thing we talked about a little tentatively - one way it could be done would be that the time the certificate issue was announced, to announce that reserves in New York and Chicago would be reduced two percent a month for the next three months, and at the same time, to announce an increase in the buying rate of the bills from three-eighths to a half, with the thought that that might facilitate a wider distribution of bills.

Now, thinking that over afterwards, I am not so sure about making a commitment three months ahead. I think it might be better to just make a little change and not say what you are going to do the following month.

H.M.JR: You mean two percent?

MR. BURGESS: Yes.

H.M.JR: And that is all?

MR. BURGESS: Yes.

MR. HARRISON: I wouldn't agree with you. I think if you are going to make a change I would do more.

MR. VINER: If you know you are going to make it, I think there is everything to giving us as full notice as you can. It is when you are in doubt as to whether you want to go on--

MR. HARRISON: I, personally, wouldn't do anything until after this financing is over, because I think you will get by with it and not with too close a squeeze. I do think, however, that especially if you contemplate a change in your program and issues, make a big issue of four or five billion dollars, that you will then have to change reserve requirements, and, while my views are not very crystallized, I am not so certain but what, if I did that, I would consider acting with respect to the whole country, but with a bigger reduction in New York than the rest of the country. I am in a complete minority of one on that, however, as to the rest of the country.

MR. SMITH: There is a very divided opinion among the group.

H.M.JR: I am going to have to stop at four-thirty.

MR. SMITH: I would like to say I think you are overestimating the effect on the country of change in rates in New York.

H.M.JR: What way, Tom?

MR. SMITH: The country expects the New York reserve rate to be reduced, and whether it is two, four, or six it won't create any excitement throughout the country, and it will all be forgotten in a day ot two.

H.M.JR: Nobody that I have listened to said it would create any excitement.

MR. SMITH: That is the basis of this cautious approach - that it will create excitement. For instance, you say two, and two, and two--

MR. BURGESS: I am not convinced about the two. The point I was hitting at particularly was that if you are going to do something, do it.

MR. SMITH: You are a bit cautious about approaching it.

MR. BURGESS: I am cautious about making commitments of what you are going to do in the next month and the month after.

MR. SMITH: You ought to do what you are going to do for the area that needs it. That would be a mistake--

MR. BURGESS: Maybe go all the way for New York and Chicago and reduce them on the same basis as the reserve cities.

H.M.JR: One crack?

MR. BURGESS: Yes.

MR. SMITH: You remember when Ned Brown said it would be a catastrophy if they reduced New York and Chicago and didn't reduce the rest of the country, and I think he is certainly mistaken. I have talked to people--

H.M.JR: Well, there has been enough talk about it in the papers.

MR. SMITH: It is talked about wherever you go - the reduction of rates in New York.

MR. BELL: They expect it now.

MR. SMITH: It is a common subject.

H.M.JR: If the Fed doesn't do it, they will be kind of on the spot.

MR. HARRISON: My suggestion on over-all action, the different degrees of reduction, was not predicated upon any fear about misunderstanding in New York. I do think there would be misunderstanding if they reduced New York and not Chicago. That is what concerned Ned Brown.

MR. SMITH: You have to do both of them.

MR. HARRISON: You don't have to. You could designate New York a reserve city if you wanted to, but I think that was the thing that we all thought there might be some concern about.

My suggestion that if you act at all I would do it all at once, whatever you anticipate is reasonable and necessary, is predicated upon the fact that, after all, you are expecting the rest of the country to do a good part of the financing because they are the ones that are getting the funds. The query in my mind is - just a query - that if you only reduce Chicago and New York, whether you aren't then giving notice that you expect those two communities to do the better part of the financing again, and you are giving the funds to do it.

I don't think it would hurt if you are going to act at all - and that is one reason I would wait past this financing - to give a moderate reduction throughout the rest of the country, and as much as you anticipate is a substantially necessary reduction in New York and Chicago. I don't think there is anything to fool about.

H.M.JR: There is only one other thing you haven't mentioned, and that is this bill rate, or don't you want to talk about that?

MR. BURGESS: I think there is some advantage in getting the bill rate up to a half. And there again, we weren't completely in accordance as to the importance of it.

I think it would make it somewhat more attractive for some out-of-town buyers of the bills, and would help the distribution of bills. I don't want to over-stress that, but I think there is some merit in doing that at the same time that the reserve requirements are changed.

MR. BELL: How far out would that affect the market?

MR. BURGESS: I think relatively little.

MR. BELL: What would it do to your year's certificate?

MR. BURGESS: I don't think it would have to affect it at all. I think if you did it at the same time you changed reserves--

MR. BELL: Still keep the certificate at seven-eighths?

MR. BURGESS: I think so.

H.M.JR: B.M., you are very quiet. What are you thinking about?

MR. EDWARDS: I'm not in accord with the entire program, Mr. Morgenthau; particularly am I opposed to that scheme of painting that mule with stripes and calling him a zebra - about those tax notes.

H.M.JR: You don't like that?

MR. EDWARDS: No, sir. He is still a mule, and you can't fool me about painting stripes on him. I also am very much in favor of increasing the rate on that particular type of a tax note. The reason I am in favor of it is not with the idea of giving your money away, because you won't be giving it.

The first thing you are certainly going to do - if anybody makes any money you are going to take forty-five percent of it back, at least, for taxes. I mean, if you pay him a dollar and forty-five cents you will take back right away forty-five cents, and the rate of return on that tax note right now is very very unattractive. I have tried to sell those notes and I have sold a few of them, but, honestly, the folks that I have sold them to have bought them more or less just from a patriotic standpoint. The return on it is so little they really - they aren't worth fooling with, and even if you raise that rate, as Dr. Burgess has suggested, you - I may as well just be frank about it - you are not doing anything but letting the fellow fool himself because you are going to give him seventy-two and then take it back away from him, so what is the difference.

I believe it would help sell the note, but if you raise the note, I still say don't put stripes on it and do what these fellows want to do with it, because it is going to upset some of the financing, in my opinion. I don't subscribe to the idea of giving Eccles a chance to prove that his theory is wrong.

MR. BURGESS: He can have lots of chances before he gets through.

H.M.JR: Well, at least your frankness is refreshing. Have you got any other feelings, Ed?

MR. EDWARDS: That is all. I think your issues that you are proposing now are going to go over all right. I think reopening of this two and a half percent tap issue is going to be well received. I know some people down our way - of course, we don't have barrels of money down our way, but we have some people that understand that issue now that did not understand it when it was offered before.

I left a man last night, the president of a small insurance company in South Carolina that didn't buy a dollar's worth of those bonds last time, but he told me that I might tell you today that he would take six hundred thousand of them this time.

H.M.JR: Nice.

MR. EDWARDS: They understand them now. They did not altogether understand them before.

MR. BELL: I think that is pretty general in the smaller organizations. We may get some money out of there we couldn't have gotten before.

MR. EDWARDS: I think you will get more of the small money this time than you got before.

MR. SMITH: Your committees are commencing to get results, too.

H.M.JR: In your talk you didn't mention the billion and a half certificate, did you?

MR. BURGESS: Yes. I didn't have any violently different opinion from anyone else. I think it is all right. And we tend to the longer one, the seven-eighths, for a year, rather than nine months, or you can do either one.

H.M.JR: Well, now, except for this immediate financing, because I am not ready to talk beyond the month of August, has anybody got anything on his chest as far as August goes?

MR. BURGESS: We assume that the two and a half bond - the new two and a half - that you are trying to work out some argument so they will be payable for estate taxes.

H.M.JR: Yes, that has been done.

MR. BURGESS: That will be very helpful.

MR. HARRISON: That will help.

H.M.JR: What else? As I understand from Bell, all of you want to return tonight. Is that right?

MR. BELL: Some of them want to. Most of them, I think.

H.M.JR: Except Tom, who wants to stay around here and sell me the Red Cross. (Laughter)

MR. SMITH: I didn't say anything.

H.M.JR: Who paid for the lunch today?

MR. SMITH: B.M. He didn't do it voluntarily.

MR. VINER: He paid for Dan's lunch, too.

MR. SMITH: He didn't send you a bill?

H.M.JR: What do you do, match?

MR. BURGESS: Mr. Secretary, neither Walter Stewart nor Viner was in our discussion this morning, so we are not speaking for them.

MR. VINER: That is pretty difficult.

MR. BELL: Mr. Secretary, you know Ned Brown - he was in Mexico City.

H.M.JR: Then he said he was coming.

MR. BELL: He wired he would love to come and if we could get him priorities he would be here. We sent wires trying to get priorities, and thought we had them, but he didn't show up. We don't know what happened.

H.M.JR: You are not worried?

MR. BELL: I think we would have heard something if there had been any accident or anything. He wanted to come so badly he was willing to take a plane all the way from Mexico City, which I thought was nice.

H.M.JR: You remind me - I would like to write him a little note.

MR. BELL: He wasn't due back at his office until Monday.

H.M.JR: Will you remind me? I am sorry I didn't have as much time as you do, but I did have a job for the White House.

MR. BURGESS: It is a pleasure to have this chance to see you.

H.M.JR: The other way around. So if you haven't got anything else--

MR. SMITH: Get out, huh? (Laughter)

H.M.JR: I want to see Stewart and Viner.

From A. Sproul

COMMENTS ON EXCESS RESERVES AND THE NEW YORK MONEY MARKET

Since March 1942 excess reserves of New York City banks have declined from nearly $1 billion to $250 million. There has been no disturbance in the market during this period and no failure of the banks to support the Treasury's financing program.

It is true, however, that the principal cause of the decline in excess reserves at New York has been the net loss of funds to the market on Treasury account. The Treasury has taken more funds out of the New York market through borrowing and taxation than it has put in through Treasury expenditures of various kinds, even though the latter are now running at the rate of about $250 million a week.

It might be argued, therefore, that at some point the decline in excess reserves in New York will represent a danger to the Treasury's financing program, in that purchases of new issues by New York City banks will have to be curtailed. This would be a danger, however, only if the decline in purchases by New York City banks was not offset by an increase in purchases by the banks outside New York City. One of the objectives of fiscal and monetary policy has been and still should be to tap the funds which continue in excess supply in the rest of the country. So long as reserve funds are pumped into the New York market, and subsequently drained off to the rest of the country, this problem will remain unsolved.

It is this situation which gives point to our recommendation that the System posted buying rate for Treasury bills be increased to 1/2 of 1% and that other short term rates be permitted to firm up in relation to this buying rate. Our experience with the increase in short rates which has already taken place confirms the commonsense judgment that a somewhat higher rate would further increase the non-bank market, and, especially, the non-New York bank market for short term government securities. The second question to be considered is the method by which reserve funds are to be put into the New York market to the extent that this is deemed necessary in support of the Treasury's financing program. Our view is that all three of the available methods will have to be used, open market operations, rediscounts, and reducing reserve requirements, but that they should be used in such a way as to indicate that we are not planning to rely mainly upon the latter method. We would postpone reducing reserve requirements, even in New York, until there is less likelihood that it would be interpreted as an indication that this is to be the chief method of providing reserves. In the existing circumstances, this will mean the continuance of open market operations to prevent any possibility of stringency here while present financing methods are being followed and present short term rates are being maintained. This is preferable to a reduction in reserve requirements because of its greater flexibility, as well as because of avoidance of the implications which a reduction in reserve requirements now would carry with it.

During the period of the August Treasury financing, open market purchases in New York will probably have to be fairly heavy. The type of financing which is in prospect is the kind which affects the reserves of the New York City banks most substantially. A large proportion of the 2½% registered bonds of 1962-67 will probably be taken by insurance companies in this district. This will mean a transfer of deposits first to the Treasury, and subsequently, on Treasury call, to banks in other parts of the country. If the second step in the financing program is an offering of certificates of indebtedness, a substantial part of the offering is likely to be taken in New York. This amount will be reduced, first, if the certificate is for one year and the coupon, therefore, more attractive to banks outside New York, and, second, if we do not unnecessarily put funds into the New York market.

Our present estimate is that we may have to purchase from \$100 to \$150 million of government securities drring the next two weeks if we are to maintain about the present level of excess reserves.* We think that this will give all the protection necessary to the government's financing and that it is preferable to continue to provide reserve funds by this method rather than by reducing reserve requirements at this stage of development of the Treasury's financing program and related credit policies.

*We do not subscribe to the idea that we may have already reached a minimum in excess reserves, such as \$200 or \$250 million for New York, and \$2 billion for the country. What we know, thus far, is that excess reserves have greatly declined with very little disturbance. How much farther they can be reduced we can only find out by trying. We think it is particularly desirable to make this trial and eventually to get the banks to borrow. It is not the amount of borrowing but the fact of borrowing that would count, because our problem is that of dispelling the false idea that safety requires some amount of excess reserves. If the banks were adjusting their individual positions by borrowing, the idea of a safety point in excess reserves would quickly be dispelled.

July 30, 1942.

Table I

Price and Yield Changes of United States Securities
July 23, 1942 to July 30, 1942

(Based on mean of closing bid and asked quotations)

Security		Prices: July 23, 1942	Prices: July 30, 1942	Prices: Change	Yields: July 23, 1942	Yields: July 30, 1942	Yields: Change
		(Decimals are thirty-seconds) 1/				(Percent)	
TAXABLE SECURITIES							
Bills							
Average rate last issue		-	-	-	.37	.37	.00
Certificates							
1/2%	11/1/42	100.024	100.024	.000	.41	.41	.00
5/8	2/1/43	100.014	100.015	+.001	.60	.59	-.01
Taxable Notes							
3/4%	3/15/43	100.04	100.04	.00	.56	.55	-.01
3/4	9/15/44	99.23	99.21	-.02	.88	.91	+.03
3/4	12/15/45	99.08	99.06	-.02	.98	1.00	+.02
1	3/15/46	99.11	99.09	-.02	1.18	1.20	+.02
1-1/2	12/15/46	100.05	100.04	-.01	1.46	1.47	+.01
Taxable Bonds							
2%	3/15/48-50	101.04	101.02	-.02	1.79	1.80	+.01
2	6/15/49-51	100.10	100.09	-.01	1.95	1.96	+.01
[illegible]	9/15/49-51	100.08	100.06	-.02	1.96	1.97	+.01
[illegible]	12/15/49-51	100.06	100.04	-.02	1.97	1.98	+.01
2	12/15/51-55	100.02	100.01	-.01	1.99	2.00	+.01
2-1/2	3/15/52-54	103.31	103.26	-.05	2.04	2.06	+.02
2-1/4	6/15/52-55	101.06	101.04	-.02	2.12	2.12	.00
2-1/2	3/15/56-58	103.04	103.03	-.01	2.23	2.24	+.01
2-1/2	6/15/62-67	100.12	100.08	-.04	2.48	2.48	.00
2-1/2	9/15/67-72	101.05	101.02	-.03	2.44	2.44	.00
TAX-EXEMPT SECURITIES							
Wholly Tax-exempt Notes							
2%	9/15/42	100.09	100.08	-.01	.05	.00	-.05
1-3/4	12/15/42	100.19	100.18	-.01	.24	.25	+.01
1-1/8	6/15/43	100.22	100.20	-.02	.35	.41	+.06
1	9/15/43	100.23	100.21	-.02	.37	.41	+.04
1-1/8	12/15/43	101.00	100.29	-.03	.40	.46	+.06
1	3/15/44	100.28	100.26	-.02	.47	.50	+.03
3/4	6/15/44	100.15	100.14	-.01	.50	.52	+.02
1	9/15/44	101.03	101.01	-.02	.49	.51	+.02
3/4	3/15/45	100.18	100.16	-.02	.54	.56	+.02
Partially Tax-exempt Bonds							
3-3/8%	6/15/43-47	102.16	102.14	-.02	.57	.58	+.01
3-1/4	10/15/43-45	103.02	102.31	-.03	.74	.78	+.04
3-1/4	4/15/44-46	104.06	104.03	-.03	.80	.83	+.03
4	12/15/44-54	107.07	107.04	-.03	.94	.96	+.02
2-3/4	9/15/45-47	105.14	105.12	-.02	.99	1.00	+.01
[illegible]-1/2	12/15/45	105.04	105.01	-.03	.96	.98	+.02
3-3/4	3/15/46-56	109.02	109.00	-.02	1.20	1.20	.00
3	6/15/46-48	106.31	106.30	-.01	1.16	1.16	.00
3-1/8	6/15/46-49	107.12	107.12	.00	1.18	1.17	-.01
4-1/4	10/15/47-52	115.01	115.00	-.01	1.27	1.26	-.01
2	12/15/47	104.15	104.13	-.02	1.14	1.15	+.01
2-3/4	3/15/48-51	107.16	107.14	-.02	1.36	1.37	+.01
2-1/2	9/15/48	106.28	106.26	-.02	1.33	1.34	+.01
2	12/15/48-50	104.16	104.13	-.03	1.27	1.28	+.01
3-1/8	12/15/49-52	110.18	110.16	-.02	1.60	1.61	+.01
2-1/2	12/15/49-53	106.16	106.15	-.01	1.57	1.57	.00
2-1/2	9/15/50-52	106.28	106.26	-.02	1.60	1.60	.00
2-3/4	6/15/51-54	108.22	108.20	-.02	1.69	1.70	+.01
3	9/15/51-55	110.20	110.18	-.02	1.74	1.74	.00
2-1/4	12/15/51-53	105.07	105.03	-.04	1.65	1.66	+.01
2	6/15/53-55	103.18	103.15	-.03	1.64	1.65	+.01
2-1/4	6/15/54-56	105.15	105.13	-.02	1.74	1.74	.00
2-7/8	3/15/55-60	110.14	110.11	-.03	1.94	1.95	+.01
2-3/4	9/15/56-59	109.21	109.18	-.03	1.97	1.97	.00
2-3/4	6/15/58-63	109.30	109.26	-.04	2.02	2.02	.00
2-3/4	12/15/60-65	110.14	110.11	-.03	2.07	2.07	.00

Treasury Department, Division of Research and Statistics. July 30, 1942.

1/ Decimals in prices of certificates are cents.

Table II

Price and Yield Changes of United States Securities
March 19, 1942 to July 30, 1942

(Based on mean of closing bid and asked quotations)

Security		Prices: March 19, 1942	Prices: July 30, 1942	Prices: Change	Yields: March 19, 1942	Yields: July 30, 1942	Yields: Change
		(Decimals are thirty-seconds) 1/			(Percent)		
TAXABLE SECURITIES							
Bills							
Average rate last issue		-	-	-	.20	.37	+.17
Certificates							
1/2%	11/1/42	-	100.024	-	-	.41	-
5/8	2/1/43	-	100.015	-	-	.59	-
Taxable Notes							
3/4%	3/15/43	100.12	100.04	-.08	.37	.55	+.18
3/4	9/15/44	99.31	99.21	-.10	.76	.91	+.15
3/4	12/15/45	99.21	99.06	-.15	.84	1.00	+.16
1	3/15/46	99.29	99.09	-.20	1.02	1.20	+.18
1-1/2	12/15/46	-	100.04	-	-	1.47	-
Taxable Bonds							
2%	3/15/48-50	101.28	101.02	-.26	1.67	1.80	+.13
2	6/15/49-51	101.04	100.09	-.27	1.83	1.96	+.13
2	9/15/49-51	-	100.06	-	-	1.97	-
2	12/15/49-51	-	100.04	-	-	1.98	-
2	12/15/51-55	100.12	100.01	-.11	1.96	2.00	+.04
2-1/2	3/15/52-54	103.23	103.26	+.03	2.09	2.06	-.03
2-1/4	6/15/52-55	101.06	101.04	-.02	2.12	2.12	.00
2-1/2	3/15/56-58	103.05	103.03	-.02	2.24	2.24	.00
2-1/2	6/15/62-67	-	100.08	-	-	2.48	-
2-1/2	9/15/67-72	100.27	101.02	+.07	2.46	2.44	-.02
TAX-EXEMPT SECURITIES							
Wholly-Tax-exempt Notes							
2%	9/15/42	101.04	100.08	-.28	5/32*	.00	-5/32*
1-3/4	12/15/42	101.11	100.18	-.25	2/32*	.25	-5/32*
1-1/8	6/15/43	101.04	100.20	-.16	.22	.41	+.19
1	9/15/43	101.03	100.21	-.14	.26	.41	+.15
1-1/8	12/15/43	101.16	100.29	-.19	.26	.46	+.20
1	3/15/44	101.10	100.26	-.16	.34	.50	+.16
3/4	6/15/44	100.27	100.14	-.13	.37	.52	+.15
1	9/15/44	101.16	101.01	-.15	.39	.51	+.12
3/4	3/15/45	101.00	100.16	-.16	.41	.56	+.15
Partially Tax-exempt Bonds							
3-3/8%	6/15/43-47	103.21	102.14	-1.07	.41	.58	+.17
3-1/4	10/15/43-45	104.06	102.31	-1.07	.57	.78	+.21
3-1/4	4/15/44-46	105.06	104.03	-1.03	.72	.83	+.11
4	12/15/44-54	108.11	107.04	-1.07	.91	.96	+.05
2-3/4	9/15/45-47	106.06	105.12	-.26	.94	1.00	+.06
2-1/2	12/15/45	105.28	105.01	-.27	.90	.98	+.08
3-3/4	3/15/46-56	110.08	109.00	-1.08	1.11	1.20	+.09
3	6/15/46-48	107.28	106.30	-.30	1.09	1.16	+.07
3-1/8	6/15/46-49	108.08	107.12	-.28	1.13	1.17	+.04
4-1/4	10/15/47-52	115.20	115.00	-.20	1.33	1.26	-.07
2	12/15/47	104.23	104.13	-.10	1.15	1.15	.00
2-3/4	3/15/48-51	107.28	107.14	-.14	1.38	1.37	-.01
2-1/2	9/15/48	107.07	106.26	-.13	1.33	1.34	+.01
2	12/15/48-50	104.21	104.13	-.08	1.28	1.28	.00
3-1/8	12/15/49-52	110.22	110.16	-.06	1.65	1.61	-.04
2-1/2	12/15/49-53	106.16	106.15	-.01	1.60	1.57	-.03
2-1/2	9/15/50-52	106.20	106.26	+.06	1.66	1.60	-.06
2-3/4	6/15/51-54	108.18	108.20	+.02	1.74	1.70	-.04
3	9/15/51-55	110.20	110.18	-.02	1.78	1.74	-.04
2-1/4	12/15/51-53	104.29	105.03	+.06	1.70	1.66	-.04
2	6/15/53-55	103.10	103.15	+.05	1.68	1.65	-.03
2-1/4	6/15/54-56	104.28	105.13	+.17	1.80	1.74	-.06
2-7/8	3/15/55-60	110.00	110.11	+.11	2.00	1.95	-.05
2-3/4	9/15/56-59	109.10	109.18	+.08	2.01	1.97	-.04
2-3/4	6/15/58-63	109.12	109.26	+.14	2.07	2.02	-.05
2-3/4	12/15/60-65	110.00	110.11	+.11	2.10	2.07	-.03

Treasury Department, Division of Research and Statistics. July 30, 1942.

1/ Decimals in prices of certificates are cents.
* Excess of price over zero yield.

July 30, 1942.
5:20 p.m.

HMJr: Now that we're going to open this tap issue, most likely on Monday....

Dan Bell: Yeah.

HMJr: ....before there's any release goes out, I want Harold Graves to have a chance to see it.

B: All right.

HMJr: In connection with the Victory Fund.

B: Yeah.

HMJr: So that there's no conflict, so you might pass that word along to Buffington.

B: All right. You mean of the opening of the issue or....

HMJr: Well, you know, that....

B: ....work of the Victory Fund?

HMJr: ....big release that he wanted me to send out, and I - and I wouldn't let it go a week or ten days ago.

B: Well, I'm holding that for your approval.

HMJr: Well, supposing you send it in to Harold's office, and let him take a look at it.

B: Okay.

HMJr: How about it?

B: Sure.

HMJr: Because - all right - well, anyway, send that release in.

B: All right.

HMJr: Thanks.

B: Goodbye.

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TREASURY DEPARTMENT

WASHINGTON

~~DEFENSE~~ SAVINGS STAFF

July 30, 1942

TO: The Secretary of the Treasury

FROM: James L. Houghteling

Yesterday in Detroit Mr. Isbey and I had a 2-hour conference with Mr. H. W. Anderson, Vice-President of the General Motors Corporation in charge of Personnel, Mr. John Jerpe, Publicity Manager, Mr. Coen and Mr. Seaton.

At the beginning of our interview Mr. Anderson made the statement that during his conference with you on April 16 he had not promised you any form of cooperation with Organized Labor in the "General Motors Employees War Bond Drive". I took direct issue with him on this point and reminded him that you had told him that in your opinion the most effective program for the drive was a complete three-cornered partnership and cooperation between Government, Management and Labor and that you were only interested in presenting the General Motors publicity material to the Ways and Means Committee of the House of Representatives on the condition that there should thereafter be complete cooperation between Management and Labor in this drive. He had agreed to this and had said at that time that he would consult with Mr. Reuther as soon as he returned to Detroit.

I then told Mr. Anderson that I had been instructed by you to request him to form a Management-Labor committee at the "company level". Mr. Anderson replied that he was unwilling to do so. He stated that the General Motors Company was a decentralized organization which conducted as much of its business as possible through its various subsidiary companies. He assured me that in each one of the Company's production plants there is at present in operation a Management-Labor War Bond Committee and that it has not been the policy of the General Motors Corporation to carry this program any higher up than the individual plants. He stated that the War Production Board had asked General Motors to form a Central Management-Labor Production Committee, but that the Corporation had refused, although it had agreed to set up such committees in all of its subsidiary plants.

The letters from plant managers which Mr. Anderson recently sent to you do not fully substantiate his statement that there are Management-Labor War Bond Committees actually functioning in <u>every one</u> of the subsidiary companies and plants. In fact, in their desperate fight against granting what the Treasury has asked, Mr. Anderson and Mr. Jerpe in several cases were inaccurate in their statement of facts.

Mr. Isbey and I were able to get admissions from Mr. Anderson that the publicity of the General Motors Employee War Bond Drive had not given due credit to the fine cooperation of the labor unions. They included in that admission the General Motors pamphlet which was sent out to 30,000 business concerns at the expense of the Treasury, but they indicated that the Treasury itself had been given a chance to read proof on said pamphlet and was at liberty to make changes if it desired. They agreed that hereafter it would be helpful to the Drive if full credit were given to the cooperation of Organized Labor.

Mr. Anderson kept reiterating two questions: (1) Was the Secretary of the Treasury dissatisfied with the General Motors Pay Roll Savings Campaign? (2) What could be accomplished by a central labor-management committee? In answer to the first question I stated that the average allotment of General Motors employees of slightly over 7% was not satisfactory to the Secretary of the Treasury and that he felt that getting this average allotment to 10%, or to the goal of the United Automobile Workers of 20%, was being hampered by the short-sighted unwillingness of General Motors to work on really cordial terms with the various powerful labor unions. My reply to his second question was somewhat hampered by his inaccurate claim as to the completeness of the success of labor-management committees in the subsidiary plants. I did not think it good policy to contradict him too flatly on this point. He has agreed, at my request, to furnish me with a complete list of the management-labor committees in all of the General Motors plants and a report on how they are functioning. When I have this material I think I can show him that a central labor-management committee can do a great deal to strengthen the weak points of the Drive.

After this meeting Mr. Isbey and I talked with Walter Reuther. He was leaving last night for the annual convention of the United Automobile Workers at Chicago. He promised to send me from Chicago his ideas as to what a central committee could do to improve the situation. He seemed greatly pleased that I had come to Detroit and had this discussion with the General Motors officials. He was not surprised that our request for a central management-labor committee had been refused by Mr. Anderson and his associates, as such a committee could not be set up unless authorized by President Wilson or Chairman Sloan. Mr. Anderson has undoubtedly had his instructions from the policy-making heads of General Motors and does not have the authority to agree to your proposal.

In the background of the above negotiation, and making it much more difficult, is the fact that the United Automobile Workers are negotiating with the General Motors Corporation for a substantial pay raise. A panel of the War Labor Board is just completing hearings in Detroit. At such a time the cordiality between Management and Labor is at a minimum. It is possible that, on Labor's own initiative, this negotiation may be settled by a stabilization agreement rather than a horizontal increase in pay. If so, the relationship between Management and Labor will be vastly improved immediately. Because of this factor, and because I wish to work out a more definite plan for our next step in this matter, based on information to be provided me by Mr. Anderson and Mr. Reuther, I doubt whether it will be possible to have this matter ready to discuss with either Chairman Sloan or President Wilson of the General Motors Corporation before August 7th. Walter Reuther is decidedly of the opinion that our negotiations would be much easier after the wage issue is settled.

James L. Houghteling